How to create a Recipient Created Tax Invoice (RCTI) in QuickBooks

A Recipient Created Tax Invoice (RCTI) is an invoice provided by a customer to the business rather than by the business to the customer.

It is used where a product is consigned to another party for sale, who after completing the sale will withhold costs incurred in the sale.

The full cost of the Sale must be reported by the business and the business is entitled to claim all costs associated with the sale. GST is recognised as collected and paid by the business.

The business will receive one document outlining the Sale details and all expenses and receives one payment.

The QuickBooks Challenge

The challenge for the QuickBooks user is that QuickBooks cannot process expense items on a tax invoice so that tax registers are updated properly, that reports are produced correctly and customer balances reduced to zero.

The business prefers to record the transaction as one document, so that it corresponds to the document it has received, that the QuickBooks entry corresponds to the actual entry in the Bank Account and that the number of steps to produce the required outcome are kept to a minimum.

There is more than one solution to this issue and users should consult with their Accountants for direction as to the best method for their business. We believe the solution offered here will meet users' requirements with the minimum of transactions and leave entries that will be directly reconcilable to bank statements, produce correct reports on a Cash Accounting basis and match real-life actions.

Example

Consider a wheat grower who consigns his crop to a grain merchant for sale. The sale will incur expenses like the following:

- Transport charges
- Storage charges
- Insurance
- Levy from a Government Authority (GST free)
- The Grain Merchant's fee.

The wheat grower will receive one RCTI from the Grain Merchant outlining the details of the Sale and all expenses incurred.

1. Required Accounts

- Sales Account for each income item with the relevant tax code selected (GST, FRE, EXP or INP)
- Expense account for each expense item with the relevant tax code selected (NCG or NCF)
- A clearing Bank Account called RCTI Clearing Account
- Inventory or Non-Inventory part for the sale item
- A Discount Item for each expense item, linked to the RCTI Clearing Account, to be used on the invoice/receipt. No tax code assigned.

The Item List will look like this:

2. Processing the transaction

The first step is to enter the RCTI Invoice. In this example we will enter a Tax Invoice, but you may choose to enter it as a Sales Receipt, particularly if you have received the funds with the recipient created tax invoice.

Use the normal sales item to record the sale.

To record the expense items, use the discount items created for them. For this method it is important that you do not assign a tax code to the discount item – the tax component will be handled in the next step.

When you save the invoice the 'expense items' are deposited to the RCTI Clearing Account:

When you receive payment from your merchant you will also need to process a Write Cheque for the expenses against the RCTI Clearing Account to recognise these expenses and the GST in your expense accounts. This transaction will generate a GST Event and clear the RCTI clearing account.

Care: the payee should be a different name to the Customer Name you use in the RCTI Invoice/Sales Receipt. You will not need to assign a cheque number.

Your accounts are now properly updated.

3. Reports

Let's have a look at the Journal for these transactions:

And the Profit and Loss:

Tax reports also appear correctly:

10:40 AM

17/05/11

Cash Basis

RCTI

Tax Detail Report (Cash Net)

May 2011

◇ Type ◇	Date ◇	Name ◇	Num ◇	Description ◇	Tax Code ◇	Original Amount ◇	Paid Amount ◇
OUTPUTS (Sales)							
May 11							
Tax Invoice	17/05/2011	Customer1	4	market price...	GST	6,250.00	6,250.00
May 11							6,250.00
TOTAL OUTPUTS (Sales)							6,250.00
INPUTS (Purchases)							
May 11							
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	90.91	90.91
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	18.18	18.18
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	4.55	4.55
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCF	65.00	65.00
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	113.64	113.64
May 11							292.28
TOTAL INPUTS (Purchases)							292.28
▶ **Total Net**							**5,957.72** ◀

Tax Liability and BAS are also correct:

10:39 AM

17/05/11

Cash Basis

RCTI

Tax Liability Report

May 2011

	◇ May 1, '11 - May 31, 11 ◇
GOODS AND SERVICES TAX	
GST due on sales	▶ 625.00 ◀
GST reclaimed from purchases	22.72
Net GST to pay (or reclaim if negative)	**602.28**
Total net value of sales (ex GST)	6,250.00
Total net value of purchases (ex GST)	227.28
Total Input Taxed & GST Free Sales	0.00
Total Input Taxed & GST Free Purchases	65.00
SALES TAX	
Tax due on sales	0.00
Tax to Pay	**0.00**
Total net value of sales (ex Tax)	0.00
Total value of other sales	0.00
Total value of other purchases	0.00

Simplified BAS (window 1)

Tabs: **Supplies and Acquisitions** | Taxes and Amounts Withheld | Debits and Credits

Simplified BAS/IAS - Supplies & Acquisitions

Goods and services tax for the period 01/05/2011 to 31/05/2011

GST accounting method Cash

○ **Option 1: Actual GST report quarterly**

| Total sales & income & other supplies | G1 | $ | 6250 | ❓ |

Does the amount shown at G1 include GST?   ○ yes ● no

Exports	G2	$	0	❓
Other GST-free supplies	G3	$	0	❓
Capital acquisitions	G10	$	0	❓
Other acquisitions	G11	$	315	❓

Show actual GST at 1A and 1B in the Summary on the back

○ **Option 2: Actual GST report annually**

| Total sales & income & other supplies | G1 | $ | | ❓ |

Does the amount shown at G1 include GST?   ○ yes ○ no

Show actual GST at 1A and 1B in the Summary on the back

○ **Option 3: GST Instalment**

If varying your amount, complete G22, G23, G24

| ATO instalment amount | G21 | $ | | ❓ |

If varying your amount, complete G22, G23, G24

| Estimated GST for the year | G22 | $ | | ❓ |
| Varied GST instalment | G23 | $ | | ❓ |

Show at 1A in Summary

| Reason for variation | G24 | | ▼ | ❓ |

Buttons: Config | Open | Save | Print | Lodge | Refresh | Cancel | Help

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Simplified BAS (window 2)

Tabs: Supplies and Acquisitions | Taxes and Amounts Withheld | **Debits and Credits**

Simplified BAS/IAS - Debits & Credits

Summary of amounts

Amounts you owe to the ATO					Amounts the ATO owes you				
Goods and services tax payable	1A	$	625	❓	Credit for goods and services tax paid	1B	$	22	❓
Wine equalisation tax payable	1C	$	0	❓	Wine equalisation tax refundable	1D	$	0	❓
Luxury car tax payable	1E	$	0	❓	Luxury car tax refundable	1F	$	0	❓
Pay As You Go withholding	4	$	0	❓					
Pay As You Go instalment	5A	$	0	❓	Credit arising from reduced Pay As You Go instalments	5B	$	0	❓
Fringe benefits tax instalment	6A	$	0	❓	Credit arising from reduced fringe benefits tax instalments	6B	$	0	❓
Deferred company/fund instalment	7	$	0	❓	Fuel tax credit (Do not claim in litres)	7D	$		❓
Fuel tax credit over claim (Do not claim in litres)	7C	$		❓					
1A + 1C + 1E + 4 + 5A + 6A + 7 + 7C	8A	$	625	❓	1B + 1D + 1F + 5B + 6B + 7D	8B	$	22	❓

Payment or refund?

Is 8A more than 8B?   ☑ Yes   Show 8A minus 8B in 9. This amount is payable to the ATO

☐ No   Show 8B minus 8A in 9. This amount is refundable to you (or offset against any other tax debt you have)

| Your payment or refund amount | 9 | $ | 603 | ❓ |

Buttons: Config | Open | Save | Print | Lodge | Refresh | Cancel | Help

4. One Exception

The one drawback of this method is that we have made a transaction without a tax code. These items will appear in the Tax Code Exception Report:

You will need to exclude the RCTI discount items from this report. Just click on Modify > Filter > Items > Multiple Items > select all then untick the RCTi discount items > OK:
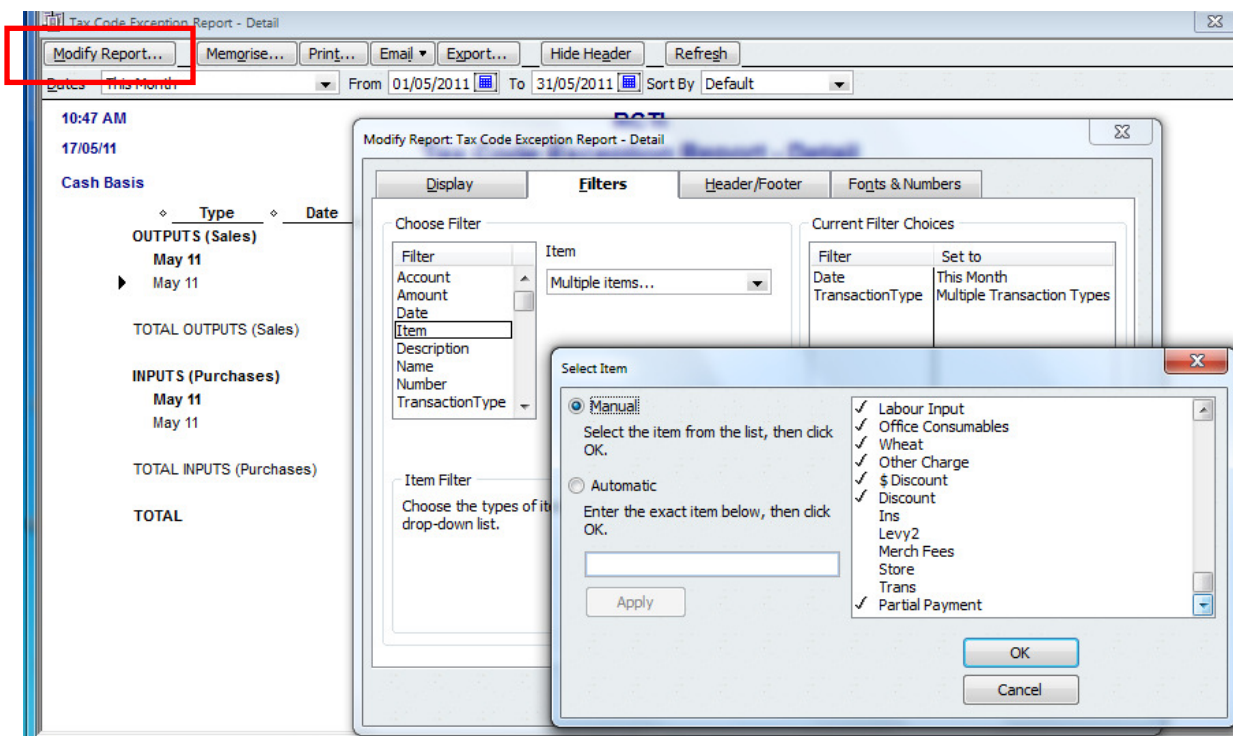
The QuickBooks accounts and transactions should now match the real life actions with only one additional tranaction to account for the particular way QuickBooks handles expenses and tax codes on an invoice.

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