

## Chapter 7

### Solution 7.1

#### *Operation of VAT*

Value added tax (VAT) is a tax on consumer spending. Businesses (whether sole traders, partnerships or companies) charge VAT on the supply of goods and services and they act as a collector of these monies for the Revenue Commissioners.

#### *VAT is not a business expense*

In most cases VAT is not considered a business expense because VAT on most outputs can be offset against VAT on charged on sales (inputs)

### Solution 7.2

#### *Exempt and zero rated activities*

Exempt activities include activities such as providing education, hospital and insurance services. Organisations that carry on exempt activities are not required to charge VAT on the sale of goods and services and do not get a refund of VAT paid on their expenses and outgoings. Should turnover be less €51,000 (goods) €25,500 (service) the business is treated as exempt for VAT purposes.

Zero rated activities include activities such as food, medicine and children's clothing. Organisations that carry on zero rated activities charge VAT on the sale of their products or services at the rate of 0%. A refund for any VAT paid on the normal outgoings of the business is claimed from the Revenue Commissioners.

## Solution 7.3

### Sales Journal

		Net €	VAT €	Gross €
Jun-01	Fitness clubs	3,000	630	3,630
Jun-05	Slender Hips	1,500	315	1,815
Jun-24	Fitness Clubs	<u>2,000</u>	<u>420</u>	<u>2,420</u>
		<u>6,500</u>	<u>1,365</u>	<u>7,865</u>

### Purchases Journal

		Net €	VAT €	Gross €
Jun-09	JJ Ltd	1,000	210	1,210
Jun-19	TR Ltd	<u>2,500</u>	<u>525</u>	<u>3,025</u>
		<u>3,500</u>	<u>735</u>	<u>4,235</u>

DR	Cash Book				CR
	VAT €	Cash €	Bank €		
Sales	315	1,815		Purchases	126
	<u>525</u>	<u>3,025</u>		Accounting fees	<u>420</u>
					<u>546</u>
					<u>726</u>
					<u>2,420</u>
					<u>3,146</u>

DR	Fitness Clubs Ltd		CR
Jun-01	Sales Journal	3,630	
Jun-24	Sales Journal	2,420	

DR	Slender Hips Ltd		CR
Jun-05		1,815	

DR	JJ Ltd		CR
	Jun-09	Purchases Journal	1,210

DR	TR Ltd		CR
	Jun-19	Purchases Journal	3,025

DR	Sales Account		CR
		Cash book	
		Sales Journal	6,500

DR	Purchases Account		DR
	Cash Book	600	
	Purchases Journal	3,500	

DR	Accounting Fees Account		CR
	Cash Book	2,420	

DR	VAT Account		CR	
	Cash Book	546	Cash Book	315
	Purchases Journal	735	Sales Journal	1,365
	Balance c/d	<u>399</u>		
		<u>1,680</u>		<u>1,680</u>

**Balance in the VAT account**

VAT on sales	€1,680
VAT on expenses	<u>€1,281</u>
Due to Revenue Commissioners	€399

## Solution 7.4

### Purchases journal

		Net	VAT	Gross
		€	€	€
Feb-01	Good Foods	270	0	270
Feb-02	SGS Drinks	700	147	847
Feb-03	C&B	800	168	968
Feb-04	Quality Meat Producers	300	0	300
Feb-05	O'Reilly Growers	500	0	500
Feb-07	SGs Drinks	700	147	847
		<u>2,570</u>	<u>315</u>	<u>2,885</u>

### Purchases ledgers

DR	<b>Good Food Company Account</b>			CR
	Feb-01	Purchases Journal		270

DR	<b>SGS Drinks Account</b>			CR
	Feb-02	Purchases Journal		847
	Feb-07	Purchases Journal		847

DR	<b>C&amp;B Drinks Suppliers Account</b>			CR
	Feb-03	Purchases Journal		968

DR	<b>Quality Meat Producers Account</b>			CR
	Feb-04	Purchases Journal		300

DR	<b>O'Reilly Growers Account</b>			CR
	Feb-05	Purchases Journal		500

### General ledgers

DR	<b>Purchases Account</b>			CR
	Feb-07	Purchases Journal	2,570	

DR	<b>VAT Account</b>			CR
	Feb-07	Purchases Journal	315	

### VAT liability

VAT on sales is at 13.5% for both accommodation and restaurant

VAT on sales	€3,700 × 13.5 / 113.5	€440
Less VAT on purchases		<u>€315</u>
Vat liability		<u>€125</u>

## Solution 7.5

### Part A

#### Cash Book

	VAT €	Cash €	Bank €		VAT €	Cash €	Bank €
Sales	1,050		6,050	Sun-beds	420		2,420
				Telephone	63		363
				ESB	27		227
				Insurance			5,000
				Purchases	105		605
Balance c/d			2,928	Advertising	63		363
	1,050		8,978		678		8,978

### Part B

#### Sales Account

	€		€
Balance c/d		Bank a/c	<u>5,000</u>
	<u>5,000</u>		<u>5,000</u>
	<u>5,000</u>		

#### VAT Account

	€		€
Bank a/c	678	Bank a/c	1,050
Balance c/d	<u>372</u>		<u>1,050</u>
	<u>1,050</u>		

#### Purchases Account

	€		€
Bank a/c	<u>500</u>	Balance c/d	<u>500</u>
	<u>500</u>		<u>500</u>

#### Equipment Account

	€		€
Bank a/c	<u>2,000</u>	Balance c/d	<u>2,000</u>
	<u>2,000</u>		<u>2,000</u>

#### Telephone Account

	€		€
Bank a/c	<u>300</u>	Balance c/d	<u>300</u>
	<u>300</u>		<u>300</u>

Electricity Account			
	€		€
Bank a/c	<u>200</u>	Balance c/d	<u>200</u>
	<u>200</u>		<u>200</u>

Insurance Account			
	€		€
Bank a/c	<u>5,000</u>	Balance c/d	<u>5,000</u>
	<u>5,000</u>		<u>5,000</u>

Advertising Account			
	€		€
Bank a/c	<u>300</u>	Balance c/d	<u>300</u>
	<u>300</u>		<u>300</u>

**Part C**

**Trial Balance**

	<b>Dr €</b>	<b>Cr €</b>
Bank		2,928
Sales		5,000
VAT		372
Purchases	500	
Equipment	2,000	
Telephone	300	
Electricity	200	
Advertising	300	
Insurance	5,000	
	<u>8,300</u>	<u>8,300</u>