

MODULE 12

VALUE ADDED TAX

Note to the Teacher:

Learners should have been exposed to the concept of VAT in Grade 11 when the focus would have fallen on the calculations as well as the basic principle as to how VAT works. You will, however, need to spend time on the calculations and ensure that the learners can understand the difference when calculating VAT using an inclusive as against an exclusive price.

Please note that the VAT regulations changed in the financial year starting 1 March 2008, when the compulsory registration amount for businesses that must register for VAT was increased from R300 000 to R1 000 000. In April 2018 the VAT rate was increased from 14% to 15% while certain new items have been added to the zero-rated goods. Teachers need to keep up to date with any further VAT changes as part of making this subject relevant and real by keeping abreast of latest developments.

There are different methods that are acceptable in the recording of claims back from Input and Output VAT. The method adopted in this textbook is that any claim back for VAT Output (e.g. debtor's allowances) is debited to the VAT Output account. This follows the basic principle that has been adopted in Accounting up to now, i.e. applying matching and cancelling the respective account. Likewise a claim back for VAT Input (e.g. creditors' allowance) is credited to the VAT Input account.

Another perfectly acceptable method is for any claims on VAT Output to be debited to the VAT Input account – this is because if goods are returned to us we have to claim this amount back from SARS. In the same way any cancellations on VAT Input can be credited to the VAT Output account. This method coincides with the SARS VAT 201 form in that SARS does not allow any negatives on the form. However, it can be confusing to the learners as it does not strictly follow the principles we have used up to this point in time.

Other claim backs that the learners need to be familiar with include:

- Cancellation of VAT on drawings of goods/equipment, etc.
- Cancellation of VAT on discount allowed and discount received.
- Cancellation of VAT on bad debts.
- Reversal of VAT cancelled on R/D cheques.

These are all covered in the textbook. We strongly urge you to adopt one method and to use that method throughout. Exposing learners to more than one method can become confusing.

You need to bear in mind that you only have one week to spend on this topic. Choose from the selected Tasks what you think is appropriate for your class. It is not necessary to do all the Tasks. Learners should also be practicing and therefore the extra Tasks can be used for homework or revision.

TASK 12.1 **Baseline Assessment: Matching of columns**

COLUMN A		COLUMN B	
1.	VAT inclusive	H	VAT is included in the marked price.
2.	VAT vendor	F	A business with an annual turnover of more than R1 000 000.
3.	Input tax	G	The VAT paid by a business for purchases.
4.	VAT invoice	L	Document issued by a registered vendor as proof of sale.
5.	VAT exclusive	C	VAT is excluded in the marked price.
6.	Zero rated supplies	K	Items which are charged at 0% VAT.
7.	Bi-monthly payments	J	Payments which are made every two months.
8.	Invoice basis	E	VAT is payable when the invoice is issued or the closest payment date.
9.	Output tax	A	The VAT received by a business from sales of goods or income earned.
10.	Receipts basis	I	VAT is payable only when payment is received either in full or part.

TASK 12.2 Basic calculations

NO.	VAT EXCLUSIVE AMOUNT	VAT AMOUNT	VAT INCLUSIVE AMOUNT
1.	R400,00	R60	R460
2.	R700,00	R105	R805
3.	R360,00	R54	R414
4.	R680	R102	R780,00
5.	R1 090	R163,50	R1 240,00
6.	R260	R39	R290,00
7.	R320	R44,40	R368
8.	R850	R122,00	R977,50
9.	R1 500	R210,00	R1 725

TASK 12.3 Helen's Health Shop: Calculation of amount owed to / by SARS

No.	Details	Amounts			Owed to/by SARS	
		Excluding VAT	VAT	Including VAT	VAT Input	VAT Output
12.3.1	Helen buys trading stock on credit from suppliers.	R30 000	R4 500	R34 500	+R4 500	
12.3.2	Helen sells goods for cash.	R20 000	R3 000	R23 000		+R3 000
12.3.3	Helen sells goods on credit.	R24 000	R3 600	R27 600		+R3 600
12.3.4	Helen returns stock that she had bought on credit.	R1 600	R240	R1 840	-R240	
12.3.5	Helen buys equipment for the business on credit.	R5 500	R825	R6 325	+R825	
12.3.6	Debtors return goods which they did not order.	R1 200	R180	R1 380		-R180
12.3.7	Helen writes off bad debts.	R600	R90	R690		-R90
12.3.8	Helen draws trading stock for personal use.	R1 000	R150	R1 150	-R150	
TOTALS					R4 935	R6 330
					OWED TO SARS FOR VAT = R1 395	

Note to Teachers:

Learners should understand that a simple calculation can also be done to get the final answer, E.g.: $-4\ 500 + 3\ 000 + 3\ 600 + 240 - 825 - 180 - 90 + 150 = R1\ 395$

TASK 12.4 Hari's Hardware Shop: Calculation of amount owed to / by SARS

No.	Details	Amounts			Owed to/by SARS	
		Excluding VAT	VAT	Including VAT	VAT Input	VAT Output
12.4.1	Amounts brought forward from previous month.				R2 415	R5 865
12.4.2	Hari buys trading stock for cash from suppliers.	R15 000	R2 250	R17 250	R2 250	
12.4.3	Hari buys trading stock on credit from suppliers.	R42 000	R6 300	R48 300	R6 300	
12.4.4	Hari sells goods for cash.	R18 000	R2 700	R20 700		R2 700
12.4.5	Hari sells goods on credit.	R33 000	R4 950	R37 950		R4 950
12.4.6	Hari's creditors grant him trade discount on stock that he had earlier bought on credit.	R4 000	R600	R4 600	(R600)	
12.4.7	Hari buys stationery on credit for the business.	R1 500	R225	R1 725	R225	
12.4.8	Hari grants cash discount to debtors on settlement of their debts.	R1 700	R255	R1 955		(R255)
12.4.9	Hari receives cash discount from creditors on settlement of his accounts.	R900	R135	R1 035	(R135)	
12.4.10	Hari reverses cash discount on a dishonoured cheque.	R250	R37,50	R287,50		R37,50
12.4.11	Hari buys a delivery vehicle for the business by cheque.	R110 000	R16 500	R126 500	R16 500	
12.4.12	Debtors return goods which they did not order.	R2 800	R420	R3 220		(R420)
12.4.13	Hari writes off bad debts.	R3 500	R525	R4 025		(R525)
12.4.14	Hari draws trading stock for personal use.	R3 000	R450	R3 450	(R450)	
TOTALS					R26 505	R12 352,50
					OWED BY SARS FOR VAT = R14 152,50	

Note to Teachers:

Learners should understand that a simple calculation can also be done to get the correct final answer, e.g.:

$$-2\ 415 + 5\ 865 - 2\ 250 - 6\ 300 + 2\ 700 + 4\ 950 + 600 - 225 - 255 + 135 + 37,50 - 16\ 500 - 420 - 525 + 450 = -R14\ 152,50$$

TASK 12.5
Muzi's Music: Entries directly in the VAT Control account
**GENERAL LEDGER OF MUZI'S MUSIC SHOP
BALANCE SHEET ACCOUNTS SECTION**

Dr					B					Cr				
VAT CONTROL														
20.8					20.8									
Aug	31	Creditors control #	CJ	2 100	Aug	1	Balance	b/d						3 078
		Creditors control #	CJ	144		31	Bank	CRJ						1 980
		Debtors control	DAJ	165			Debtors control	DJ						960
		Debtors control	GJ	345			Creditors control	CAJ						270
		Balance	c/d	3 774			Drawings	GJ						240
				6 528										6 528
					Sept	1	Balance	b/d						3 774

May be combined.

TASK 12.6
Kally's Computer Shop: Entries directly in the VAT Control account
**GENERAL LEDGER OF KALLY'S COMPUTER SHOP
BALANCE SHEET ACCOUNTS SECTION**

Dr					B					Cr				
VAT CONTROL														
20.3					20.3									
May	31	Bank	CPJ	9 000	May	1	Balance	b/d						6 270
		Creditors control	CJ	12 300		31	Bank	CRJ						16 500
		Bank	CPJ	33 000			Debtors control	DJ						8 250
		Debtors control	DAJ	1 200			Creditors control	CAJ						1 800
		Debtors control	CPJ	225			Debtors control	GJ						90
		Debtors control	GJ	1 050			Drawings	GJ						1 350
				56 775			Balance	c/d						22 515
														56 775
June	1	Balance	b/d	22 515										

TASK 12.7
Shaun's Shoe Shop: Entries directly in the VAT Control account
**GENERAL LEDGER OF SHAUN'S SHOE SHOP
BALANCE SHEET ACCOUNTS SECTION**

Dr					B					Cr				
VAT CONTROL														
20.4					20.4									
April	30	Creditors control	CJ	9 450	Apr	1	Balance	b/d						15 600
		Bank	CPJ	8 550		30	Creditors control	CAJ						555
		Debtors control	DAJ	840			Creditors control	CPJ						675
		Debtors control	CRJ	630			Bank	CRJ						12 630
		Debtors control	GJ	1 200			Debtors control	DJ						6 375
		Creditors control	CJ	3 459			Debtors control	GJ						75
		Balance	c/d	11 895			Drawings	GJ						105
				36 015										36 015
					May	1	Balance	b/d						11 895

TASK 12.8 Fixx Furniture Shop: Entries directly in the VAT Control account

GENERAL LEDGER OF SHAUN'S SHOE SHOP BALANCE SHEET ACCOUNTS SECTION

Dr					VAT CONTROL					B		Cr	
20.6					20.6								
Oct	31	Bank #	CPJ	12 300	Oct	1	Balance	b/d				17 100	
		Bank #	CPJ	42 000		31	Creditors control	CPJ				1 020	
		Debtors control	CRJ	765			Bank	CRJ				18 450	
		Creditors control ##	CJ	15 750			Creditors control	CAJ				1 860	
		Creditors control ##	CJ	705			Debtors control	DJ				21 600	
		Debtors control	DAJ	1 950			Debtors control	GJ				9	
		Debtors control	GJ	825			Drawings	GJ				990	
				74 295			Balance	c/d				13 266	
				74 295								74 295	
Nov	1	Balance	b/d	13 266									

May be combined.
May be combined.

TASK 12.9 Ekshay Fashions: Ledger accounts

Note to the Teacher:

We are following the method of cancelling VAT Input or Output by doing the opposite in the same account as the original transaction. In other words as the credit sales was entered on the Cr side of VAT Output, the debtors' allowances is Dr to the VAT Output account. This follows the method that the learners have always used in Accounting.

However, it would be equally correct if the entry for the Debtors allowances was debited to the VAT Input account. While this will change the individual balances on the VAT Input and Output accounts the final balance of what is owing to SARS will be the same.

GENERAL LEDGER OF EKSHAY FASHIONS BALANCE SHEET ACCOUNTS SECTION

Dr					VAT OUTPUT					B		Cr	
20.9					20.9								
July	31	Debtors control	DAJ	186	July	1	Balance	b/d				4 320	
		VAT control account	GJ	13 089		31	Bank	CRJ				3 675	
				13 275			Debtors control	DJ				5 280	
				13 275								13 275	

Dr					VAT INPUT					B			
20.9					20.9								
July	1	Balance	b/d	2 300	July	31	Creditors control	CAJ				141	
	31	Bank					VAT control account	GJ				7 451	
		(147.37 + 172.05)	CPJ	2 250									
		Petty cash	PCJ	60									
		Creditors control	CJ	2 982									
				7 592								7 592	

Dr					VAT CONTROL ACCOUNT					B		Cr	
20.9					20.9								
July	31	VAT Input	GJ	7 451	July	31	VAT Output	GJ					13 089
		Balance	c/d	5 638									
				13 089									13 089
					Aug	1	Balance	b/d					5 638

OR					VAT CONTROL					B		Cr	
Dr													
20.9					20.9								
July	31	Bank #	CPJ	150	July	1	Balance	b/d					2 020
		Bank #	CPJ	2 100		31	Bank	CRJ					3 675
		Petty cash	PCJ	60			Creditors control	CAJ					141
		Creditors control	CJ	2 982			Debtors control	DJ					5 280
		Debtors control	DAJ	186									
		Balance	c/d	5 638									
				11 116									11 116
					Aug	1	Balance	b/d					5 638

#May be combined

TASK 12.10 Redberry Stores: Calculations, Journal entries, VAT control account

Note to the Teacher:

Before the learners start this Task you should revise which amounts are inclusive and which amounts are exclusive.

- Bank, Debtors control, Creditors control and Drawings will be **inclusive** amounts. This is because we have to pay or charge the full amount.
- Sales, Trading stock, Stationery, Equipment, etc. will all be **exclusive**. This is because in the business books they will record the actual cost of the items. The VAT amount together with these amounts adds up to the contra account, i.e. the inclusive amount.

12.10.1

Cash Receipts Journal:

Bank	VAT Output	Sales	Cost of sales	Fee income	Sundry accounts
92 000,00	12 000,00	63 400,00	47 550,00	16 600,00	0
	B				

Note: Both sales and fee income are subject to VAT.

Calculations:

$12\,000 \times \frac{100}{15} = \text{Sales} + \text{Fee Income}$ ($80\,000 - 16\,600 = R63\,400$ for sales)

Bank: $12\,000 + 63\,400 + 16\,600 = R92\,000$

Cash Payments Journal:

Bank	VAT Input	Trading stock	Equip-ment	Station-ery	Creditors control		Sundry accounts
					Payments	Discount received	
90 660	9 000	48 330	8 090	2 480	19 860	0	2 900 ^[1]
	B						

Calculations:

$(48\,330 + 8\,090 + 2\,480 + 1\,100) = 60\,000 \times 15\% = R9\,000$

Note: There is no VAT Input on Drawings or payments to Creditors.

Petty Cash Payments Journal:

Petty cash	VAT Input	Trading stock	Consumables	Casual wages	Sundry expenses	Sundry accounts
2 840	183	900	180	1 437	140	-
	B					

Calculations:

$$900 + 180 + 140 = R1\ 220$$

$$1\ 220 \times 15\% = R183$$

$$2\ 840 - 183 - 900 - 180 - 140 = R1\ 437$$

Note: There is no VAT on wages.

Debtors Journal:

Debtors control	VAT Output	Sales	Cost of sales
57 316	7 476	49 840	37 380
	B		

Calculations:

$$37\ 380 \times \frac{133,33}{100} = R49\ 840$$

$$49\ 840 \times 15\% = R7\ 476$$

$$49\ 840 + 7\ 476 = R57\ 316$$

Debtors Allowances Journal:

Debtors control	VAT Output	Debtors allowances	Cost of sales
5 635	735	4 900	3 675
	B		

Calculations:

$$4\ 900 \times \frac{100}{133,33} = R3\ 675$$

$$4\ 900 \times 15\% = R735$$

Creditors Journal:

Creditors control	VAT Input	Trading stock	Equipment	Consumables	Sundry accounts
34 960	4 560	24 680	4 320	1 400	0
	B				

Calculations:

$$34\ 960 \times \frac{15}{115} = R4\ 560$$

$$34\ 960 - 4\ 560 - 4\ 320 - 1\ 400 = R24\ 680$$

Creditors Allowances Journal:

Creditors control	VAT Input	Trading stock	Equipment	Consumables	Sundry accounts
2 070	270	1 800	0	0	0
	B				

Calculations:

$$1\ 800 \times 15\% = R270$$

12.10.2 General Journal entries:

GJ

Doc	D	Details	Fol	Dr	Cr	Debtors control		Creditors control	
						Dr	Cr	Dr	Cr
14	31	Drawings		1 265					
		VAT Output			165				
		Trading stock			1 100				
		Stock taken by proprietor for private use							
15		A. Straggler		124		124			
		Interest on overdue a/c			124				
		Interest charged on overdue account							
16		VAT Output	B	21 838.97					
		VAT Control account	B		21 838.97				
		Output VAT transferred to VAT control account							
17		VAT Control account	B	15 436.98					
		VAT Input	B		15 436.98				
		Input VAT transferred to VAT control account							

Calculations:

$$1\ 265 \times \frac{15}{115} = R165$$

$$1\ 265 - 165 = R1\ 100$$

Note: There is no VAT charged on Interest – this is VAT exempted.

**GENERAL LEDGER OF REDBERRY STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					B					Cr								
VAT OUTPUT																		
20.9					20.9													
Jan	31	Debtors control	DAJ	735	Jan	1	Balance	b/d										4 200
		VAT Control account	GJ	23 106		31	Bank	CRJ										12 000
							Debtors control	DJ										7 476
							Drawings #	GJ										165
				23 841														23 841

Could be a credit to VAT Input

Dr					B				
VAT INPUT									
20.9					20.9				
Jan	1	Balance	b/d	3 600	Jan	31	Creditors control	CAJ	270
	31	Bank	CPJ	9 000			VAT Control account	GJ	17 073
		Petty cash	PCJ	183					
		Creditors control	CJ	4 560					
				17 343					17 343

Dr					B				
VAT CONTROL ACCOUNT									
20.9					20.9				
Jan	31	VAT Input	GJ	17 073	Jan	31	VAT Output	GJ	23 106
		Balance	c/d	6 033					
				23 106					23 106
					Feb	1	Balance	b/d	6 033

OR					VAT CONTROL ACCOUNT					B	
20.9					20.9						
Jan	31	Debtors control	DAJ	735	Jan	1	Balance	b/d		600	
		Bank	CPJ	9 000		31	Bank	CRJ		12 000	
		Petty cash	PCJ	183			Debtors control	GJ		7 476	
		Creditors control	CJ	4 560			Drawings	GJ		165	
		Balance	b/d	6 033			Creditors control	CAJ		270	
				20 511						20 511	
					Feb	1	Balance	b/d		6 033	

TASK 12.11 ☹️💧 Transaction analysis

No.	Journal	General Ledger		Amount
		Account debit	Account credit	
1.	CPJ	VAT Control account	Bank	R3 000.00
2.	CRJ	Bank	Sales	1 200
		Bank	VAT Output	180
		Cost of sales	Trading stock	600
3.	CRJ	Bank	Sales	540
		Cost of sales	Trading stock	450
4.	GJ	Bad debts	Debtors control	360
		VAT Output	Bad debts	54
5.	CJ	Trading stock	Creditors control	3 480
		VAT Input	Creditors control	522
6.	CPJ	Creditors control	Bank	3 801,90
		Creditors control	Discount received	200,10**
		Discount received	VAT Input	26,10**
7.	CPJ	Utility bill	Bank	1 560
		VAT Input	Bank	234
8.	CRJ	Bank	Debtors control	900
		Discount allowed	Debtors control	100***
		VAT Output	Discount allowed	13,04***
9.	GJ	VAT Output	Debtors control	20
10.	CRJ	Bank	Interest on fixed deposit	1 400,00

*Cost of sales is calculated on the exclusive price.

**OR Discount Received of R174 (200,10 – 26,10)

***Or Discount Received R86,96 (100 – 13,04)

TASK 12.12 ☹️💧 Mary Traders: Interpretation, Theory

12.12.1	What does VAT stand for?
Value Added Tax	
12.12.2	Why does Mary Traders have to be registered for VAT?
Their turnover is more than R1 million.	
12.12.3	What is the difference between VAT Input and Output?
VAT Input:	
VAT paid on goods and services bought for the business.	
VAT Output:	
VAT charged (collected) on goods sold in the business.	

12.12.4	Explain the meaning of each of the following:
	<ul style="list-style-type: none"> • Standard VAT <p>15% VAT that is charged on most goods and services in the country.</p>
	<ul style="list-style-type: none"> • Zero-rated VAT <p>Basic essential items on which the VAT rate is 0%.</p>
	<ul style="list-style-type: none"> • VAT exempted <p>Items that by law have no VAT levied on.</p>
12.12.5	Use the information given below to calculate the amount owed to SARS or the amount owed by SARS. Indicate whether the business owes SARS or whether SARS owes the business.

VAT Input	VAT Output	Workings
24 600	37 200	Opening balance
	120 000	$920\ 000 \times \frac{15}{115}$
66 000		$440\ 000 \times \frac{15}{100}$
3 800		VAT amount given
	(3 200)	VAT amount given
	(75)	$575 \times \frac{15}{115}$
	(615)	$4\ 715 \times \frac{15}{115}$
(135))		$900 \times \frac{15}{100}$
94 265	153 310	

$153\ 310 - 94\ 265 = R59\ 045$ owed to SARS

NOTE:

The negative amounts above can be inserted in the opposite column, as a positive. This will change the final totals but the amount owing to SARS will be the same.

12.12.6	The owner of Mary Traders has told the accountant to write off more bad debts than there actually are, each year.
	(a) Why do you think the owner has suggested this course of action? Explain briefly.
	He can claim money back from SARS and thus reduce the amount paid. Will mean more cash available to the business.
	(b) The accountant is not prepared to do this. Briefly explain why you think he feels like this by discussing two points.
	<ul style="list-style-type: none"> • It is unethical to cheat SARS – everybody needs to pay their correct VAT. • The owner and the accountant could face fines and / or jail sentences if caught by SARS.

TASK 12.13 Willow Traders: Interpretation, Theory

12.13.1	Willow Traders does not have to register as a VAT vendor in terms of the law. Briefly explain why you think the business has registered.
	The turnover is not over a R1 million, although it is close, but he does not have to register until his turnover exceeds the R1 million. Reason: He can claim back the VAT that he has paid on all goods and services used in the business.

12.13.2 Use the information below to calculate the amount of VAT owed to SARS or the amount owed by SARS. Indicate whether the business owes SARS or SARS owes the business.

VAT Input	VAT Output	Explanation / Workings
122 000	56 000	Opening balances
	115 500	$770\,000 \times \frac{15}{100}$
49 500		$379\,500 \times \frac{15}{115}$
9 750		$65\,000 \times \frac{15}{100}$
	(75)	575 – 500
	(280)	VAT amount given
	(1 400)	VAT amount given
(240)		$1\,840 \times \frac{15}{115}$ (Note no VAT is charged on cash withdrawals)
181 010	169 745	

169 745 – 181 010 = (R11 265) owed by SARS.

NOTE:

The minus amounts above can be inserted in the opposite column, as a positive. This will change the final totals but the amount owing to SARS will be the same.

12.13.3 SARS encourages all their VAT vendors to submit their VAT returns by e-filing.

(a) What do you understand by e-filing?

Submitting VAT returns on line – via internet.

(b) How can SARS guarantee security if using e-filing?

All businesses have pin numbers that they must use when entering the e-filing.

(c) What is the advantage to the business for using e-filing?

It is quick and individuals do not have to go to the SARS office or depend on the post. Payments or refunds occur immediately.

12.13.4

STATEMENT	TRUE/ FALSE	REASON WHY FALSE
1. VAT is levied at 10% p.a.	F	VAT is charged at 15%.
2. It is compulsory by law that all businesses have to register as a VAT vendor.	F	Only businesses with a turnover of over R1 million have to register as a VAT vendor.
3. VAT charged on services given is charged to VAT Input.	F	Charged to VAT Output.
4. VAT paid on trading stock bought is charged to VAT Input.	T	
5. Fresh fruit is exempted from VAT.	F	Fresh fruit is zero-rated.
6. VAT is levied on petrol.	F	Petrol is exempted from VAT.
7. Interest earned from the bank is subject to VAT.	F	Interest is VAT exempted.
8. All VAT is collected by the Department of Labour.	F	VAT is collected by SARS.
9. The VAT period is based on one month.	F	Based on a two month period.
10. VAT Input and VAT Output accounts are closed off to the Trading account.	F	Closed off to the VAT control account.
11. The receipt basis is the preferred method of VAT collection.	F	All businesses are subject to the invoice basis . Only businesses with permission can use the receipts basis.

TASK 12.14 ☹️💧💧 Ethics and control

No.	Problem	Solution
1.	He is not a registered vendor. He is keeping the tax which he charges for his own benefit or to cover the cost of VAT Input which he may be paying to his suppliers.	A trader whose turnover is below R1 000 000 may register as a vendor. This is known as voluntary registration. He is then able to recover the VAT Input which he pays for supplies.
2.	She provides an educational service which is exempt from VAT. Although she pays VAT Input she cannot charge her customers with VAT. There is, therefore, no problem arising in this particular case.	-
3.	This constitutes fraud. She is claiming VAT Input in order to increase her VAT refund.	Every claim for VAT Input and Output must be supported with the correct documentation. Vendors are expected to keep records for 5 years. These should be made available to SARS auditors. Vendors are expected to provide accurate information to SARS. This is a serious offence – she could be charged double the amount of VAT evaded and in addition to this she may be fined or imprisoned.
4.	By law any business with a turnover of R1m or more must register as a vendor. Frankie is therefore breaking the law by not registering.	He will have to register with SARS. He would be required to provide financial records for the three years. SARS could conduct investigations. Usually the deciding factor is whether the intention was to evade VAT. He would most likely have to pay penalties plus interest.
5.	This constitutes fraud. By understating VAT Output he is benefiting at the expense of SARS. His customer might also benefit from this arrangement if he is VAT vendor as he might be using the invoice with the higher amount and claiming VAT Input on that invoice.	Vendors are expected to supply SARS with accurate information. Blarney is committing a fraudulent act which is punishable by law. SARS auditors may conduct a full-scale audit of his books and that of the customer. He will probably have to pay back the VAT plus penalties and interest.
6.	He is in direct contravention of the Tax Act which requires proper and full documentation for any tax claim. By submitting returns on time he is not being charged any penalties.	He should employ a bookkeeper or accountant to help him maintain a proper set of books. Vendors are expected to keep accurate records for a period of 5 years. As a registered vendor he is legally bound to comply with the requirements of the Tax Act.
7.	The accountant has done the right thing by reporting the error to the owner. Miranda's suggestion to overlook the mistake amounts to fraud.	The vendor's intention to evade tax is deliberate. This error can be picked up by SARS auditors and Miranda will have to account for the VAT plus penalties and interest. Vendors are expected to report errors on VAT returns so that the necessary adjustments can be made. It is up to the vendor to maintain a good relationship with SARS.
8.	Penalties and interest create an extra expense which impacts on profit.	Her cash flow problems can be alleviated if she arranges with SARS to submit her returns on a later date. The application must be in writing and should be fully motivated.

CHECKLIST:

Skills	Yes – proficient	Requires more attention	Complete
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.			
Understands the need to adapt journals to accommodate VAT.			
Can record VAT transactions in the General Ledger.			
Understands the need for full disclosure and proper record keeping.			
Can discuss ethical issues relating to VAT.			