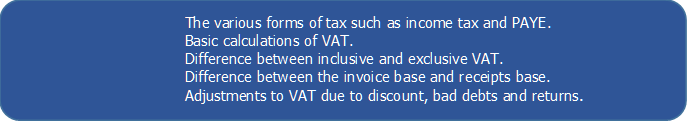
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| MODULE 12 |
| VALUE ADDED TAX (VAT) |



In this Module we will focus on Value Added Tax with particular emphasis on:

* Amount payable or receivable from South African Revenue Services (SARS).
* Completion of the VAT control account from given information.
* Integration of ethical issues relating to VAT.
* Integration of internal audit and control processes.

**WHAT IS VAT?**

Value Added Tax (VAT) is a tax charged on the supply of goods or services by a vendor. Vendors registered for VAT are obliged to collect VAT from their customers or clients on behalf of the South African Revenue Services (SARS). However, registered VAT vendors can claim any VAT paid on supplies or expenses needed to generate the income for the business. Thus VAT is collected along a cycle of businesses, with each paying the 15% on the **value** they added – the collection is spread and thus ensures more effective collection by SARS than if one supplier/business was responsible for paying over the full amount (as was the case when the GST, General Sales Tax, was in operation in South Africa). At present the VAT rate in South Africa is 15% but the Minister of Finance can change this at any time (was increased from 14 to 15% in April 2018). Refer to your Grade 11 textbook for a detailed discussion on the tax collection.

**WHAT IS MEANT BY THE TERM “VAT CAN BE CLAIMED BACK”?**

Let’s use an example to demonstrate this principle.

Susy’s Tuck Shop buys trading stock from a wholesaler, Big Cash & Carry. She is charged R10 000 + VAT (R1 500). She has to pay R11 500.

However, Susy is not buying the stock for her own consumption – she is going to put this in her tuck shop and sell it to her customers. Therefore under the tax regulations she is exempt from paying VAT, i.e. as she is not the final user she does not have to pay VAT. However, this regulation is very difficult to put into operation if the supplier (Big Cash & Carry) is expected to know or find out if every customer that he is selling to, is buying for their business or private consumption.

The way SARS (South African Revenue Services) manages this is to tell each seller that is a registered **VAT vendor** to charge VAT on the selling price of the goods. In the above case Big Cash & Carry would be obliged by law to charge Susy the VAT.

However, Susy is then permitted to present the VAT invoice to SARS, and providing Susy is a VAT vendor, SARS will **refund** the R1 500 to Susy. Therefore Susy’s cost of the trading stock bought is only R10 000. The negative for Susy is that she will have to pay the R1 500 and then claim back the amount from SARS. This could have a negative impact on her **cash flow situation**.

When Susy sells the same goods to her customers, but at R15 000 (remember she will mark up the goods in order to make a profit), she will have to add on 15% (R2 250) and will charge the customers R17 250. Susy will then pay over the R2 250 to SARS and the R15 000 is her sales figure. Thus SARS eventually gets their money from the sale of the goods.

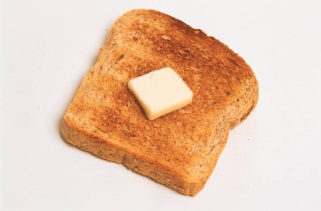
In reality SARS and the businesses cannot be involved in claiming back and paying over with each purchase and sale that takes place. Instead what happens is that records are kept for a **two-month** period and then one claim is made.

Let’s assume that Susy only bought this one lot of stock and only had the one sale. At the end of the two-month period she would claim back R1 500 from SARS and then pay R2 250 to SARS. This is, however, resulting in **double the workload**. So instead the one amount will be **off-set** against the other - R2 250 – R1 500 = R750. Therefore in this case Susy will pay over only R750 to SARS. She will keep R1 500 as a refund for the VAT she paid when she bought the goods and the other R750 to make up the R2 250 will go to SARS. SARS in the meantime has received the full R2 250: R1 500 when Susy bought the goods that Big Cash & Carry would have paid over and the other R750 from Susy.

**STANDARD RATE OF VAT**

With the exception of the items listed below, all items are subject to the standard VAT of 15%. Note that in some countries of the world, different rates of VAT are applied to different items, e.g. luxury as against basic items. In April 2018 the rate was increased from 14 – 15%.

**ZERO-RATED ITEMS**

Certain items are zero-rated (0%) the aim being to prevent hardship to indigent (poor) consumers. Examples of zero-rated items are: brown bread, milk, maize products, rice, lentils, dried beans, legumes, fruit, vegetables, milk, milk powders, cooking oil, eggs, canned pilchards and paraffin. The Minister of Finance can adjust the percentage at any time as he can add or delete items on the list.

**VAT EXEMPTED ITEMS**

VAT exempted items are exempt by an Act of Parliament from being charged VAT. Examples of VAT exempted items are: interest (but bank charges are subject to VAT), rates, export services, childcare services, educational services and services provided by associations not for gain. A school, for instance, cannot charge VAT on school fees. Salaries and wages and petrol are also VAT exempted. One of the reasons is that these items are subject to other forms of tax, i.e. PAYE and fuel levy.

While it might seem that zero-rated and VAT exempted are therefore the same as the effect is **NO VAT** is charged, the difference is that the Minister of Finance can change the zero-rated % at any time, and at his discretion, while the VAT Act would have to be changed to implement VAT on VAT exempted items.

**WHO MUST REGISTER?**

VAT is levied on all sales of goods and services by businesses that are registered as VAT vendors. With effect from the financial year starting 1 March 2008, any business with a turnover of more than R1 000 000 (one million) a year must register as a vendor. However, traders whose yearly turnover is less than the R1 million are permitted by law to register, (this is known as **voluntary registration**) if they believe it is in their interest. Only once they are registered can they claim back the VAT that they pay on legitimate business purchases and expenses. For many businesses that have large outlays this could be a definite benefit. However, it would mean that the business has to adhere to the VAT regulations, involving record-keeping and submission of forms and VAT payments. If yearly turnover is less than R20 000, then businesses may not register as a VAT vendor. Note that the VAT limits mentioned above are subject to annual changes. Refer to the SARS call-centre for the latest limits.

**METHODS OF CALCULATING HOW VAT IS PAID AND CLAIMED**

**Invoice basis**

This is the standard (normal) method used in South Africa, and will apply to all businesses unless they have applied in writing and permission has been granted to the contrary. Under this system VAT is charged at the point when the goods are sold (either for cash or on credit) and becomes due to SARS at the end of the two-month tax period for that business. In many cases this could mean that the business has not been paid for the goods sold on credit and would have to pay VAT to SARS that they have not yet received from their debtors. For example, a business sells goods on credit to a debtor on 20 May for R4 000 + R600 VAT. The business’ two-month period ends at the end of May and thus by the 25th of June (the month following) the business will have to pay the R600 to SARS. However, the debtor has not paid and might only pay in July or August. This can have **cash flow implications** for many businesses.

**Receipt basis**

To assist smaller businesses who might experience cash flow problems as a result of the Invoice basis being applied, businesses can apply in writing to SARS for permission to register on the receipt basis. If this is granted then the business will only become responsible for the payment of the VAT, i.e. the R600 in the example above, after the debtor has paid his account. Please note that this is not the normal method and is only granted to certain small businesses on request.

**TAX PERIODS**

The **two-month** tax period is the standard tax period which means that a return must be submitted every two months (bi-monthly), e.g., January, March, May, July, September and November. In certain cases businesses can apply to SARS for a different period.

In order to spread the workload half of the businesses in the country submit their returns at the end of the even months, i.e. February, April, etc. and the other half at the end of the odd months, i.e. January, March, etc. The return is submitted on the 25th day after the end of the month covered by the tax period. For example, on or before the 25th of March the tax return will be submitted for the two months January and February; on or before the 25th of May if the tax period is March and April and so on. The vendor has 25 days to submit his return (VAT 201) for the tax period, i.e. for the last two months.

VAT forms can either be delivered to SARS offices or more and more businesses today make use of the **e-filing system** where submissions are made via the internet and payments made by electronic cash transfers. The VAT 201 form will be dealt with later.

**E-filing** is become increasingly popular amongst business owners as the preferred method for submitting VAT returns. Under this system each VAT vendor will be allocated a password, which allows them to access their VAT return form every two months. The form is completed and submitted immediately to SARS. Together with the return the business will make an Electronic Funds Transfer (EFT) for the relevant amount owing. If SARS owes the business money then the refund will be paid back to the business almost immediately.

**VAT EXCLUSIVE AND VAT INCLUSIVE**

In South Africa it is accepted practice that prices on all goods that are sold to final consumers (customers) are shown at the **INCLUSIVE** amount, i.e. the marked price includes VAT. This is to prevent confusion to customers who might get to the pay-point and find that they have to pay more (due to VAT) than what the item is marked at. However, in the business world it is common practice to quote prices at the **EXCLUSIVE** rate, i.e. without VAT added in and VAT is shown as a separate item.

**TASK 12.1** ⌘Description: drops1 **Baseline Assessment: Matching of columns**

Match Column A with Column B.

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

**CALCULATION OF VAT**

From the above it is obvious that the VAT amounts have to be calculated and entered separately. This is a very important aspect of the VAT assessment for Accounting. We encourage you to make sure that you can make the necessary calculations depending on whether the amounts quoted are **inclusive** or **exclusive** of VAT. The calculations were covered in Grade 11. Therefore only a brief revision is provided. If you are still unsure then refer to your Grade 11 textbook.

Vendors will calculate their selling price, depending on their costs and mark-up and then on top of this will add VAT. Thus a vendor determines that the selling price is R200 (exclusive) he then calculates 15% of R200, i.e. R30 and determines the marked price of the item as R230 (inclusive).

Therefore you have to be able to calculate the VAT on the R200 and/or the R230. Using the same formulae as we learnt in Cost of sales calculations we can summarise as follows:

|  |  |  |
| --- | --- | --- |
| **SELLING PRICE**  **exclusive of VAT** | **VAT** | **SELLING PRICE**  **inclusive of VAT** |
| 100% | 15% | 115% |

Check each time whether the price quoted is inclusive or exclusive. This will affect your

calculations.

Calculations will be as follows:

* If you are given the VAT **exclusive amount,** i.e. R200 and asked to calculate VAT then:

R200 x 15/100

= R30

* If you are given the VAT **inclusive amount,** i.e. R230 and asked to calculate VAT then:

R230 x 15/115

= R30

**SUMMARY**:

Selling price **inclusive** of VAT is given:

To calculate the VAT amount: Selling price inclusive x 15/115

(This fraction is called the **tax fraction**)

To calculate the Sales amount: Selling price inclusive x 100/115

To calculate Cost of sales: Selling price (exclusive) x 100/ (100 + Mark-up %)

Selling price **exclusive** of VAT is given:



To calculate the VAT amount: Selling price x 15/100

*Shortcut: Selling price x ,15*

To calculate the Sales amount: Selling price + VAT amount

(Inclusive of VAT)**OR**

VAT amount x 115/15

**OR**

Selling price x 115/100

*Shortcut: Selling price x 1,15*

**TASK 12.2** ⌘Description: drops1 **Basic calculations**

Complete the following table (round off to the nearest cent):

|  |  |  |  |
| --- | --- | --- | --- |
| **NO.** | **VAT EXCLUSIVE**  **AMOUNT** | **VAT**  **AMOUNT** | **VAT INCLUSIVE**  **AMOUNT** |
| 1. | R400,00 |  |  |
| 2. | R700,00 |  |  |
| 3. | R360,00 |  |  |
| 4. |  |  | R782,00 |
| 5. |  |  | R1 253,50 |
| 6. |  |  | R299,00 |
| 7. |  | R48,00 |  |
| 8. |  | R127,50 |  |
| 9. |  | R225,00 |  |

**DETAILED VAT CALCULATIONS**

In Grade 11 you learnt about VAT calculations. These calculations can become quite complicated.

The VAT vendor will have to keep a record of all the VAT that he/she has charged on the goods that have been sold (i.e. VAT output). However, the VAT that has been charged to the vendor on all the items that he/she has bought for the business must be deducted off as these amounts have already been paid to SARS by the suppliers. The difference is therefore paid by the VAT vendor to SARS. It is possible that the VAT Input amount could exceed the VAT Output amount, in which case, SARS will refund the amount to the VAT vendor.

**VAT OUTPUT – VAT INPUT = AMOUNT OWED BY / TO SARS FOR VAT**

The following example illustrates that the calculation of VAT Input and VAT Output can be quite complicated.

**NOTE:**

The treatment of VAT in connection with discount allowed, discount received, returns, drawings, bad debts and dishonoured cheques was covered in Grade 11. If you are unsure of this information then refer back to you Grade 11 textbook.

**EXAMPLE:**

Sizwe’s Stationery Shop has been registered as a VAT vendor.

The figures highlighted in GREEN indicated PLUSES to VAT Input or VAT Output.

The figures highlighted in RED indicated MINUSES to VAT Input or VAT Output.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Transactions** | **VAT Input** | **VAT Output** | **Explanation** |
| 1. | Sizwe buys trading stock for cash from the suppliers for R11 500 inclusive of VAT. | 11 500 x 15/115  = R1 500 |  | VAT Input increases by the VAT he pays on goods bought. |
| 2. | Sizwe buys trading stock on credit from the suppliers for R17 250 inclusive of VAT. | 17 250 x 15/115  = R2 250 |  | VAT Input increases by the VAT he will pay on goods bought. |
| 3. | Sizwe sells goods for cash for R20 700 inclusive of VAT. |  | 20 700 x 15/115  = R2 700 | VAT Output increases by the amount of VAT paid by customers. |
| 4. | Sizwe sells goods on credit for  R21 850 inclusive of VAT. |  | 21 850 x 15/115  = R2 850 | VAT Output increases by the amount of VAT that has been charged to customers. |
| 5. | Sizwe returns stock he had bought on credit R3 450 inclusive of VAT. | 3 450 x 15/115  = R450 |  | VAT Input decreases by the VAT on goods he returns (opposite of transaction 2). |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Transactions** | **VAT Input** | **VAT Output** | **Explanation** |
| 6. | Sizwe receives discount of R575 when he settles the account of a creditor. | 575 x 15/115  = R75 |  | VAT Input decreases by the VAT on the discount he receives (opposite of transaction 2) |
| 7. | Sizwe buys equipment and stationery for the business, R4 600 inclusive of VAT. | 4 600 x 15/115  = R600 |  | VAT Input increases by the VAT he pays on assets and expenses. |
| 8. | The debtors return goods, R2 070 inclusive of VAT. |  | 2 070 x 15/115  = R270 | VAT Output decreases by the VAT on goods returned (opposite of transaction 4). |
| 9. | Sizwe offers cash discount of R1 150 to his debtors on settlement of their accounts. |  | 1 150 x 15/115  = R150 | VAT Output decreases by the VAT on discount allowed (opposite of transaction 4). |
| 10. | Sizwe writes off bad debts of R1 840. |  | 1 840 x 15/115  = R240 | VAT Output decreases by the VAT on bad debts (opposite of transaction 4). |
| 11. | Sizwe draws trading stock for personal use, R5 750 inclusive of VAT. | 5 750 x 15/115  = R750 |  | VAT Input decreases by VAT on goods taken by the owner. |
| 12. | Sizwe reversed discount of R345 on a dishonoured cheque from a debtor. |  | 345 x 15/115  = R45 | VAT Output increases by VAT on the discount reversed (opposite of transaction 9). |
|  | **TOTALS** | **R3 075**  VAT Input | **R4 935**  VAT Output |  |
|  |  | **OWED TO SARS FOR VAT**  **= R1 860** | |  |

Consider what would happen if Sizwe had bought a delivery vehicle for R115 000 (inclusive of VAT of R15 000). This would be similar to transaction 7 above.

* The VAT Input amount would increase to: R3 075 + R15 000 = R18 075.
* The VAT Output amount would still be R4 935.
* Therefore the amount owed by SARS to Sizwe for a VAT refund = R13 140.

**WHAT AMOUNTS CAN BE CLAIMED BACK AS VAT INPUT**

It is important to note that VAT Input is not limited to trading stock but covers any purchases of goods that are essential for the business in running their operation. Thus a business could claim VAT on stationery, telephone, water & electricity, computers and equipment used in the business, packing materials, to name but a few. SARS controls the items that can be claimed back and this list can be adjusted from time to time. It is not necessary for Grade 12 learners to make a thorough study of all the items except the ones mentioned above. Remember SARS uses criteria of whether they think the expenses or assets are essential or not for that particular business to operate. Just some examples you might find interesting:

* Businesses cannot claim VAT back on entertainment – not seen as essential.
* VAT can only be claimed back on delivery vehicles and not on sedan cars or 4 X 4’s for example.

If VAT is claimed back on the purchase of a vehicle or any other asset, it must be noted that if the business sells the vehicle or asset at some time in the future, they would have to charge VAT on this sale and pay the relevant amount over to SARS.

Learners can visit the SARS website if they are interested in what items can be claimed back. There is also a SARS call-centre for VAT queries.

**TASK 12.3** ⌘Description: drops1 **Helen’s Health Shop: Calculation of amount owed to/by SARS**

You are provided with transactions relating to Helen’s Health Shop for the month of June 20.4.

**Required:**

Complete the following table to calculate the amount owed by / to SARS in respect of VAT. The first transaction has been done for you.

**Information:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **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 | | ? | ? |  |  |
| 12.3.3 | Helen sells goods for cash. | R24 000 | | ? | ? |  |  |
| 12.3.4 | Helen returns stock that she had bought on credit. | ? | | ? | R1 840 |  |  |
| 12.3.5 | Helen buys equipment for the business on credit. | ? | | R825 | ? |  |  |
| 12.3.6 | Debtors return goods which they did not order. | ? | | R180 | ? |  |  |
| 12.3.7 | Helen writes off bad debts. | R600 | | ? | ? |  |  |
| 12.3.8 | Helen draws trading stock for personal use. | ? | | R150 | ? |  |  |
|  |  |  | |  | **TOTALS** |  |  |
|  |  |  | |  |  | **OWED TO SARS FOR VAT:** | |
|  |  |  |  | |  |  | |

**TASK 12.4** ⌘Description: drops1Description: drops1 **Hari’s Hardware Shop: Calculation of amount owed to/by SARS**

You are provided with transactions extracted from the books of Hari’s Hardware for the month of March 20.6.

**Required:**

Complete the table below in order to calculate the amount owed to/by SARS in respect of VAT.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **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 | ? | ? |  |  |
| 12.4.3 | Hari buys trading stock on credit from suppliers. | R42 000 | ? | ? |  |  |
| 12.4.4 | Hari sells goods for cash. | R18 000 | ? | ? |  |  |
| 12.4.5 | Hari sells goods on credit. | R33 000 | ? | ? |  |  |
| 12.4.6 | Hari’s creditors grant him trade discount on stock that he had earlier bought on credit. | ? | ? | R4 600 |  |  |
| 12.4.7 | Hari buys stationery on credit for the business. | ? | ? | R1 725 |  |  |
| 12.4.8 | Hari grants cash discount to debtors on settlement of their debts. | ? | ? | R1 955 |  |  |
| 12.4.9 | Hari receives cash discount from creditors on settlement of his accounts. | ? | ? | R1 035 |  |  |
| 12.4.10 | Hari reverses cash discount on a dishonoured cheque. | ? | ? | R287,50 |  |  |
| 12.4.11 | Hari buys a delivery vehicle for the business by cheque. | ? | R16 500 | ? |  |  |
| 12.4.12 | Debtors return goods which they did not order. | ? | R420 | ? |  |  |
| 12.4.13 | Hari writes off bad debts. | ? | R525 | ? |  |  |
| 12.4.14 | Hari draws trading stock for personal use. | ? | R450 | ? |  |  |
|  |  |  |  | **TOTALS** |  |  |
|  |  |  |  |  | **OWED BY SARS FOR VAT:** | |

**THE VAT CONTROL ACCOUNT**

Obviously all the figures will be entered in the journals and posted to the ledger. A VAT vendor will have to split all the amounts up to reflect VAT separately so that an accurate record can be kept of the amounts owed to SARS or by SARS in respect of VAT.

A new account which you must understand is the VAT control account. This account is similar to the SARS (Income Tax) account which you studied in the Companies module. The curriculum requires you to know how to enter figures directly into this account.

The VAT Control account is an account in the Balance Sheet accounts section which could have a debit or credit balance.

All amounts that lead to a **decrease** in the VAT due to SARS will affect the **debit** side of the VAT Control account.

All amounts that lead to an **increase** in the VAT due to SARS will affect the **credit** side of the VAT Control account.

**BALANCE SHEET ACCOUNTS SECTION**

**VAT CONTROL**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

A credit balance will indicate that a VAT refund is due to SARS, i.e. SARS is a **liability** (i.e. a creditor) in this case.

A debit balance will indicate that a VAT refund is due by SARS, i.e. SARS is an **asset** (i.e. a debtor) in this case.

The following example indicates the entries in the journals and their ultimate effect on the VAT Control account.

**EXAMPLE:**

Carol’s Clothing Shop was registered as a VAT vendor with effect from 1 June 20.7. The transactions for June 20.7 are provided.

Study the entry that would be required in the journals together with the effect on the accounts that would be affected in the General Ledger. Thereafter inspect the entries that would affect the VAT control account.

\* For the purposes of this example, the VAT entries will be made directly to the VAT control account. The VAT Input and VAT Output accounts will be studied later in the Module (for extension purposes only).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Transactions** | **Amounts** | **Documents & Journal** | **General ledger entries** |
| 1. | Carol buys trading stock for cash from the suppliers. | Excl VAT R11 000 | Cheque | Dr Trading stock R11 000 |
| VAT R1 650 | CPJ | Dr VAT control\* R1 650 |
| Incl VAT R12 650 |  | Cr Bank R12 650 |
| 2. | Carol buys trading stock on credit from the suppliers. | Excl VAT R33 000 | Invoice | Dr Trading stock R33 000 |
| VAT R4 950 | CJ | Dr VAT control\* R4 950 |
| Incl VAT R37 950 |  | Cr Creditors control R37 950 |
| #3. | Carol sells goods for cash. | Excl VAT R24 000 | Cash slip | Dr Bank R27 600 |
| VAT R3 600 | CRJ | Cr Sales R24 000 |
| Incl VAT R27 600 |  | Cr VAT control\* R3 600 |
| #4. | Carol sells goods on credit to debtors. | Excl VAT R40 000 | Invoice | Dr Debtors control R46 000 |
| VAT R6 000 | DJ | Cr Sales R40 000 |
| Incl VAT R46 000 |  | Cr VAT control\* R6 000 |
| #5. | Carol returns stock that she had bought on credit. | Excl VAT R5 000 | Debit note | Dr Creditors control R5 750 |
| VAT R750 | CAJ | Cr Trading stock R5 000 |
| Incl VAT R5 750 |  | Cr VAT control\* R750 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Transactions** | **Amounts** | **Documents & Journal** | **General ledger entries** |
| 6. | Carol receives cash discount when she settles the account of a creditor. | Excl VAT R1 500 | Cheque | Dr Creditors control R1 725 |
| VAT R225 | CPJ | Cr Discount received R1 500 |
| Incl VAT R1 725 |  | Cr VAT control\* R225 |
| 7. | Carol buys packing material on credit. | Excl VAT R3 200 | Invoice | Dr Packing materials R3 200 |
| VAT R480 | CJ | Dr VAT control\* R480 |
| Incl VAT R3 680 |  | Cr Creditors control R3 680 |
| #8. | The debtors return goods. | Excl VAT R4 000 | Credit note | Dr Debtors allowances R4 000 |
| VAT R600 | DAJ | Dr VAT control\* R600 |
| Incl VAT R4 600 |  | Cr Debtors control R4 600 |
| 9. | Carol offers cash discount to debtors who settle their accounts. | Excl VAT R1 800 | Receipt | Dr Discount allowed R1 800 |
| VAT R270 | CRJ | Dr VAT control\* R270 |
| Incl VAT R2 070 |  | Cr Debtors control R2 070 |
| 10. | Carol writes off bad debts. | Excl VAT R2 000 | Journal voucher | Dr Bad debts R2 000 |
| VAT R300 | GJ | Dr VAT control\* R300 |
| Incl VAT R2 300 |  | Cr Debtors control R2 300 |
| 11. | Carol draws trading stock for personal use. | Excl VAT R8 000 | Journal voucher | Dr Drawings R9 200 |
| VAT R1 200 | GJ | Cr Trading stock R8 000 |
| Incl VAT R9 200 |  | Cr VAT control\* R1 200 |
| 12. | Carol reversed cash discount on a dishonoured cheque. | Excl VAT R600 | Journal voucher | Dr Debtors control R690 |
| VAT R90 | GJ | Cr Discount allowed R600 |
| Incl VAT R690 |  | Cr VAT control\* R90 |

#The cost of sales entry will also be processed but is omitted from this example as it does not affect VAT.

**GENERAL LEDGER OF CAROL’S CLOTHING SHOP**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr VAT CONTROL B Cr**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20.7 |  |  |  |  | 20.7 |  |  |  |  |
| June | 30 | Bank | CPJ | 1 650 | June | 30 | Bank | CRJ | 3 600 |
|  |  | Creditors control# | CJ | 4 950 |  |  | Debtors control | DJ | 6 000 |
|  |  | Creditors control# | CJ | 480 |  |  | Creditors control | CAJ | 750 |
|  |  | Debtors control | DAJ | 600 |  |  | Creditors control | CPJ | 225 |
|  |  | Debtors control | CRJ | 270 |  |  | Drawings## | GJ | 1 200 |
|  |  | Debtors control | GJ | 300 |  |  | Debtors control## | GJ | 90 |
|  |  | Balance | c/d | 3 615 |  |  |  |  |  |
|  |  |  |  | **11 865** |  |  |  |  | **11 865** |
|  |  |  |  |  | July | 1 | Balance | b/d | 3 615 |

A credit balance will indicate that VAT is owed to SARS, i.e. SARS is a liability (i.e. a creditor) in this case.

|  |
| --- |
| # Note that these two entries may be combined when posting from the CJ.  ## Note that these two entries may be combined as ‘Sundry accounts’ when posing from the GJ. |

**TASK 12.5** ⌘Description: drops1 **Musi’s Music Shop: Entries directly in the VAT Control account**

You are provided with transactions relating to Musi’s Music Shop for August 20.8.

**Required:**

Draw up the VAT control account for the month of August 20.8 to indicate the amount due to / by SARS for VAT.

**Information:**

The balance on the VAT control account on 1 August 20.8 was R3 078 (credit).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Details** | **Amounts** | | |
| **Excluding VAT** | **VAT** | **Including VAT** |
| (a) | Muzi buys trading stock on credit from suppliers. | R14 000 | R2 100 | R16 100 |
| (b) | Muzi sells goods for cash. | 13 200 | 1 980 | 15 180 |
| (c) | Muzi sells goods on credit. | 6 400 | 960 | 7 360 |
| (d) | Muzi returns stock that he had bought on credit. | 1 800 | 270 | 2 070 |
| (e) | Muzi buys equipment for the business on credit. | 960 | 144 | 1 104 |
| (f) | Debtors return goods which they did not order. | 1 100 | 165 | 1 265 |
| (g) | Muzi writes off bad debts. | 2 300 | 345 | 2 645 |
| (h) | Muzi draws trading stock for personal use. | 1 600 | 240 | 1 840 |



**TASK 12.6** ⌘Description: drops1 **Kally’s Computer Shop: Entries directly in the VAT control account**

You are provided with transactions relating to Kally’s Computer Shop for May 20.3.

**Required:**

Draw up the VAT control account for the month of May 20.3 to indicate the amount due to / by SARS for VAT.

**Information:**

The balance on the VAT control account on 1 May 20.3 was R6 270 (credit).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Details** | **Amounts** | | |
| **Excluding VAT** | **VAT** | **Including VAT** |
| (a) | Kally buys trading stock by cheque from suppliers. | R60 000 | R9 000 | R69 000 |
| (b) | Kally buys trading stock on credit from suppliers. | 82 000 | ? | 94 300 |
| (c) | Kally sells goods for cash. | 110 000 | 16 500 | 126 500 |
| (d) | Kally sells goods on credit. | 55 000 | 8 250 | 63 250 |
| (e) | Kally returns stock that he had bought on credit. | 12 000 | 1 800 | 13 800 |
| (f) | Kally buys a delivery vehicle for the business by cheque. | 220 000 | ? | ? |
| (g) | Debtors return goods which they did not order. | 8 000 | 1 200 | 9 200 |
| (h) | Kally grants cash discount to debtors who settled their debts. | ? | ? | 1 725 |
| (i) | Kally reverses discount on a dishonoured cheque. | 600 | 90 | 690 |
| (j) | Kally writes off bad debts. | 7 000 | 1 050 | 8 050 |
| (k) | Kally draws trading stock for personal use. | 9 000 | 1 350 | 10 350 |

**TASK 12.7** ⌘Description: drops1 **Shaun’s Shoe Shop: Entries directly in the VAT control account**

You are provided with transactions relating to Shaun’s Shoe Shop for April 20.4.

**Required:**

Draw up the VAT control account for the month of April 20.4 to indicate the amount due to / by SARS for VAT. All goods bought and sold are subject to 15% VAT.

**Information:**

|  |  |
| --- | --- |
| (a) | The balance on the VAT control account on 1 April 20.4 was R15 600 (credit). |
| (b) | Total of invoices received for trading stock purchased, R63 000 plus VAT of R9 450. |
| (c) | Trading stock bought for cash from suppliers, R57 000 plus VAT of R8 550. |
| (d) | Total of debit notes for goods returned to suppliers, R3 700 excluding VAT. |
| (e) | Paid R55 000 to creditors on account and received cash discount of R5 175 for early settlement of accounts. |
| (f) | Total of cash slips for goods sold to cash customers during the month, R96 830 inclusive of VAT of R12 630. |
| (g) | Total of invoices issued to debtors for goods bought, R48 875 inclusive of VAT. |
| (h) | Total of credit notes issued to credit customers for goods returned, R6 440 inclusive of VAT. |
| (i) | Debtors paid R45 000 on account and Shaun granted them cash discount of R4 830. |
| (j) | The bank statement reflected a dishonoured cheque for R6 000. The cash discount granted on this cheque, R575, must be reversed. |
| (k) | Bad debts written off, R9 200. |
| (l) | Shaun bought equipment on credit for the business, R23 000 plus VAT. |
| (m) | Shaun took stock of shoes as gifts for his wife at cost, R805 inclusive of VAT of R105. |

**TASK 12.8** ⌘Description: drops1Description: drops1Description: drops1 **Fixx Furniture Shop: Entries directly in the VAT control account**

You are provided with information relating to Fixx Furniture Shop for October 20.6.

**Required:**

Draw up the VAT control account for the month of October 20.6 to indicate the amount due to/by SARS for VAT. All goods bought and sold are subject to 15% VAT.

**Information:**

|  |  |
| --- | --- |
| (a) | At the beginning of the month, there was credit balance of R17 100 on the VAT control account. |
|  |  |
| (b) | Extracted from the **Cash Payments Journal**: |
|  | * Trading stock bought, R82 000 excluding VAT of R12 300 |
|  | * Motor vehicle bought, R322 000 including VAT of R42 000 |
|  | * Drawings of cash, R10 000 |
|  | * Payments to creditors, R68 000 |
|  | * Discount received from creditors, R7 820 |
|  |  |

|  |  |
| --- | --- |
| (c) | Extracted from the **Cash Receipts Journal**: |
|  | * Cash sales, R123 000 plus VAT |
|  | * Receipts from debtors on account, R54 000 |
|  | * Discount allowed to debtors, R5 865 |
|  |  |
| (d) | Extracted from the **Creditors Journal**: |
|  | * Trading stock bought, R105 000 plus VAT |
|  | * Stationery purchased, R5 405 including VAT |
|  |  |
| (e) | Extracted from the **Creditors Allowances Journal**: |
|  | * Trading stock returned, R14 260 including VAT of R1 860 |
|  |  |
| (f) | Extracted from the **Debtors Journal**: |
|  | * Credit sales, R165 600 including VAT |
|  |  |
| (g) | Extracted from the **Debtors Allowances Journal**: |
|  | * Trade discounts granted off selling prices, R13 000 plus VAT |
|  |  |
| (h) | Extracted from the **General Journal**: |
|  | * Bad debts written off, R6 325 |
|  | * Reversal of discount on a dishonoured cheque, R69 |
|  | * Trading stock drawn by the owner at cost, R6 600 plus VAT |

**THREE LEDGER ACCOUNTS FOR VAT**

Your curriculum requires you to understand how VAT entries directly affect the VAT control account. However, in practice, the normal bookkeeping procedure is to keep three accounts.

|  |  |
| --- | --- |
| **VAT INPUT ACCOUNT** | **VAT OUTPUT ACCOUNT** |
| This account reflects:  All the VAT on items purchased (on the debit side) and all the entries that lead to reductions of that amount (on the credit side).  This account will have a debit balance which will be closed off to the debit side of the VAT control account. | This account reflects:  All the VAT on items sold (on the credit side) and all the entries that lead to reductions of that amount (on the debit side).  This account will have a credit balance which will be closed off to the credit side of the VAT control account. |

|  |
| --- |
| **VAT CONTROL ACCOUNT** |
| This account reflects:  VAT input on the debit side  VAT output on the credit side  The closing balance may be:  Debit  If VAT input > VAT output  or  Credit  If VAT input < VAT output |

**VAT INPUT** – refers to VAT paid on items purchased. A registered VAT vendor would have to split his payments into the price of the goods without VAT and to record the VAT Input in a separate entry. For example, if a vendor buys goods for R2 000 + R300 VAT, only the R2 000 will be debited to Trading stock and the R300 to a VAT Input account. This is because the vendor will be entitled to claim back the R300 VAT from SARS and so his actual cost on which he aims to make a profit is R2 000. The double entry will be to credit Bank or Creditors control with the full amount, i.e. R2 300, as this represents the amount paid or charged by the creditor.

**GENERAL LEDGER**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr TRADING STOCK B Cr**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 10 | Bank | CPJ | 2 000 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**VAT INPUT B**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 10 | Bank | CPJ | 300 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**BANK B**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | May | 10 | Sundry accounts | CPJ | 2 300 |
|  |  |  |  |  |  |  |  |  |  |

**VAT OUTPUT** – refers to VAT on Sales and Fee income. A registered VAT vendor would need to split his receipts and income to show the VAT Output separately from the Sales or Fee Income amounts. The VAT charged on the sales does not belong to the vendor and therefore must not be included in his sales and profit calculations. For example, if a vendor sells goods for R3 000 + R450 VAT, only R3 450 will be credited to the sales account and the R450 will be credited to the VAT Output account. Bank or Debtors control is debited with the full amount, i.e. R3 450 as this represents the amount received from the sale of the goods or the amount that the debtor owes for the goods.

**GENERAL LEDGER**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr BANK B Cr**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 10 | Sundry accounts | CRJ | 3 450 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**VAT OUTPUT B**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | May | 10 | Bank | CRJ | 450 |
|  |  |  |  |  |  |  |  |  |  |

**NOMINAL ACCOUNTS SECTION**

**SALES N**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | May | 10 | Bank | CRJ | 3 000 |
|  |  |  |  |  |  |  |  |  |  |

**VAT CONTROL** – is a summary of the VAT INPUT and VAT OUTPUT and shows whether the business owes SARS money or whether SARS owes the business money. It is customary for businesses to close off the VAT Input and VAT Output accounts at the end of the two-month period when the VAT return form (VAT 201) is produced.

**Example:**

Assume the above VAT figures are the only VAT recordings made by the business for the 2-month period. The accounts will be closed off as follows:

**GENERAL LEDGER**

**BALANCE SHEET ACCOUNTS SECTION**

**Dr VAT OUTPUT B Cr**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 31 | VAT control | GJ | 450 | May | 10 | Bank | CRJ | 450 |
|  |  |  |  |  |  |  |  |  |  |

**VAT INPUT B**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 10 | Bank | CPJ | 300 | May | 31 | VAT control | GJ | 300 |
|  |  |  |  |  |  |  |  |  |  |

**VAT CONTROL B**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May | 31 | VAT Input | GJ | 300 | May | 31 | VAT Output | GJ | 450 |
|  |  | Balance | c/d | 150 |  |  |  |  |  |
|  |  |  |  | **450** |  |  |  |  | **450** |
|  |  |  |  |  | June | 1 | Balance | b/d | 150 |
|  |  |  |  |  |  |  |  |  |  |

In this case the business owes SARS R150 – the difference between the VAT collected on the Sales of R450 and the claim back for the VAT paid on the goods bought of R300. By the 25th of June the business will be required to submit the VAT 201 form together with a cheque for the R150, in this case. It can happen that the VAT Input is larger than the VAT Output. The business would still have to submit the VAT 201 form but in this case SARS would refund them the difference.

**FURTHER INFORMATION ON RECORDING OF VAT IN PRACTICE**

It would be customary for businesses to adapt their journals so that the necessary VAT Input and VAT Output amounts can be calculated and recorded. The respective journals would then be posted to the General Ledger accounts. The processing of VAT in the journals is not part of your assessment standards so it will not be covered at this stage. We will, however, concentrate on the posting to the General Ledger accounts.

**TASK 12.9** Description: drops1 **Ekshay Fashions:** **Ledger accounts - Extension**

**Required:**

Post to the following accounts in the General Ledger of Ekshay Fashions from the list of transactions below:

12.9.1 VAT Output

12.9.2 VAT Input

12.9.3 VAT Control account

OR you may enter all the VAT entries directly in the VAT control account.

**Transactions for the July 20.9:**

|  |  |
| --- | --- |
| 1. | The following balances appeared in the General Ledger on 1 July 20.9:  VAT Output R4 320  VAT Input R2 300  OR a credit balance of R2 020 in the VAT control account. |
| 2. | Cash sales exclusive of VAT R24 500. |
| 3. | Paid the utility bill (water and electricity) electronically to the local municipality R1 150, VAT inclusive. |
| 4. | Bought equipment for the office R16 100, VAT inclusive. Paid electronically. |
| 5. | Issued a D/N to the credit supplier for damaged stock returned R940, exclusive of VAT. |
| 6. | Credit sales inclusive of VAT, R40 480. |
| 7. | Used petty cash funds R460 (inclusive) to buy trading stock. |
| 8. | Trading stock bought on credit R19 880, VAT exclusive |
| 9. | Issued C/N to debtors for unwanted stock returned R1 426, VAT inclusive. |
| 10. | Transfer the Input VAT and Output VAT to the VAT control account if you used the 2 separate accounts. |

**TASK 12.10** Description: drops1Description: drops1 **Redberry Stores: Calculations, Journal entries, VAT control account - Extension**

The information below relates to Redberry Stores who use a constant mark-up of 331/3% on cost.

**Required:**

|  |  |
| --- | --- |
| 12.10.1 | Do the relevant calculations and then post to the VAT Input and VAT Output accounts in the General Ledger. |
| 12.10.2 | Draft the Journals entries to close off the VAT Output and VAT Input accounts. |
| 12.10.3 | Prepare the VAT control account, OR you can post the entries directly into the VAT control account. |

**Information:**

The following balances appeared in the General Ledger, amongst others, on 1 January 20.9:

VAT Output R4 200

VAT Input R3 600

**JOURNAL TOTALS ON 31 JANUARY 20.9:**

**Cash Receipts Journal:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank** | **VAT Output** | **Sales** | **Cost of sales** | **Fee income** | **Sundry**  **accounts** |
|
| \* | 12 000 | \* | \* | 16 600 | 0 |

**Cash Payments Journal:**

**(Note:** The VAT paid on equipment, stationery and motor expenses can be claimed back from SARS)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **VAT Input** | **Trading stock** | **Equip-ment** | **Station-ery** | **Creditors control** | | **Sundry accounts** |
| **Payments** | **Discount received** |
| \* | \* | 48 330 | 8 090 | 2 480 | 19 860 | 0 | 2 900[1] |

[1]Motor expenses R1 100 and Drawings R1 800.

**Petty Cash Payments Journal:**

**(Note:** VAT paid on consumable stores and sundry expenses can be claimed back from SARS)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Petty cash** | **VAT Input** | **Trading stock** | **Consum-ables** | **Casual wages** | **Sundry expenses** | **Sundry**  **accounts** |
| 2 840 | \* | 900 | 180 | \* | 140 | - |

**Debtors Journal:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Debtors control** | **VAT Output** | **Sales** | **Cost of sales** |
|
| \* | \* | \* | 37 380 |

**Debtors Allowances Journal:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Debtors control** | **VAT Output** | **Debtors allowances** | **Cost of sales** |
|
| \* | \* | 4 900 | \* |

**N.B.:** No allowances were granted during the month – only goods were returned.

**Creditors Journal:**

**(Note:** VAT paid on equipment and consumables can be claimed back from SARS)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Creditors**  **control** | **VAT Input** | **Trading stock** | **Equipment** | **Consumables** | **Sundry**  **accounts** |
| 34 960 | \* | \* | 4 320 | 1 400 | 0 |

**Creditors Allowances Journal:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Creditors**  **control** | **VAT Input** | **Trading stock** | **Equipment** | **Consumables** | **Sundry**  **accounts** |
| \* | \* | 1 800 | 0 | 0 | 0 |

**General Journal entries:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Doc** | **Day** | **Details** | **Fol** | **Debit** | **Credit** | **Debtors**  **control** | | **Creditors**  **control** | |
| **Debit** | **Credit** | **Debit** | **Credit** |
| 14 | 31 | Drawings |  | 1 265 |  |  |  |  |  |
|  |  | VAT Input |  |  | \* |  |  |  |  |
|  |  | Trading stock |  |  | \* |  |  |  |  |
|  |  | Stock taken by proprietor for private use |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| 15 |  | A. Straggler |  | 124 |  | 124 |  |  |  |
|  |  | Interest on overdue a/c |  |  | 124 |  |  |  |  |
|  |  | Interest charged on overdue account |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**TASK 12.11** ⌘Description: drops1Description: drops1 **Transaction analysis**



**Required:**

Analyse the transactions below according to the headings in the table. Adjustment entries in respect of VAT must also be shown. (Calculate to the nearest cent).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Journal** | **General Ledger** | | **Amount** |
| **Account debit** | **Account credit** |
|  |  |  |  |  |

**Transactions:**

|  |  |
| --- | --- |
| 1. | The credit balance of R3 000 in the VAT control account was paid electronically. |
| 2. | Sold stock for cash R1 380 (inclusive of VAT). The mark-up is 100%. |
| 3. | Zero-rated items sold for cash R540. The mark-up is 20%. |
| 4. | The account of a debtor was written off R414. |
| 5. | Merchandise was purchased on credit from a creditor for R4 002 (inclusive). |
| 6. | The account of the above creditor was settled. A 5% discount was received. |
| 7. | Paid the monthly utility bill (rates, water, electricity and other municipal charges) to the municipality via internet banking. Total charges amounted to R1 794 (including VAT). |
| 8. | A debtor owing R1 000 settled his account electronically to qualify for the 10% early settlement discount. |
| 9. | A credit customer was charged R270 VAT on the tax invoice. The correct amount should be R250. Correct the error. |
| 10. | Received the interest on a fixed deposit R1 400. The amount was deposited electronically. |



**TASK 12.12** ⌘Description: drops1Description: drops1 **Mary Traders: Interpretation, Theory**

Mary Traders sells hardware to the public for cash and on credit. They buy their trading stock from various suppliers, for cash and on credit. They are a registered VAT vendor. You are provided with extracts from their financial records for the two months ended 31 August 20.8.

**Required:**

|  |  |
| --- | --- |
| 12.12.1 | What does VAT stand for? |
| 12.12.2 | Why does Mary Traders have to be registered for VAT? |
| 12.12.3 | What is the difference between VAT Input and Output? |
| 12.12.4 | Explain the meaning of each of the following: |
|  | * Standard VAT |
|  | * Zero-rated VAT |
|  | * VAT exempted |
| 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. | |
| 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. | |
|  | (b) The accountant is not prepared to do this. Briefly explain why you think he feels like this by discussing two points. | |

**Information:**

1. Mary Traders’ annual turnover is about R2,2 million.

2. Mary Traders’ VAT period is for July and August 20.8 and then every second month thereafter.

3. The following balances appeared in the books on 1 August 20.8 (balances brought down from July):

VAT Input R24 600

VAT Output R37 200

4. The following transactions occurred during August:

|  |  |
| --- | --- |
| Sales (cash and credit) for February (inclusive) | R920 000 |
| Trading stock bought during February (exclusive) | 440 000 |
| VAT paid on equipment bought (This VAT is deductible) | 3 800 |
| VAT allowed on debtors’ allowances for February | 3 200 |
| Discount granted to debtors (inclusive) | 575 |
| Bad debts written off | 4 715 |
| Stock taken by the owner (exclusive) | 900 |

**TASK 12.13** Description: drops1Description: drops1 **Willow Traders: Interpretation, Theory**

Willow Traders sells clothes to the public for cash and on credit. They buy their trading from various suppliers, for cash and on credit. They are a registered VAT vendor. You are provided with extracts from their financial records for the two months ended 31 July 20.9.

**Required:**

|  |  |
| --- | --- |
| 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 registered. |
| 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. |
| 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? |
|  | (b) How can SARS guarantee security if using e-filing? |
|  | (c) What is the advantage to the business for using e-filing? |
| 12.13.4 | Indicate whether the following sentences are True or False. If False also state why. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **STATEMENT** | **TRUE / FALSE** | **REASON WHY FALSE** |
| 1. | VAT is levied at 10% p.a. |  |  |
| 2. | It is compulsory by law that all businesses have to register as a VAT vendor. |  |  |
| 3. | VAT charged on services given is charged to VAT Input. |  |  |
| 4. | VAT paid on trading stock bought is charged to VAT Input. |  |  |
| 5. | Fresh fruit is exempted from VAT. |  |  |
| 6. | VAT is levied on petrol. |  |  |
| 7. | Interest earned from the bank is subject to VAT. |  |  |
| 8. | All VAT is collected by the Department of Labour. |  |  |
| 9. | The VAT period is based on one month. |  |  |
| 10. | VAT Input and VAT Output accounts are closed off to the Trading account. |  |  |
| 11. | The receipt basis is the preferred method of VAT collection. |  |  |

**INFORMATION:**

|  |  |
| --- | --- |
| 1. | Willow Traders’ annual turnover is about R1 880 000. |
|  |  |
| 2. | The following balances appeared in the ledger of 1 July 20.9: |
|  |  |
|  | * VAT Output R56 000 |
|  | * VAT Input R122 000 |
|  |  |
| 3. | The following transactions occurred during July 20.9: |
|  |  |
|  | * Total sales for August, R770 000 (exclusive of VAT) |
|  | * Total purchases for August, R379 500 (inclusive of VAT) |
|  | * Purchase of equipment in August, R65 000 (exclusive of VAT) |
|  | * Bad debts written off: R575 (inclusive) / R500 (exclusive) |
|  | * VAT on discount allowed to debtors during August, R280 |
|  | * VAT on goods returned by debtors during August, R1 400 |
|  | * The following drawings were taken by the owner during August: |
|  | * + Trading stock R1 840 (inclusive) |
|  | * + Cash R2 500 |

**SUBMITTING A RETURN**

A VAT return has to be submitted to SARS on or before the 25th of the month after the tax period. The purpose of this form is to disclose the amount of VAT Output that was charged and the amount that the vendor is entitled to claim as Input VAT. The difference between VAT Output and VAT Input indicates the amount owing to SARS or owing by SARS. Payments can be made by cheque, electronic transfers, debit orders, internet banking or electronically via E-filing. Vendors need to subscribe for E-filing with SARS. This 24-hour facility which is offered free of charge enables vendors to receive, send and complete their VAT 201 electronically.

A vendor who fails to render a return on time is charged a penalty of 10% of the outstanding VAT amount due plus interest at the prevailing rate for each month or part thereof.

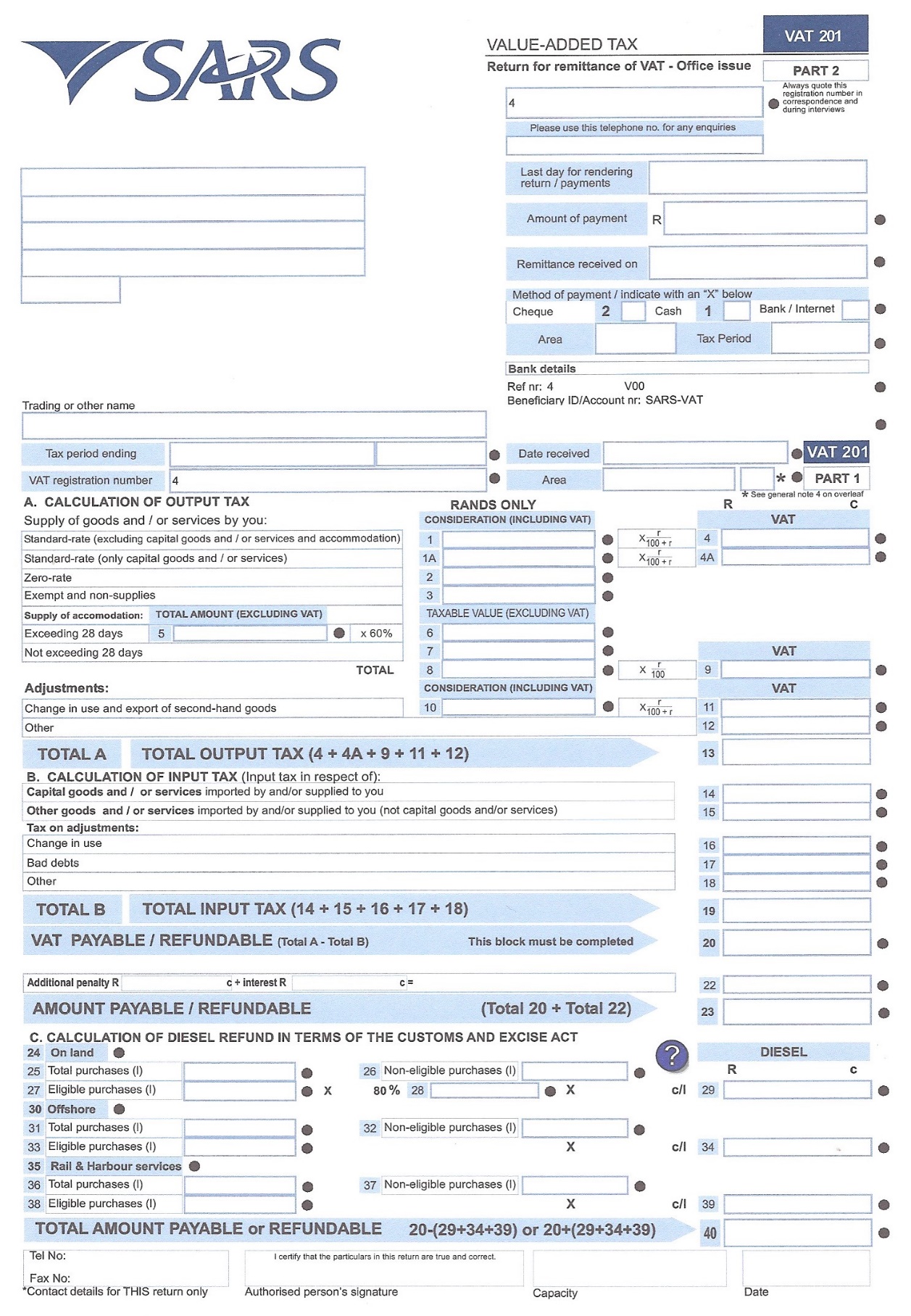
**RECORDS**

The vendor must keep his records for a period of 5 years from the date of submission of his return. These records must be available for inspection by SARS. Some of the important records are mentioned below:

* A record of all goods supplied and services rendered;
* All accounting records – journals, ledgers, debtors and creditors lists;
* Bank statements, deposit slips, cheque books, paid cheques;
* Tax invoices;
* Debit and credit notes;
* Cash register tapes and receipts;
* Documentary proof to apply the zero-rate.
* Any other records which may be deemed necessary to verify transactions.

**VAT 201 FORM**

A specimen copy of VAT 201 form is shown on the next page. This is for **extension purposes** only as the completion of the form is not required under the curriculum.



**Explanation of form**

* Top-left: The registered name and address of the vendor.
* Top-right: This section – PART 2 – is completed by SARS, therefore leave this blank.
* Trading or other name: Name of the business.
* Tax period ending: 1st Block: Month; 2nd Block: the year.
* VAT registration number: VAT registration number of the vendor.

**A: CALCULATION OF VAT OUTPUT**

* Block 1: Total sales and/or total fee income inclusive of VAT.
* Block 1A: Selling price of business assets sold including VAT.

If business assets were traded-in the trade-in value is entered in this Block.

* Block 2: Zero rated items sold.
* Block 3: Exempt supplies and supplies which are not taxable.
* Block 4: Use the total income in Block 1 to calculate VAT. Apply the tax fraction, i.e. multiply by 15 and divide by 115.
* Block 4A: Use the amount in Block 1 to calculate VAT. Apply the tax fraction as indicated above.
* Block 5-11: These columns are in respect of accommodation and second-hand goods. Special regulations apply to these items. These will not be dealt with in this Module.
* Block 12: Sundry items such as debit notes issued are entered in this Block.
* Block 13: Total Output VAT: Add: Blocks 4 + 4A + 12 (Blocks 9 and 11 are not dealt with in this Module)

**B: CALCULATION OF VAT INPUT**

* Block 14: VAT paid on the purchases of fixed assets, e.g. premises, vehicles, etc., is entered in this Block.
* Block 15: Enter the total VAT paid on all business purchases (trading stock) and all business expenses (e.g. stationery, etc.). All payments must be supported by valid tax invoices.
* Block 16: Change in use of goods and services are not covered in this Module, e.g. capital assets which might convert into trading stock items or vice-versa.
* Block 17: VAT claim in respect of debts written off.
* Block 18: Sundry items such as credit notes issued are entered in this Block.
* Block 19: Total VAT Input: Add: Blocks 14 + 15 + 17 + 18 (Block 16 is omitted as this is not covered in this Module).
* Block 20: VAT payable/refundable: Total A minus Total B.
* Block 22: This Block applies if the return is late. Presently a 10% penalty is charged on the amounting owing plus 1,1% per month or part thereof is calculated on the amount owing.

**VAT PAYABLE/REFUNDABLE**

* Block 23: Amount payable/refundable: Total A + Total 22 (penalty and interest).

**C: CALCULATION OF DIESEL REFUND IN THE TERM OF THE CUSTOMS AND EXCISE ACT**

* Block 24 -39: This applies to diesel refund applications. Special regulations apply in this regard. These are not dealt with in this Module.

**TOTAL AMOUNT PAYABLE or REFUNDABLE**

* Block 40: As diesel refunds are not being studied in this Module the amount entered in this Block should be the same amount entered in Block 23.
* **TELEPHONE NUMBER, FAX NUMBER, SIGNATURE, CAPACITY (E.G. ACCOUNTANT), DATE.**

**Note:**

* An unsigned form will not be processed by SARS.
* The form is signed by the owner or any other person appointed by the owner, e.g. his accountant.
* Errors made on the form are crossed out and the correct amount written in. All alterations must be signed. This includes corrections made with correcting fluid.

**ETHICS AND CONTROL**

**TASK 12.14** ⌘Description: drops1Description: drops1Description: drops1 **Ethics and control**

**Required:**

Refer to each case below and explain:

* Whether you think a problem exists or not.
* How you would handle each case.

**Information:**

1. Roger runs a small retail outlet on the outskirts of a rural area. His average monthly turnover is between R10 000 – R15 000. He is not a registered VAT vendor but he charges his customers VAT.
2. Belinda runs a day care centre (nursery school) for young children. Her gross monthly income is R30 000. She pays VAT when she buys essentials (e.g. food, books, etc.) for the children in her care. She is not registered as a VAT vendor.
3. Thandi creates fictitious tax invoices and claims for these as VAT Input in her VAT return.
4. Frankie operates a hardware store. In his first year of business his turnover was R475 000. In the past three years his average turnover was R1,1m per year. To date he has not registered as a VAT vendor.
5. Blarney, a computer dealer, has a special arrangement with one of his customers who happen to be a relative of his. When he sells stock to this customer, he issues him with two tax invoices – one reflects the original price while the other one is reduced by about 50%. Blarney uses the reduced tax invoice to support his VAT 201 form.
6. Rohan is a registered VAT vendor but he does not keep a proper set of books. In most cases, he submits approximate figures, which are not supported by proper documentation. However, he does submit his returns on time.
7. Miranda’s accountant, G. Farina, made a mistake in the calculation of VAT. He overstated the VAT Input by R5 000 on the monthly VAT 201 return. He reported this to Miranda. Miranda asked him to forget about it.
8. Gabriella’s payment date for VAT is the 25th day after the tax period. However, she never pays on time. She states that she does not mind paying the penalty and interest as she maintains that by paying later she has more cash available to pay her monthly overheads.

**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. |  |  |  |