

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 expenses can be offset against VAT on charged on sales

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 €		Vat €	Cash €	Bank €
Sales	315	1,815		Purchases	126	726	
	<u>525</u>	<u>3,025</u>		Accounting fees	<u>420</u>	<u>2,420</u>	
					<u>546</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	<u>700</u>	<u>147</u>	<u>847</u>
		<u>2,570</u>	<u>315</u>	<u>2,885</u>

Purchases ledgers

DR	Good Food Company Account		CR
	Feb-01	Purchases Journal	270

DR	SGS Drinks Account		CR
	Feb-02	Purchases Journal	847
	Feb-07	Purchases Journal	847

DR	C&B Drinks Suppliers Account		CR
	Feb-03	Purchases Journal	968

DR	Quality Meat Producers Account		CR
	Feb-04	Purchases Journal	300

DR	O'Reilly Growers Account		CR
	Feb-05	Purchases Journal	500

General ledgers

DR	Purchases Account		CR
Feb-07	Purchases Journal	2,570	

DR	VAT Account		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 x 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
Balance c/d			2,928	Purchases	105		
				Advertising	63		605
							363
	<u>1,050</u>		<u>8,978</u>		<u>678</u>		<u>8,978</u>

Part B

Sales Account

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

300 | 300

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

	Dr €	Cr €
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>