VALUE-ADDED TAX 23 MAY 2013

Lesson Description

In this lesson we:

- Look at various theories and concepts relating to Value-Added Tax (VAT)
- Discuss how to calculate VAT
- Discuss how to enter VAT in the relevant ledger accounts

Key Concepts

- Remember that VAT is currently 14%!
- Know how to calculate VAT when given the inclusive and exclusive amounts: learn your formulas!
- If you are given the amount excluding VAT:
  - VAT = Amount excluding VAT x 14/100
  - Amount including VAT = Amount excluding VAT x 114/100
- If you are given the amount including VAT:
  - VAT = Amount excluding VAT x 14/114
  - Amount excluding VAT = Amount including VAT x 100/114

Important Theories to Learn

- Zero-rated items vs. VAT-exempt items
- Who must register for VAT? Businesses with a turnover of R__________________ or more
- Receipts vs. Invoice basis of registering for VAT
- The difference between Input and Output VAT
- Tax periods – VAT is paid every two months (bimonthly!)

Remember the Ledger Accounts

- INPUT VAT is an ASSET and represents the VAT we can claim back from SARS on the items we have bought (Debit balance). (ONLY on non-exempt items!)
- INPUT VAT is found in the CPJ, CJ, CAJ and PCJ (dealing with items we have purchased or returned)
- OUTPUT VAT is a LIABILITY and represents the VAT we must pay to SARS on the items we sell (Credit balance).
- OUTPUT VAT is found in the CRJ, DJ and DAJ (dealing with items we have sold or that have been returned to us).
- The business acts as a tax collector for SARS.
- The VAT Control account is a summary of the Input and Output VAT accounts – it is used to calculate the amount that must be paid to SARS or that can be claimed back from SARS.
- Input and Output VAT are closed off to the VAT Control account.
- Learn the format of the VAT ledger accounts carefully!

Questions

Question 1

Use the given information to answer the questions that follow.

a.) Draw up the following ledger accounts:
- Input Vat
- Output Vat

b.) Determine the amount owed to / receivable from SARS

Information

- Pascoe Stores is registered for VAT on the invoice method.
- They submit their VAT Form every two months as required.
- Their last submission was dated 31 May 2012

Transactions for July 2012

1	Input VAT balance	R10 400
	Output VAT balance	R32 200

3 Cash sale of goods which cost R75 000 exclusive were marked up by 50%

7 Bought goods on credit from GBY for R120 000 exclusive of VAT.

14 Wrote a cash cheque out for stationery R4 560 (inclusive) and Salaries R12 000.

17 Received a 5% trade discount on the goods purchased on 7th as per our negotiated agreement.

19 Sold goods on credit to C Brewer. Invoice 235 totalled R17 670

21 Bought a delivery truck on credit from Tyron Trucks for R80 000 exclusive.

23 Paid for goods from petty cash R57 inclusive.

24 C Brewer returned goods to the inclusive value of R5 130 as they were not according to our sample.

25 The owner withdrew goods that cost R800 exclusive for his own use.

28 Sent a cheque to Kai Koi for R3 249 to settle our account. This was after a 5% settlement discount had been allowed

30 C Brewer sent us a cheque after we allowed a 5% discount in order to settle an amount of R9 120.

31 A debtor, K Kirsten, who owed R1 938 was declared insolvent.

Answer Sheet

a.)

VAT Input							

VAT Output							

b.) Determine the amount and if it is owed to / receivable from SARS (2)