

**Lesson 4 – Introduction to Value Added Tax (VAT)
Model Answers to Practice Questions**

Question 4.1

Which **one** of the following statements describes the VAT term 'output tax'?

	✓
VAT paid by a business to suppliers on the goods and services it buys in (purchases etc.)	
VAT collected by a business on goods and services supplied to customers	✓

Question 4.2

A business is registered for VAT. In a recent VAT period the business paid VAT to its suppliers of £7,644.00. In the same period the business collected VAT of £10,188.00 on sales to its customers.

Given the information above which **one** of the following statements is true'?

	✓
The business will need to make a payment of £2,544.00 to HMRC	✓
The business will need to claim a refund of £2,544.00 from HMRC	

Question 4.3

Below is the net value (goods price excluding VAT) of **three** products sold by a VAT registered business. Each of the products is subject to VAT at 20%.

Calculate for **each** of the products the VAT to be added to the net value and calculate also the gross goods value

You must write the amounts you calculate.

Product 1	
	£ : p
Net goods value	1,850.00
Add VAT @ 20%	370.00
Gross goods value	<u>2,220.00</u>

Product 2	
	£ : p
Net goods value	1,240.00
Add VAT @ 20%	248.00
Gross goods value	<u>1,488.00</u>

Product 3	
	£ : p
Net goods value	1,576.80
Add VAT @ 20%	315.36
Gross goods value	<u>1,892.16</u>

Question 4.4

Below is the gross goods value (price including VAT) of **three** products sold by a VAT registered business. Each of the products is subject to VAT at 20%.

Calculate for **each** of the products the VAT amount which is included in the gross goods value, and calculate also the net goods value.

You must write in the amounts you calculate.

Product 1	
	£ : p
Net goods value	1,875.00
Add VAT @ 20%	375.00
Gross goods value	<u>2,250.00</u>

Product 2	
	£ : p
Net goods value	806.00
Add VAT @ 20%	161.20
Gross goods value	<u>967.20</u>

Product 3	
	£ : p
Net goods value	1,312.65
Add VAT @ 20%	262.53
Gross goods value	<u>1,575.18</u>

Question 4.5

A business supplies goods on credit with a list price of £3,000 (excluding VAT) to a customer. The goods are subject to VAT at the standard rate of 20%. The supplier offers the customer a prompt payment discount of 2% if the invoice is settled within 10 days of invoice date.

Given the information above which **one** of the following amounts represents the VAT which should be charged on the invoice issued by the supplier?

	✓
£600.00	✓
£588.00	

Question 4.6

At 31 July 201X the VAT control account in the ledger of a business carried a credit balance of £2,256.00.

Which **one** of the following does the balance represent?

	✓
An amount to be reclaimed from HMRC	
An amount owing to HMRC	✓