MODULE 12
VALUE ADDED TAX (VAT)

NOTE TO THE TEACHER:
The principles of VAT were introduced and discussed in Grade 10. Before proceeding with this Module you need to assess the learners' prior knowledge to ensure that they have the basic skills and knowledge to continue with Grade 11 work.

Therefore, the first Task is a baseline assessment and this will give you the required information as to whether you can continue with the Grade 11 work or go back to the Grade 10 book to cover missing skills and knowledge.

Take note that learners are not required to complete VAT entries in the journals, and the ledger accounts are only covered in Grade 12. Grade 10 was an introduction and this year, the emphasis is on the calculations using the invoice basis.

TASK 12.1 ⌘♠   SARS and VAT: Baseline assessment

We suggest that you divide learners into pairs and allow them to role-play an interview in which they each give answers to the questions listed below. Allow them to assess each other to determine the prior knowledge.

Peer Assessment Form
Each learner is to assess their partner based on the fact whether they understand the explanations given to them.

CRITERIA	YES – shows understand-ing	NO – lacks knowledge
Reasons why the South African government levies taxes.		
Name and briefly discuss at least 5 different forms of tax levied in South Africa.		
Understands that VAT is levied on goods and services in this country.		
Understands that VAT is recorded against all sales.		
Understands that VAT is recorded against most purchases.		
Understands that the amount due to SARS or reclaimed is a difference between VAT on collected from customers (such as sales) and VAT paid to suppliers for goods and services purchased (claimed back).		
Can distinguish between standard, zero-rated and exempted items.		
Understands which vendors have to register as a VAT vendor.		
Understands that some vendors might voluntary register for VAT.		

Note to Teacher:
Learners should use their own assessment form to fill in the missing details in their knowledge and / or skills– they can be referred back to the Grade 10 book or you might have to re-teach all or some aspects, depending on the class's responses to the assessment Task.

THE GENERAL PRINCIPLES OF VALUE-ADDED TAX

Suggestion: Photostat the following examples of financial statements, enlarging them to A3 size and pin them up on your classroom wall.

VAT CALCULATIONS:

Learners have always experienced difficulties with calculations, particularly those that involve working backwards. It is vital that they can calculate the amount of VAT whether the prices are quoted as exclusive or inclusive. Extracting VAT from an inclusive amount is the same calculation that is used when calculating cost of sales when given the sales figure.

It is important that you spend some time on these calculations and ensure that the learners are happy with the procedure so that in Grade 12 they can focus on the ledger accounts and the VAT return.

Suggestion: You may wish to get one or all of the groups to design their own chart – using any product (maize – flour – bread) or (cotton – mill – dye – T-shirt) to show how the VAT is determined at each stage. You could link with the Life Orientation department to do a shared project on this subject.

TASK 12.2 ⌘🌢   Add VAT to cost price and mark-up

No.	Cost Price	Mark-up Amount / %	Exclusive: Selling Price	VAT (15%)	Inclusive: Selling Price
12.2.1	R25	R20	R45	R6,75	R51,75
12.2.2	110	25	*135*	*20,25*	*155,25*
12.2.3	280	10%	*308*	*46,20*	*354,20*
12.2.4	540	*108/ 20%*	648	*97,20*	*745,20*
12.2.5	*700*	25%	875	*131,25*	*1 006,25*

TASK 12.3 ⌘🌢   Calculate VAT from VAT inclusive amount

No.	Exclusive: Selling Price	VAT (15%)	Inclusive: Selling Price
12.3.1	*480*	*72*	R552
12.3.2	*720*	*108*	828
12.3.3	*80*	*12*	92
12.3.4	*780*	*117*	897
12.3.5	*460*	*69*	529

TASK 12.4 ⌘🌢🌢   Calculate VAT from VAT inclusive and exclusive amount

No.	Cost Price	Mark-up	Exclusive Selling Price	VAT (15%)	Inclusive Selling Price
12.4.1	R430	20%	*516*	*77,40*	*593,40*
12.4.2	*R380*	30%	R494	*74,10*	*568,10*
12.4.3	R720	*50%/360*	*1 080*	*162,00*	R1 242
12.4.4	*728,40*	R66,60	R795	*119,25*	*914,25*
12.4.5	*1 035*	R265	*1 300*	*195,00*	R1 495

TASK 12.5 ♦♦♦ VAT calculations and interpretation

12.5.1	List three other forms of taxes levied in South Africa.

Personal income tax (PAYE).
Company tax.
Customs and excise duty.
Estate duty.
Capital gains tax.
Any other taxes applicable in South Africa.

12.5.2	What is the current rate of VAT in South Africa?

15%

12.5.3	Which Ministry of the Government has the authority to adjust the rate of VAT?

Ministry of Finance – it is normally adjusted by the Minister of Finance during his budget speech in parliament during February of each year.

12.5.4	Briefly explain the following concepts in respect of VAT.
	• **Standard rated items**

These goods and services attract VAT at a rate of 15%.
It is paid by all who require these goods and services.

	• **Zero-rated items**

These goods and services attract VAT at a rate of 0%.
These goods and services are zero-rated so that they are affordable to the poorer members of the population. (The Minister of Finance may change zero-rated products to standard rated or vice versa).

	• **VAT exempted items**

These are goods and services on which no VAT is charged.

12.5.5	Indicate in the table below whether the following are standard rated, zero-rated or VAT exempted. Place an X in the relevant columns.

GOODS/SERVICES	Standard rated	Zero-rated	VAT exempted
Rent paid on an outbuilding for domestic use		X	
Hotel accommodation	X		
White bread	X		
Rice		X	
Mealie rice		X	
School fees			X
Water and electricity	X		
Interest on loan			X
Baked beans	X		
Fruit		X	

12.5.6	Explain the following VAT related concepts:
	• **Input VAT**

This refers to VAT that is paid by the business on goods and services purchased.
The VAT is paid to the business's suppliers.

	• **Output VAT**

This refers to VAT that is collected from the customers of the business for goods and/or services rendered.

12.5.7	Complete the following table. Assume that all goods and services are subject to VAT at 15%.		

TRANSACTION	Value ex-clusive of VAT	VAT amount	VALUE IN-CLUSIVE OF VAT
Credit sales	R16 200	*2 430*	*18 630*
Cash sales	*32 400*	*4 860*	37 260
Cash purchases of trading stock	*22 700*	3 405	*26 105*
Credit purchases of trading stock	*18 100*	*2 715*	20 815
Goods taken by the owner for personal use	2 000	*300*	*2 300*
Goods returned to suppliers	*1 800*	270	*2 070*
Goods returned by customers	600	*90*	*690*
Account of a debtor written off	*400*	*60*	460
Discount allowed on credit sales	300	*45*	*345*

12.5.8	12.5.8.1 Is Mona's Supermarket a VAT registered vendor? Give a reason for your answer.

Yes. The supermarket has a VAT registration number.

12.5.8.2   Calculate the amounts that should be indicated at:

• **A**

R135,25

• **B**

$(9,89 + 25,76 + 36,80 + 18,40) = 90,85 \times {}^{15}/_{115} = R11,85$
OR: $1,29 + 3,36 + 4,80 + 2,40 = R11,85$

12.5.8.3   Calculate the selling price of the washing powder exclusive of VAT.

$36,80 \times {}^{100}/_{115} = R32,00$

12.5.8.4   Calculate the change that the cashier would have handed to you.

$150 - 135,25 = R14,75$

Note to Teacher:
Ensure that learners understand the method used when paying VAT to SARS. Remember that the Invoice basis is the norm and if no instructions are given to the contrary, this is the method to be used.

BAD DEBTS AND ETHICS
Ensure that the learners appreciate that this is not a way of committing fraud against SARS but that they will have to give proof that the debt is genuinely a bad debt.

NOTE:
It is customary for businesses to process entries into the VAT Input and VAT Output accounts and then to transfer the respective amounts to the VAT control account at the end of the two month period. However, it is also possible to process all entries directly into the VAT control account

TASK 12.6 ⌘◆ Durban Traders (1): Bad debts and ethics

12.6.1	The amount that had to be written off the account of B. Botha.
13 570 – 9 200 = R4 370	

12.6.2	The adjusted amount of VAT that Durban Traders is liable to pay SARS in respect of this sales invoice no DB 143.
Amount of original sale was R13 570 (inclusive of VAT) VAT payable on sale = R13 570 x $^{15}/_{115}$ = R1 770 Amount to be written off equals R4 370 (inclusive of VAT) VAT on amount to be written off = R4 370 x $^{15}/_{115}$ = R570 VAT liability to SARS on inv. no. DB 143 = R1 770 less R570 = R1 200	

TASK 12.7 ⌘◆◆ Durban Traders (2): Transaction analysis on Bad debts and VAT

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	Credited	Assets	Owners Equity	Liabilities
12.7.1	Debtors control	Sales	+11 800	+11 800	0
	Debtors control	Output VAT	+1 770	0	+1 770
	Cost of sales	Trading stock	-5 900	-5 900	0
12.7.2	Bank	Debtors control	±9 200	0	0
12.7.3	Bad debts	Debtors control	-3 800	-3 800	0
	Output VAT	Debtors control	-570	0	-570

TASK 12.8 ⌘◆ Eshowe Wholesalers: Difference between trade discount and discount for prompt cash payment

12.8.1	Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 25 September 20.1.
The following amounts will be reflected on the invoice issued on 18 July 20.1: • Value of goods R40 000 • LESS: Trade discount R12 000 • Net amount payable R28 000 Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit. Since Tulani Retailers settled the account after 30 days no further discount is applicable.	

12.8.2	Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 15 August 20.1.
The following amounts will be reflected on the invoice issued on 18 July 20.1: • Value of goods R40 000 • LESS: Trade discount R12 000 • Net amount payable R28 000 Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit. Since Tulani Retailers settled the account within 30 days a further discount of 10% is applicable. Therefore Tulani Retailers pays an amount of R25 200 in full settlement of debt of R28 000. R25 200 = R28 000 less R2 800 (10% of R28 000).	

12.8.3	Calculate the third and final amount that Tulani Retailers will pay Eshowe Wholesalers on 18 December 20.1 if they had made two payments on the following dates: • A first payment of R15 000 on 29 July 20.1. • A second payment of R8 000 on 31 August 20.1.

The following amounts will be reflected on the invoice issued on 18 July 20.1:
- Value of goods   R40 000
- LESS: Trade discount   R12 000
- Net amount payable   R28 000

Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit.

However, Tulani Retailers failed to settle their total debt within the 90 day period.

An amount of R23 000 (R15 000 + R8 000) was settled at 90 days, i.e. 18 October 20.1

An amount of R5 000 (R28 000 less R23 000) was owing for two additional months.

Interest payable for 2 months amounts to R200 (R5 000 x 24% for $^2/_{12}$).

Total payable on 18 December is R5 200 (R5 000 + R200).

TASK 12.9 ⌘♣   Smit Traders: VAT and Sales returns

GENERAL LEDGER OF SMIT TRADERS

Dr						DEBTORS CONTROL			B	Cr
20.1					20.1					
Jan	1	Balance	b/d	25 000	Jan	8	Debtors allowances			1 500
							VAT Output			225

					DEBTORS ALLOWANCES			N		
20.1										
Jan	1	Total	b/f	2 100						
	8	Debtors control		1 500						

					VAT OUTPUT			B		
20.1					20.1					
Jan	8	Debtors control		225	Jan	1	Balance	b/d		4 000

Workings:

VAT   = R1 725 x $^{15}/_{115}$ = R225

Sales returns   = R1 725 - R225   = R1 500

TASK 12.10 ⌘   Ixopo Traders: VAT and purchases returns

GENERAL LEDGER OF IXOPO TRADERS

Dr						CREDITORS CONTROL			B	Cr
20.1					20.1					
Aug	2	Trading stock		2 200	Aug	1	Balance		b/d	38 000
		VAT Input		330						

					TRADING STOCK				N	
20.1					20.1					
Aug	1	Balance	b/d	18 800	Aug	2	Creditors control			2 200

					VAT INPUT				B	
20.1					20.1					
Aug	1	Balance	b/d	9 000	Aug	2	Creditors control			330

Workings:

VAT   = R2 530 x $^{15}/_{115}$ =   R330
Purchases returns = R2 530 - R330 =   R2 200

TASK 12.11 ⌘♠♠ Transaction Analysis on returns and VAT

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	**Credited**	**Assets**	**Owners Equity**	**Liabilities**
12.11.1	Debtors control	Sales	+3 000	+3 000	0
	Debtors control	VAT Output	+450	0	+450
	Cost of sales	Trading stock	-2 000	-2 000	0
12.11.2	Debtors allowances	Debtors control	-900	- 900	0
	VAT Output	Debtors control	-135	0	-135
	Trading stock	Cost of sales	+600	+600	0
12.11.3	Trading stock	Creditors control	+16 000	0	+16 000
	VAT Input	Creditors control	+2 400	0	+2 400
12.11.4	Creditors control	Trading stock	-2 500	0	-2 500
	Creditors control	VAT Input	-375	0	-375

TASK 12.12 ⌘♦♦ Soweto Traders: Calculation of balance in VAT control account

NOTE TO TEACHER:
Ensure that learners understand the effect of increasing liability or decreasing liability to SARS i.r.o. VAT.
For learners who are still finding it a challenge - explain the double entry and the journal. This Task makes use of the VAT Control account instead of separate VAT Input and VAT Output accounts.

GENERAL LEDGER OF SOWETO TRADERS

Dr					VAT CONTROL ACCOUNT			B	Cr
20.1					20.1				
Mar	31	Creditors control (credit purchase of goods)		4 350	Mar	1	Balance	b/d	3 500
		Bank (cash purchase of goods)		3 150		31	Debtors control (credit sales)		4 200
		Bank (payment to SARS for VAT)		7 200			Bank (cash sales of goods)		7 800
		Debtors control (returns of goods)		540			Creditors control (returns of goods)		720
		Debtors control (bad debts)		435			Creditors control (discount received)		525
		Debtors control (discount allowed)		660					
		Balance	c/d	410					
				16 745					**16 745**
					Apr	1	Balance	b/d	410

Amount Payable: R136

TASK 12.13 ⌘♦♦ Bad debts and ethics

The purpose of this Task is to allow the learners an opportunity to engage in an ethical argument. Try to focus on the fact that the accountant is a person of high repute and is of the belief that you cannot be caught. You also are in need of extra cash at the moment.

Try to use examples that many people will say that they would not be unethical but when faced with situations often react differently. For example, how many people do not try to cheat SARS by manipulating information, take their families out to supper and claim it as a business expense, take stationery home that becomes a tax-deductible expense to the business?

Allow learners time to discuss the ethical issues. If possible, use case studies or information that is relevant in your community or at this present time.

PENALTIES FOR TAX EVASION AND FRAUD
Learners need to be aware that severe penalties exist if the VAT laws are infringed in any way. Try to keep up-to-date with any new legislation in this regard. Visit the SARS web page for updated information.

TASK 12.14 ♦♦   Ethics and fraud

Allow learners time to read and discuss these articles. If possible, try to add extra articles from your local area.

Suggested answers to the discussion:

Why do you think people commit fraud?
- We live in a world that is rapidly changing in all aspects and, unfortunately, when people live at a fast pace ethics are often forgotten. - Materialism and greed are prevalent in our society. We are constantly bombarded with media reports, peers and society in general about the value of acquiring material possessions, and the desire to acquire these material possessions often supersedes our value systems. - We live in a world of constant competition, peer pressure, self-centredness that again means we forget our 'values'. - Unfortunately, many leaders in all aspects of life are not good role models – how many business people, politicians and celebrities get involved in unethical behaviour? Open any newspaper and you will be inundated with examples.

How do they manage to defraud (cheat) SARS?
- Incorrect recordings. - Incorrect documents. - Failure to disclose all information. - False information. - Etc.

Discuss the following slogan as portrayed by SARS "Your tax quenches the nation's thirst" and the effect of fraud on the country.
Tax money is used for the country, e.g. education, police force, defence, hospitals, roads, emergency situations, etc. If SARS is defrauded, it means they do not collect all the money and this will impact on the government's delivery of services.

TASK 12.15 ♦♦♦   Case study: Interpretation and tax fraud

12.15.1	Write out the full name for the following acronyms (abbreviations).
• **SARS** South African Revenue Services • **VAT** Value Added Tax • **SAICA** South African Institute of Chartered Accountants • **SAIPA** South African Institute of Professional Accountants	

12.15.2	Briefly explain ONE function of SAICA.
Set standards for those entering the Accounting profession and monitor whether accountants conform to the code of conduct and work ethics of these professionals.	

12.15.3	Explain who or what a VAT vendor is.
A business registered for VAT with SARS. This business pays VAT to suppliers when it buys goods and charges its own customers VAT when selling goods to them. It then subtracts the VAT paid from the VAT received and remits the difference to SARS.	

12.15.4	What is the minimum annual turnover for compulsory VAT registration?
R1 million	

12.15.5	How much does SARS pay out monthly for VAT claims?
R20 to R30 billion per month	

12.15.6	Explain briefly what you understand by the term "biometric verification".
This is "fingerprint scanning". A VAT vendor (the owner or manager) must have his fingerprints recorded at SARS and they can verify the real person by physically checking the finger prints.	

12.15.7	According to Gugu Smit what is South Africa's tax system based on? State at least THREE elements.
"South Africa's tax system is based on self-declaration and depends to a large extent on the integrity of tax payers to make full, accurate and honest disclosure and pay all the tax that is due."	

12.15.8	According to the article how do businesses commit VAT fraud?
Small businesses giving fake details and addresses to claim VAT from SARS. Show less sales to reduce VAT output. Inflate purchases to claim higher VAT input.	

12.15.9	How did SARS detect fraud in the case of Dr. Tulani Colin Khan?
The VAT audit conducted by SARS revealed the fraud. This included checking the bank statements.	

12.15.10	Do you agree with the punishment given? Give ONE reason for your answer.
Yes. He committed fraud which is illegal but he is paying back R1,5 million to SARS and doing 1 000 hours of community service at a hospital in Durban dealing with HIV. **OR** No If you commit the crime then you should at least serve part of the sentence of 10 years – should not be wholly suspended.	

12.15.11	Do you think that newspapers should be allowed to publish details of court cases of fraud and corruption committed by private individuals, business people and government officials?

No.	Fraud by	Yes / No	Reason
A	Private Individual	Yes	It will inform many people about fraud committed by him / her – so people will be aware.
B	Business people	Yes	Business is there to make a profit. The customer is paying for a service and customer must get TRUE value for his money.
C	Government officials	Yes	Government officials really work for the people – paid by taxpayers' money. The taxpayer expects these officials to be honest. Therefore, if there is corruption then the tax-payer must know about it.

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Understands the need for taxes.			
Understands how VAT works.			
Can calculate the amount of VAT if the price quoted is exclusive.			
Can calculate the amount of VAT if the price quoted is inclusive.			
Understands the difference between invoice and receipt base for the payment of VAT.			
Appreciates the penalties attached to fraud and evasion.			
Appreciates the effect on the economy if tax evasion takes place.			