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Processing accounting data

Study Unit 5(B)

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Study Unit 5B: Processing Accounting Data

Value Added Tax - Introduction

Lecture 1

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What is VAT?

- Check out the infographic on Value Added Tax

Note the difference between Output and Input VAT, and the fact that each merchant / customer through the process charges / claims VAT

Lecture 1

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Value Added Tax

- VAT is levied by the government on the supply of goods and services
  - It is levied on most goods, from the raw materials, through the production phase, up to sale to the customer
- VAT is currently at 14%
- 'Taxable Supplies' means any good / service which is chargeable with tax

Lecture 2

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Taxable Supplies

- Two types of taxable supplies:
  - Standard rate (14%)
  - Zero-rated (0%)
- Zero-rated supplies:
  - Brown bread, samp, lentils, maize meal
  - Petrol, diesel, crude oil
  - Certain exported goods

Lecture 2

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Zero-rated

- Why have VAT at 0%?
  - This means that the seller charges VAT at 0% (Output VAT), but can still claim VAT at 14% on their purchases (Input VAT)

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Exempt Supplies

- These are exempted from VAT
  - This means that the seller charges no VAT (Output VAT), and can claim no VAT on their purchases (Input VAT)

Are you comfortable with the difference between Zero-rated and exempt supplies?

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Exam questions?

- We've looked at the accounting process so far, without taking VAT into account.
- The accounting process must deal with VAT, and all of the Study Unit 5 questions could be given to you with VAT built in

Lecture 2

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Study Unit 5B: Processing Accounting Data

Value Added Tax - Calculations

Lecture 3

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VAT at 14%

- When a vendor sells their goods, they will have to add VAT to their selling price
  - Remember, they can't make VAT part of their selling price, since they have to pay the VAT to SARS
- So, if they want to sell an item for R100, they will add 14% to the selling price: R100 X 14% = R14

  Total selling price (VAT incl): R100 + R14 = R114

Lecture 3

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VAT at 14%

- Another example, if they want to sell an item for R80, they will add 14% to the selling price:

  R80 X 14% = R11.20

  Total selling price (VAT incl): R80 + R11.20 = R91.20
- The VAT exclusive amount is R80
- The VAT inclusive amount is R91.20
- The VAT is R11.20

Lecture 3

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14% or 0.14

- Another way of calculating this is as follows:

  R80 X 0.14 = 11.20

Multiplying the amount by 0.14 is the same as multiplying by 14%

Lecture 3

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114% or 1.14

- We've looked at calculating the VAT first, then adding the VAT to the selling price. We could do this in one step:

R80 X 114% = R91.20

OR

R80 X 1.14 = R91.20

Make sure you are comfortable with these calculations

Lecture 3

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VAT Excl / Incl

- Can you calculate the VAT exclusive amount if you're given the inclusive amount?
  - Remember:The VAT inclusive amount represents 114% of the selling price

Can you calculate the exclusive amount if the inclusive amount is R120

Lecture 4

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Calculating VAT excl amounts

- If the inclusive amount is R120…
- VAT exclusive amount: R120 / 114 X 100 = R105.26
- VAT amount: R120 / 114 X 14 = R14.74

- What if the inclusive amount is R156?

Lecture 4

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Be flexible with your calculations!

In exams, you could be given the exclusive or inclusive amount… make sure that you can work out the VAT amount

Lecture 4

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Study Unit 5B: Processing Accounting Data

Value Added Tax – General Journal & General Ledger

Lecture 5

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How do you account for VAT?

- The sales journal without VAT:
- Eg: 1 Aug - Cash Sales of R120 (no VAT)

Date	Details	Fol	Debit	Credit
1 Aug	Bank		120	
	Sales			120
	Cash Sales			

Lecture 5

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How do you account for VAT?

- The sales journal with VAT:
- Eg: 1 Aug - Cash Sales of R120 (VAT excl)

Date	Details	Fol	Debit	Credit
1 Aug	Bank	B1	136.80	
	Sales	N1		120.00
	Value Added Tax	B2		16.80
	Cash Sales			

Lecture 5

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Posting to GL

Dr Bank B1 Cr

Date	Details	Fol	Amount		Date	Details	Fol	Amount
1 Aug	Sales	J1	136.80					

Dr Sales N1 Cr

Date	Details	Fol	Amount		Date	Details	Fol	Amount
					1 Aug	Bank	J1	120.00

Dr Value Added Tax B2 Cr

Date	Details	Fol	Amount		Date	Details	Fol	Amount
					1 Aug	Bank	J1	16.80

Lecture 5

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How do you account for VAT?

- The sales journal with VAT:
- Eg: 1 Aug - Cash Sales of R120 (VAT incl)

Date	Details	Fol	Debit	Credit
1 Aug	Bank	B1	120.00	
	Sales	N1		105.26
	Value Added Tax	B2		14.74
	Cash Sales			

Lecture 5

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Posting to GL

Dr Bank B1 Cr

Date	Details	Fol	Amount	Date	Details	Fol	Amount
1 Aug	Sales	J1	120,00				

Dr Sales N1 Cr

Date	Details	Fol	Amount	Date	Details	Fol	Amount
				1 Aug	Bank	J1	105,26

Dr Value Added Tax B2 Cr

Date	Details	Fol	Amount	Date	Details	Fol	Amount
				1 Aug	Bank	J1	14,74

Lecture 5

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Pay attention to detail!

Notice the different amounts in the two previous examples because of the VAT excl & incl difference.

Lecture 5