# N5

# Financial Accounting

SCHOOL FOR SMALL
BUSINESS MANAGEMENT CC

Pearson

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Module
1

# Value Added Tax (VAT)

## What is covered?

This module on Value Added Tax or VAT covers the theory of VAT, VAT input and VAT output, as well as the calculations. We also cover the recording of VAT transactions in the different journals and the posting to the general ledger (new accounts: VAT input, VAT output and VAT control). We look at which account must be debited and which account must be credited, as well as the effect on the accounting equation. The work covered in this module is essential, since many businesses in the SMME sector are VAT liable. Accounting officers must be able to complete VAT work for their clients.

## Learning outcomes

After studying this module, you should be able to:

- Explain the concept VAT.
- Differentiate the types of VAT.
- Prepare ledger accounts:
  - VAT input
  - VAT output
  - VAT control.
- Know which account to be debited and which account to be credited.
- Complete the effect on the accounting equation.

# Unit 1.1: Value Added Tax (VAT)

## LEARNING OUTCOMES

- Explain the concept VAT.
- Differentiate the types of VAT.
- Prepare ledger accounts:
  - VAT input
  - VAT output
  - VAT control.

## Introduction

SARS collected R1 355 billion for the 2019/2020 fiscal year. The four broad income sources for SARS were:

- Personal Income Tax (PIT) which amounted to R528 billion (39%)
- Valued Added Tax (VAT) which amounted to R346 billion (25.6%)
- Company Income Tax (CIT) which amounted to 15.9%
- Other taxes which amounted to 19.5%.

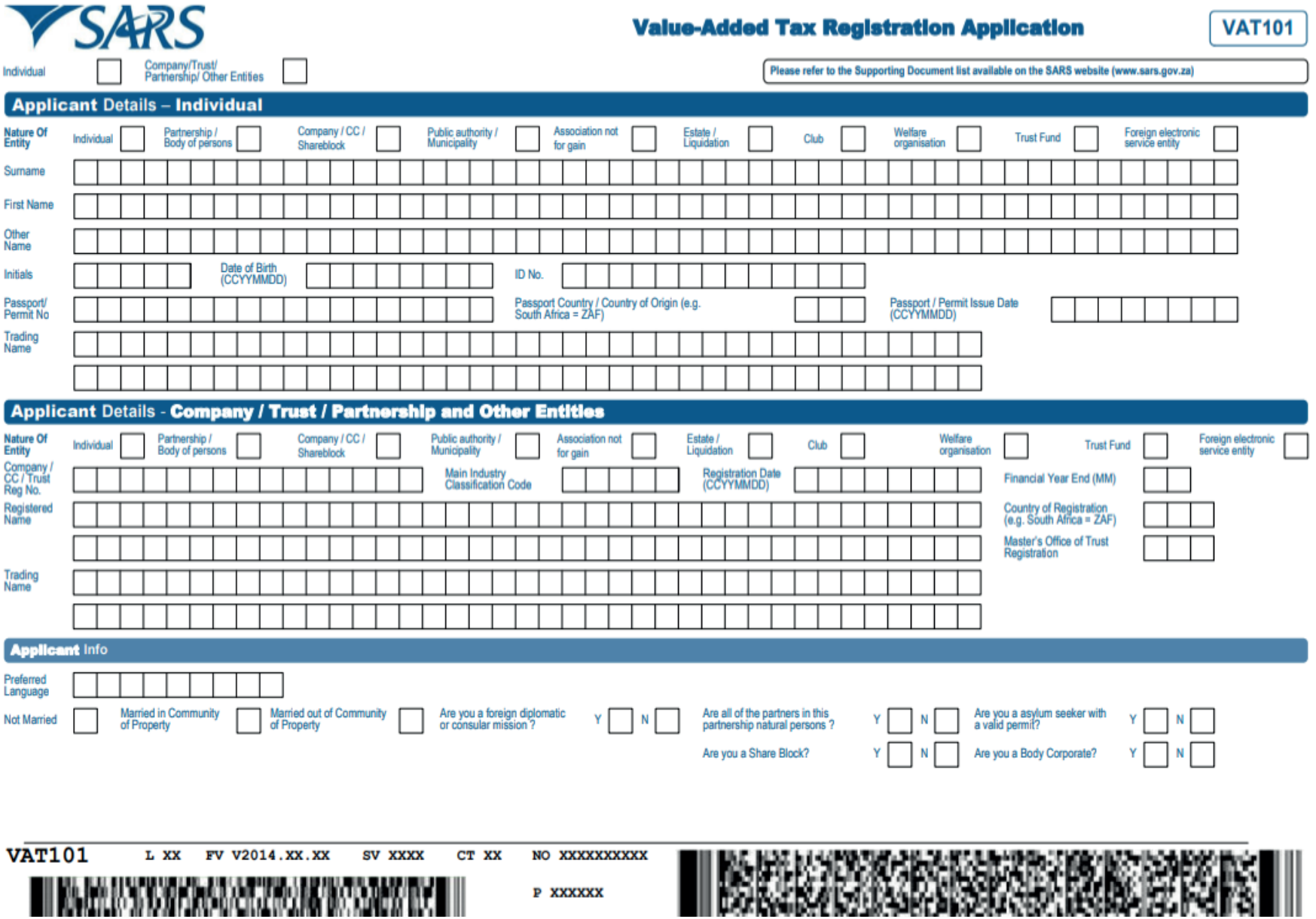
**Did you know?**
There are three different VAT rates for goods and services.

VAT is the second largest tax source for government. It is important that accounting officers implement and maintain a proper VAT accounting system, verify the VAT liable to government, and keep accurate VAT records.

Heavy penalties and even prison sentences are instituted against any business trying to manipulate VAT records and claim fraudulent VAT refunds.

It is mandatory for any business to register for VAT if the income earned in any consecutive twelve-month period exceeds or is likely to exceed R1 million (compulsory VAT registration). However, any business may choose to register voluntarily if the income earned, in the past twelve-month period, exceeded R50 000 (voluntary VAT registration).

To register as a VAT vendor, a business completes a VAT 101 form as shown on the next page.



SARS

# Value-Added Tax Registration Application

VAT101

Individual ☐ Company/Trust/ Partnership/ Other Entities ☐

Please refer to the Supporting Document list available on the SARS website (www.sars.gov.za)

## Applicant Details – Individual

**Nature Of Entity** Individual ☐ Partnership / Body of persons ☐ Company / CC / Shareblock ☐ Public authority / Municipality ☐ Association not for gain ☐ Estate / Liquidation ☐ Club ☐ Welfare organisation ☐ Trust Fund ☐ Foreign electronic service entity ☐

Surname

First Name

Other Name

Initials | Date of Birth (CCYYMMDD) | ID No.

Passport/ Permit No | Passport Country / Country of Origin (e.g. South Africa = ZAF) | Passport / Permit Issue Date (CCYYMMDD)

Trading Name

## Applicant Details - Company / Trust / Partnership and Other Entities

**Nature Of Entity** Individual ☐ Partnership / Body of persons ☐ Company / CC / Shareblock ☐ Public authority / Municipality ☐ Association not for gain ☐ Estate / Liquidation ☐ Club ☐ Welfare organisation ☐ Trust Fund ☐ Foreign electronic service entity ☐

Company / CC / Trust Reg No. | Main Industry Classification Code | Registration Date (CCYYMMDD) | Financial Year End (MM)

Registered Name | Country of Registration (e.g. South Africa = ZAF)

Master's Office of Trust Registration

Trading Name

## Applicant Info

Preferred Language

Not Married ☐ Married in Community of Property ☐ Married out of Community of Property ☐ Are you a foreign diplomatic or consular mission ? Y ☐ N ☐

Are all of the partners in this partnership natural persons ? Y ☐ N ☐ Are you a asylum seeker with a valid permit? Y ☐ N ☐

Are you a Share Block? Y ☐ N ☐ Are you a Body Corporate? Y ☐ N ☐

VAT101 L XX FV V2014.XX.XX SV XXXX CT XX NO XXXXXXXXXX

P XXXXXX

# 1. The concept VAT

**Keyword**

**VAT** is an indirect tax levied on the supply of goods and services by vendors.

Value Added Tax or **VAT** in an indirect tax levied on the supply of goods and services in the economy. Certain businesses (called vendors) are required to register and to charge VAT. These vendors act as agents for the government in collecting VAT. VAT on imported goods is collected by customs.

VAT is charged or levied at each stage of the production and distribution process. There are three types of VAT rates.

## 1.1 VAT standard rate

**Keyword**

**Standard VAT rate** is the general rate that applies to most goods and services. Currently it amounts to 15%.

Since 1 April 2018 the **VAT standard rate** has been 15%. VAT is calculated on the base price of products and services. The base price means the price of the item exclusive of VAT.

Examples of goods and/or services that are VAT standard-rated:

- land and buildings (fixed property)
- professional services, e.g., doctors and private hospital
- services, lawyers, plumbers, electricians and accountants
- household consumables and durable goods, e.g., meat, fish, white bread, cigarettes, cool drinks, clothing, footwear
- municipal services such as water and electricity, and refuse removal
- accommodation, restaurant meals, liquor sales, arcade amusements
- casino slot machines, entrance fees to sporting events, theatre performances
- capital assets such as furniture, production machinery, installations, motor vehicles and equipment
- any form of repair work
- local transport of passengers by air or sea
- telephone (cell, landline), internet, computer and other telecommunication services.

## 1.2 VAT zero rate

**Keyword**

**VAT zero rate** refers to certain goods on which VAT is charged, but it is levied at a rate of 0%.

There is a limited range of goods and services which are subject to **VAT zero rate**, i.e., these goods are levied at 0%.

Examples of goods and/or services that are VAT zero-rated:

- brown bread
- dried mealies and mealie rice
- brown bread flour (excluding wheaten bran)
- samp
- hens' eggs
- fresh vegetables and fruit
- dried beans
- maize meal

- rice
- lentils
- pilchards in tins or cans
- milk, cultured milk, milk powder and dairy powder blend.

## 1.3 VAT exempt

There is a limited range of goods and services which are **VAT exempt**, i.e., no VAT is levied. VAT at neither the standard rate nor the zero-rate is chargeable.

**Keyword**

**VAT exempt** is the supply of goods or services upon which VAT at neither the standard rate nor the zero-rate is chargeable.

Examples of goods / services that are VAT exempt:

- financial services (such as the provision of credit, life insurance, the services of benefit funds such as medical schemes, provident, pension and retirement annuity funds)
- donated goods or services sold by non-profit bodies (such as religious and welfare organisations)
- residential accommodation in a dwelling (but not commercial holiday accommodation)
- passenger transport in South Africa by taxi, bus or train
- educational services provided by recognised educational institutions such as primary and secondary schools, public TVET colleges or public universities
- childcare services provided at crèches and after-school care centres.

A business that only makes or supplies exempt supplies does not carry on an 'enterprise' for VAT purposes and is therefore unable to register as a vendor, irrespective of the number or value of the supplies made.

# 2. Different types of VAT

We have already mentioned that VAT is charged or levied at each stage of the production and distribution process. The production and distribution processes are a chain consisting of various businesses.

**Did you know?**

There are two types of VAT. Please make sure that you understand the difference between them.

Every producer or distributor along the chain can recover the VAT which was previously paid by his or her business. Every two months VAT must be paid to SARS.

The amount of VAT to be paid to SARS (or to be claimed from SARS), is calculated as:

VAT liable = **VAT output** – **VAT input**

**Keywords**

**VAT output** is the tax charged by the business when goods or services are rendered (sold) to a customer or client.

**VAT input** is the tax paid by the business when goods or services are rendered to a business or entity, i.e., bought by the business.

## Calculation 1

The owner of a small shop selling only cigarettes and related products bought goods to the value of R60 000 (exclusive of VAT) during the VAT period. His sales during the same period amounted to R95 000 (exclusive of VAT).

What is the VAT to be paid to SARS at the end of the VAT period?

**Note**

VAT exclusive means that the amount for VAT is not included in the price indicated to the customer or buyer.

**Note**

VAT inclusive means that the amount for VAT is included in the price indicated to the customer or buyer.

A specific formula is used to determine the amount for VAT and the amount exclusive of VAT.

**Reminder**

Make sure that you know when you deal with input VAT and when you deal with output VAT.

**Note**

No output tax will be payable to SARS in respect of zero-rated supplies. Vendors making zero-rated supplies are entitled to claim their input tax deductions on goods or services acquired while making any taxable supplies.

### Solution

Note that VAT is calculated on all the products at the standard rate (consult the examples given above).

VAT output = R95 000 × 15% = R14 250
VAT input = R60 000 × 15% = R9 000
VAT payable to SARS = VAT output – VAT input
= R14 250 – R9 000 = R4 250

## Calculation 2

The owner of a small boutique bought merchandise to the value of R161 000 (inclusive of VAT) during the VAT period. Her sales during the same period amounted to R190 000 (exclusive of VAT).

What is the VAT to be paid to SARS at the end of the VAT period?

### Solution

Note that VAT is calculated on all the products at the standard rate (consult the examples given above).

Did you notice that the merchandise bought included the VAT, while the merchandise sold excluded VAT. Since the merchandise bought for R161 000 included VAT, we need a formula to determine the amount for VAT and the amount exclusive of VAT.

To determine the amount for VAT included, we use the following formula:

$$\text{VAT amount included} = \text{R161 000} \times \frac{15}{15} = \text{R21 000}$$

Do you agree that the VAT input amounts to R21 000?

$$\text{Amount of merchandise without VAT} = \text{R161 000} \times \frac{100}{115} = \text{R140 000}$$

$$\text{VAT output} = \text{R190 000} \times 15\% = \text{R28 500}$$

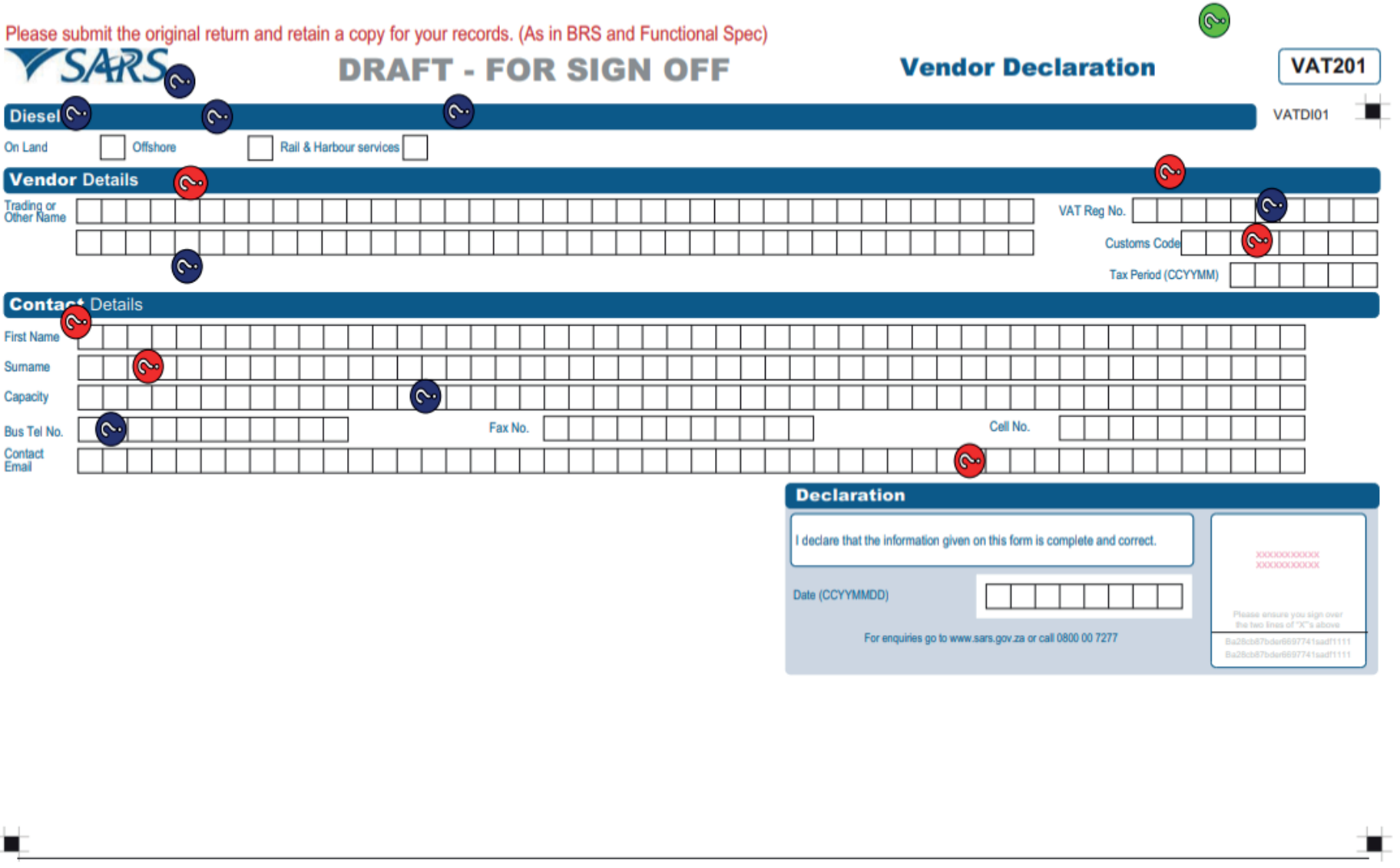
Do you agree that the VAT output amounts to R28 500?

VAT payable to SARS = VAT output – VAT input
= R28 500 – R21 000 = R7 500

The VAT 201 return (on the next page) is a declaration, which a vendor needs to make at the end of every VAT tax period, which reflects the VAT that the vendor has charged on supplies, or for which he or she is liable to declare output tax, and the amounts that the vendor believes he or she is entitled to deduct as input tax.

**Note**

Vendors may not claim an input tax deduction in respect of goods or services acquired in the course or furtherance of making exempt supplies. An entity that makes only exempt supplies cannot register as a vendor as such person will not be seen to be carrying on an 'enterprise' as defined.


Please submit the original return and retain a copy for your records. (As in BRS and Functional Spec)
SARS
DRAFT - FOR SIGN OFF
Vendor Declaration
VAT201
Diesel
VATDI01
On Land
Offshore
Rail & Harbour services
Vendor Details
Trading or Other Name
VAT Reg No.
Customs Code
Tax Period (CCYYMM)
Contact Details
First Name
Surname
Capacity
Bus Tel No.
Fax No.
Cell No.
Contact Email
Declaration
I declare that the information given on this form is complete and correct.
Date (CCYYMMDD)
For enquiries go to www.sars.gov.za or call 0800 00 7277
Please ensure you sign over the two lines of "X"s above
VAT201_Old L XX FV V2010.XX.XX SV XXXX CT XX
NO XXXXXXXXXX
P XXXXXX
Y XXXX
b91c9121-0a17-4b26-a09d-d5980eb532db
001/004
FOR PERSONAL RECORDS ONLY, NOT FOR SUBMISSION TO SARS.
Lv2011.01.27_OLD

## 3. Prepare ledger accounts

Before we look at VAT specific ledger accounts, let us first look at some journal entries as part of the accounting cycle. Suppose a business has cash sales of R6 900. We need to split this amount as follows:

Amount for VAT inclusive = R6 900 × $\frac{15}{115}$ = R900

Amount of actual merchandise = R6 900 × $\frac{100}{115}$ = R6 000

### WORKED EXAMPLE 1.1

Mr Biltong, a retailer specialising in different kinds of biltong, is a VAT vendor. The business uses the periodic inventory system.
The following balances appear in the financial records on 30 June 2021.

| | FOL. | DEBIT | CREDIT |
|---|---|---|---|
| Mr Neighbour | | 920 | |
| Ms Fit | | 460 | |
| Biltong Wholesalers | | | 2 300 |
| VAT input | | 1 080 | |
| VAT output | | | 2 025 |

**Note**

A business selling merchandise, must include the VAT in the price on the shelf or the product, i.e., VAT inclusive. Even a business rendering a service must quote the price as VAT inclusive. The same applies when customers buy online.

**Transactions for July 2021**

Cash is deposited daily.

July

1 Cash sales for the day, R575.
6 Received a debit card payment from Ms Fit for R414 and allowed R46 settlement discount.
12 Received a cash payment from Mr Neighbour for R828 in full settlement of his account.
16 Credit sales to the principal on behalf of Local High School for a function, R1 150.
19 Paid the account of Biltong Wholesalers per EFT after deducting R230 settlement discount.
20 Sold an old scale for R138 cash.

**REQUIRED**

Record the above transactions in the following journals:

a. Cash receipts journal: analysis columns for bank, sales, trade receivables control, VAT input, VAT output, settlement discount granted and sundries.
b. Cash payments journal: analysis columns for bank, purchases, trade payables control, VAT input, VAT output, settlement discount received and sundries.
c. Sales journal: analysis columns for VAT output, sales and trade receivables control.

## Solution

**CASH RECEIPTS JOURNAL OF MR BILTONG FOR JULY 2021** — **CRJ7**

| Doc. | Day | Details | Fol. | Analysis of Receipts | Bank | Sales | Trade Receivables Control | VAT Input (Dr) | VAT Output (Cr) | Settlement Discount Granted | Sundry accounts | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Amount | Fol. | Details |
| CRR | 1 | Sales | | 575 | 575 | 500 | | | 75 | | | | |
| Rec1 | 6 | Ms Fit | | 414 | 414 | | 460 | (6) | | 40 | | | |
| Rec2 | 12 | Mr Neighbour | | 828 | 828 | | 920 | (12) | | 80 | | | |
| Rec3 | 20 | Cash (scale) | | 138 | 138 | | | | 18 | | 120 | B10 | Equipment |
| | | | | | | | | | | | | | |

**CASH PAYMENTS JOURNAL OF MR BILTONG FOR JULY 2021** — **CPJ7**

| Doc. | Day | Details | Fol. | Bank | Purchases | Trade Payables Control | VAT Input (Dr) | VAT Output (Cr) | Settlement Discount Received | Sundry accounts | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Amount | Fol. | Details |
| EFT Notice | 19 | Biltong Wholesalers | | 2 070 | | 2 300 | | (30) | 200 | | | |
| | | | | | | | | | | | | |

**SALES JOURNAL FOR MR BILTONG FOR JULY 2021** — **SJ7**

| Doc. | Day | Debtors | Fol. | VAT Output | Sales | Trade Receivables Control |
|---|---|---|---|---|---|---|
| Inv 01 | 16 | Local High School | | 150 | 1 000 | 1 150 |
| | | | | | | |

### WORKED EXAMPLE 1.2

This Worked Example builds on Mr Biltong (Worked Example 1.1).

**Transactions** (continued) for July 2021

**July**

23 Issued a credit note to Local High School for an overcharge on the invoice of the 16th, R92.

26 Received a credit invoice from Biltong Wholesalers for merchandise purchased, R6 900.
Paid Courier Services per EFT for carriage on goods purchased, R345.

28 Issued a debit note to Biltong Wholesalers for goods returned to them, R322.

29 Paid Telkom per EFT, R460.
Paid Karoo Biltong for merchandise per EFT, R1 380.

31 Cash sales for the day, R828.

**REQUIRED**

a. Continue with the previous journals, namely CRJ, CPJ and the Sales journal.

b. Open the following journals:
   i. Purchases journal: analysis columns for VAT input, purchases and trade payables control

ii. Sales returns journal: analysis columns for VAT output, sales returns and trade receivables control
iii. Purchases returns journal: analysis columns for VAT input, purchases returns and trade payables control
iv. General journal

c. Post all the recorded entries to the VAT input and VAT output accounts.
d. Close off the VAT accounts to the VAT control account. Balance the VAT control account on 31 July 2021.

## Solution

**CASH RECEIPTS JOURNAL OF MR BILTONG FOR JULY 2021** — **CRJ7**

| Doc. | Day | Details | Fol. | Analysis of Receipts | Bank | Sales | Trade Receivables Control | VAT Input (Dr) | VAT Output (Cr) | Settlement Discount Granted | Sundry accounts | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Amount | Fol. | Details |
| CRR | 1 | Sales | | 575 | 575 | 500 | | | 75 | | | | |
| Rec1 | 6 | Ms Fit | | 414 | 414 | | 460 | (6) | | (40) | | | |
| Rec2 | 12 | Mr Neighbour | | 828 | 828 | | 920 | (12) | | (80) | | | |
| Rec3 | 20 | Cash (scale) | | 138 | 138 | | | | 18 | | 120 | B10 | Equipment |
| Rec4 | 31 | Sales | | 828 | 828 | 720 | | | 108 | | | | |
| | | | | | 2 783 | 1 220 | 1 380 | (18) | 201 | (120) | 120 | | |
| | | | | | | | | B20 | B19 | | | | |

**CASH PAYMENTS JOURNAL OF MR BILTONG FOR JULY 2021** — **CPJ7**

| Doc. | Day | Details | Fol. | Bank | Purchases | Trade Payables Control | VAT Input (Dr) | VAT Output (Cr) | Settlement Discount Received | Sundry accounts | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Amount | Fol. | Details |
| EFT Notice01 | 19 | Biltong Wholesalers | | 2 070 | | 2 300 | | (30) | (200) | | | |
| EFT Notice02 | 26 | Courier Services | | 345 | | | 45 | | | 300 | N8 | Carriage on purchases |
| EFT Notice03 | 29 | Telkom | | 460 | | | 60 | | | 400 | N20 | Telephone |
| EFT Notice04 | 29 | Karoo Biltong | | 1 380 | 1 200 | | 180 | | | | | |
| | | | | 4 255 | 1 200 | 2 300 | 285 | (30) | (200) | 700 | | |
| | | | | | | | B20 | B19 | | | | |

**SALES JOURNAL FOR MR BILTONG FOR JULY 2021** — **SJ7**

| Doc. | Day | Debtors | Fol. | VAT Output | Sales | Trade Receivables Control |
|---|---|---|---|---|---|---|
| Inv 01 | 16 | Local High School | | 150 | 1 000 | 1 150 |
| | | | | 150 | 1 000 | 1 150 |
| | | | | B19 | | |

| SALES RETURNS JOURNAL FOR MR BILTONG FOR JULY 2021 | | | | | | SRJ7 |
|---|---|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Output** | **Sales returns** | **Trade Receivables Control** |
| CN01 | 23 | Local High School | | 12 | 80 | 92 |
| | | | | 12 | 80 | 92 |
| | | | | B19 | | |

| PURCHASES JOURNAL FOR MR BILTONG FOR JULY 2021 | | | | | | PJ7 |
|---|---|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Input** | **Purchases** | **Trade Payables Control** |
| CI01 | 26 | Biltong Wholesalers | | 900 | 6 000 | 6 900 |
| | | | | 900 | 6 000 | 6 900 |
| | | | | B20 | | |

| PURCHASES RETURNS JOURNAL FOR MR BILTONG FOR JULY 2021 | | | | | | PRJ7 |
|---|---|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Input** | **Purchases Returns** | **Trade Payables Control** |
| DN01 | 28 | Biltong Wholesalers | | 42 | 280 | 322 |
| | | | | 42 | 280 | 322 |
| | | | | B20 | | |

**Note**

The proper way is to do two general journal entries in which the VAT input and VAT output are closed off to the VAT control account.

We will only complete that after the VAT input and VAT output accounts have been completed in the general ledger. It makes it easier to understand and to see the correct amounts.

Let us complete the accounting equation for the last transaction:

**Transaction:** Cash sales for the day, R828.

**Effect of Transaction on the accounting equation:**

| | General ledger | | | | | | |
|---|---|---|---|---|---|---|---|
| **Date** | **Account Debit** | **Account Credit** | **Assets** | **=** | **Owner's equity** | **+** | **Liabilities** |
| 31/07/2021 | Bank | Sales | +720 | | +720 | | 0 |
| | Bank | VAT Output | +108 | | 0 | | +108 |

| | |
|---|---|
| **Bank** (asset increases) | **Dr Bank** |
| **Sales** (income increases owner's equity) | **Cr Sales** |
| **Bank** (asset increases) | **Dr Bank** |
| **VAT output** (liability increases) | **Cr VAT output** |

**Source document**
Cash register roll/Duplicate receipt

Post to the VAT input and VAT output accounts. Close off the VAT accounts to the VAT control account:

**GENERAL LEDGER OF MR BILTONG FOR JULY 2021**
**BALANCE SHEET SECTION**

**Dr** **VAT Input (B19)** **Cr**

| Date | | Details | Fol. | Amount | Date | | Details | Fol. | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 2021 July | 1 | Balance | b/d | 1 080 | 2021 July | 31 | Trade Payables Control | PRJ7 | 42 |
| | 31 | Bank | CPJ7 | 285 | | | VAT Control | GJ7 | 2 141 |
| | | Trade Receivables Control | CRJ7 | 18 | | | | | |
| | | Trade Payables Control | PJ7 | 900 | | | | | |
| | | | | 2 283 | | | | | 2 283 |

**Dr** **VAT Output (B20)** **Cr**

| Date | | Details | Fol. | Amount | Date | | Details | Fol. | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 2021 July | 31 | Trade Receivables Control | SRJ7 | 12 | 2021 July | 1 | Balance | b/d | 2 025 |
| | | VAT Control | GJ7 | 2 394 | | 31 | Bank | CRJ7 | 201 |
| | | | | | | | Trade Receivables Control | SJ7 | 150 |
| | | | | | | | Trade Payables Control | CPJ7 | 30 |
| | | | | 2 406 | | | | | 2 406 |

Balance the VAT control account on 31 July 2021:

**Dr** **VAT control (B21)** **Cr**

| Date | | Details | Fol. | Amount | Date | | Details | Fol. | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 2021 July | 31 | VAT Input | b/d | 2 141 | 2021 July | 31 | VAT Output | | 2 394 |
| | | Balance | c/d | 253 | | | | | |
| | | | | 2 394 | | | | | 2 394 |
| | | | | | 2021 Aug | 1 | Balance | b/d | 253 |

Entries to close off the VAT input and VAT output to the VAT control account are entered in the general journal.

We mentioned earlier that the closing of the two accounts in the general journal after the posting process makes the closing off process easier, since you can see the correct amounts.

| GENERAL JOURNAL OF MR BILTONG FOR JULY 2021 | | | | | GJ7 |
|---|---|---|---|---|---|
| **Doc.** | **Date** | **Details** | **Fol.** | **Debit** | **Credit** |
| JV30 | 31 | VAT Control | B21 | 2 141 | |
| | | VAT Input | B19 | | 2 141 |
| | | *Transfer of VAT input to VAT control* | | | |
| JV31 | 31 | VAT Output | B20 | 2 394 | |
| | | VAT Control | B21 | | 2 394 |
| | | *Transfer of VAT input to VAT control account* | | | |
| | | | | | |

**Note**

When the VAT output is more than the VAT input, the VAT control account will show a credit balance. A credit balance means that the VAT control account becomes a liability (current liability), and the vendor needs to pay the difference over to SARS.

The opposite is also true. When the VAT output is less than the VAT input, the VAT control account will show a debit balance. In this situation, SARS must refund the vendor. This means that the VAT control account becomes an asset (current asset).

## ACTIVITY 1.1 FORMATIVE ASSESSMENT GROUPS

1. Differentiate between compulsory VAT registration and voluntary VAT registration.
2. Draw a table similar to the one below. Place a tick in the correct column for the VAT rate levied on the following items:

| No | Product/Service | Standard rate (15%) | Zero rate (0%) | VAT exempt |
|---|---|---|---|---|
| 1 | Brown bread | | | |
| 2 | Telephone calls | | | |
| 3 | Life insurance | | | |
| 4 | Rice | | | |
| 5 | Meat | | | |
| 6 | Public TVET class fees | | | |
| 7 | Cigarettes | | | |
| 8 | Renting a home or room | | | |
| 9 | Milk powder | | | |
| 10 | Taxi fees | | | |
| 11 | Furniture | | | |
| 12 | Dried beans | | | |
| 13 | Crèche fees | | | |
| 14 | Municipal services | | | |
| 15 | Maize meal | | | |

3. Are the following statements TRUE or FALSE?
   a. VAT output refers to the VAT that the vendor pays on purchases.
   b. The vendor completes the VAT 201 return form to determine the VAT amount the vendor must either pay over to SARS or claim back from SARS.
   c. When the amount for VAT output is more than the amount for VAT input, the vendor owes money to SARS.

## ACTIVITY 1.2 FORMATIVE ASSESSMENT — INDIVIDUAL

A footwear retailer sells a range of shoe items to its customers. Copy the table below. Complete the answers and show your calculations.

| No | Selling price (or sales amount) | Product price before VAT is included | VAT amount |
|---|---|---|---|
| 1 | R279.45 | | |
| 2 | | R250 | |
| 3 | | | R100 |
| 4 | | R720 | |
| 5 | R980 | | |
| 6 | | R900 | |
| 7 | R1 190 | | |
| 8 | | | R149.40 |
| 9 | R1 599 | | |
| 10 | R13 300 | | |

**Hint**
When you have the selling price (or sales amount), always calculate the VAT amount first, before you calculate the value of the merchandise.

**Note**
VAT must always be calculated to the nearest cent.

## ACTIVITY 1.3 FORMATIVE ASSESSMENT — GROUPS

EAST CAPE Shoe Wear, a retail store in East London, uses the periodic inventory system. You have received the following financial information:
The following balances appear in the financial records on 1 May 2021.

| | Fol. | Debit | Credit |
|---|---|---|---|
| VAT Input | | 8 080 | |
| VAT Output | | | 9 720 |

**Hint**
Always ensure that the VAT amount plus the value of the merchandise corresponds with the sales price.

**CRJ OF EAST CAPE SHOE WEAR FOR MAY 2021** — **CRJ5**

| Doc. | Day | Details | Fol. | VAT Input (Dr) | VAT Output (Cr) |
|---|---|---|---|---|---|
| | | | | | |
| | | | | (520) | 4 350 |
| | | | | B20 | B19 |

| CPJ OF EAST CAPE SHOE WEAR FOR MAY 2021 | | | | | CPJ5 |
|---|---|---|---|---|---|
| **Doc.** | **Day** | **Details** | **Fol.** | **VAT Input (Dr)** | **VAT Output (Cr)** |
| | | | | | |
| | | | | 2 500 | (450) |
| | | | | B20 | B19 |

| SJ OF EAST CAPE SHOE WEAR FOR MAY 2021 | | | | SJ7 |
|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Output** |
| | | | | |
| | | | | 1 560 |
| | | | | B19 |

| SRJ OF EAST CAPE SHOE WEAR FOR MAY 2021 | | | | SRJ7 |
|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Output** |
| | | | | |
| | | | | 180 |
| | | | | B19 |

| PJ OF EAST CAPE SHOE WEAR FOR MAY 2021 | | | | PJ7 |
|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Input** |
| | | | | |
| | | | | 2 700 |
| | | | | B20 |

| PRJ OF EAST CAPE SHOE WEAR FOR MAY 2021 | | | | PRJ7 |
|---|---|---|---|---|
| **Doc.** | **Day** | **Debtors** | **Fol.** | **VAT Input** |
| | | | | |
| | | | | 940 |
| | | | | B20 |

**REQUIRED**

a. Compile ledger accounts for VAT input and VAT output accounts.
b. Close off the VAT input and VAT output accounts to the VAT control account. Balance the VAT control account on 31 May 2021.
c. Must the vendor pay VAT over to SARS or will SARS refund VAT to the vendor?

## ACTIVITY 1.4 FORMATIVE ASSESSMENT — INDIVIDUAL

EAST CAPE Shoe Wear, a retail store in East London uses the periodic inventory system. You have received the following financial information:
The following balances appear in the financial records on 1 July 2021.

| | Fol. | Debit | Credit |
|---|---|---|---|
| VAT Input | | 4 050 | |
| VAT Output | | | 5 580 |

**CRJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **CRJ5**

| Doc. | Day | Details | Fol. | VAT Input (Dr) | VAT Output (Cr) |
|---|---|---|---|---|---|
| | | | | | |
| | | | | (470) | 3 225 |
| | | | | B20 | B19 |

**CPJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **CPJ5**

| Doc. | Day | Details | Fol. | VAT Input (Dr) | VAT Output (Cr) |
|---|---|---|---|---|---|
| | | | | | |
| | | | | 2 600 | (225) |
| | | | | B20 | B19 |

**SJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **SJ7**

| Doc. | Day | Debtors | Fol. | VAT Output |
|---|---|---|---|---|
| | | | | |
| | | | | 870 |
| | | | | B19 |

**SRJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **SRJ7**

| Doc. | Day | Debtors | Fol. | VAT Output |
|---|---|---|---|---|
| | | | | 200 |
| | | | | B19 |

**PJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **PJ7**

| Doc. | Day | Debtors | Fol. | VAT Input |
|---|---|---|---|---|
| | | | | |
| | | | | 4 930 |
| | | | | B20 |

**PRJ OF EAST CAPE SHOE WEAR FOR JULY 2021** — **PRJ7**

| Doc. | Day | Debtors | Fol. | VAT Input |
|---|---|---|---|---|
| | | | | |
| | | | | 730 |
| | | | | B20 |

**REQUIRED**

a. Compile ledger accounts for VAT input and VAT output accounts.
b. Close off the VAT input and VAT output accounts to the VAT control account. Balance the VAT control account on 31 July 2021.
c. Must the vendor pay VAT over to SARS or will SARS refund VAT to the vendor?

## ACTIVITY 1.5 FORMATIVE ASSESSMENT GROUPS

Let us complete the accounting equation for EAST CAPE Shoe Wear for August 2021, which uses the periodic inventory system.

**REQUIRED**

a. Draw a similar table as below.
b. Complete the table based on the transactions that follow.

### Example transaction

1 Aug 2021: Cash sales for the day, R828.

**Effect of Transaction on the accounting equation:**

| | General ledger | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | Account Debit | Account Credit | Assets | = | Owner's equity | + | Liabilities |
| 11/08/2021 | Bank | Sales | +720 | | +720 | | 0 |
| | Bank | VAT Output | +108 | | 0 | | +108 |
| | | | | | | | |

**Transactions**

**August 2021**

2 Paid the Local Council for water and electricity per EFT, R5 290
3 Bought merchandise on credit from Shoe Manufacturers, R15 870
5 Cash sales, R2 990.
10 Purchased additional chairs for customers on credit from Shop Fitters, R2 300
12 Issued a debit note to Shoe Manufacturers for goods returned, R805.
16 Sold 3 pairs of shoes on credit to T Arendse, R1 035
20 Received incorrect pair of shoes returned by T Arendse. Issued a credit note, R345.
21 Paid the account of Shoe Manufacturers per EFT after deducting R1 495 as full settlement of account.
30 Receive a cash payment from T Arendse and granted her discount as full settlement of the account, R69.
31 Received EFT payment from Spaza Dealers for rental, R1 265.

## ACTIVITY 1.6 FORMATIVE ASSESSMENT — INDIVIDUAL

This activity builds on EAST CAPE Shoe Wear of Activity 1.5.
The following balances appear in the financial records on 30 July 2021:

| | Fol. | Debit | Credit |
|---|---|---|---|
| VAT Input | | 3 180 | |
| VAT Output | | | 6 625 |

**REQUIRED**

a. Record the transactions of Activity 1.5 in the following journals:
   i. Cash receipts journal: analysis columns for bank, sales, trade receivables control, VAT input, VAT output, settlement discount granted and sundries
   ii. Cash payments journal: analysis columns for bank, purchases, trade payables control, VAT input, VAT output, settlement discount received and sundries
   iii. Sales journal: analysis columns for VAT output, sales and trade receivables control
   iv. Purchases journal: analysis columns for VAT input, purchases and trade payables control
   v. Sales returns journal: analysis columns for VAT output, sales returns and trade receivables control
   vi. Purchases returns journal: analysis columns for VAT input, purchases returns and trade payables control
   vii. General journal
b. Close off the journals.
c. Post all the relevant entries to the VAT input and VAT output accounts.
d. Close off the VAT accounts to the VAT control account. Balance the VAT control account on 31 August 2021.
e. Must the vendor pay VAT over to SARS or will SARS refund VAT to the vendor?

### Exam preparation

It is very important that you can do the necessary VAT calculations. Please learn the formulae. Make sure that you know how to record the specific VAT transactions (e.g., returns and discounts). Correct posting to the VAT input and VAT output accounts is important to compile the correct balance for the VAT control account.

There are various aspects that you can learn to ensure full marks. Work through the activities at least three times. In this way, you will remember the necessary accounting entries and processes.

## Module summary

- This is a new module in the revised syllabus.
- Ensure that you know some of the basic items in the three different VAT rate groups. All accounting students must be able to calculate VAT, record the transactions correctly in the different journals and post to the VAT input and VAT output accounts.
- If you understand the accounting equation, you will find the rest of the work easy.
- VAT is an important part of the work of the accountant. You must expect a question in the final exam that deals with various VAT transactions.