

## Lesson 5 – Principles of VAT

### Question 5.1

Which **one** of the following is the government department responsible for the administration of the VAT system?

|  |   |
|--|---|
|  | ✓ |
| <b>Department of Work and Pensions (DWP)</b> |   |
| <b>HM Revenue and Customs (HMRC)</b>         | ✓ |
| <b>HM Treasury</b>                           |   |

### Question 5.2

Which **one** of the following statements best describes the requirement for a business to register for VAT?

|  |   |
|--|---|
|  | ✓ |
| <b>All businesses must register for VAT within six months of starting trading</b>  |   |
| <b>Whether or not a business registers depends on the level of its sales (turnover)</b>  |   |
| <b>Only businesses trading in standard rated supplies need register for VAT</b>  |   |
| <b>Whether or not a business registers for VAT depends on the level of its sales (turnover) and the nature of the goods/services it supplies</b> | ✓ |

### Question 5.3

Which **one** of the following statements best describes VAT?

|   |   |
|---|---|
|   | ✓ |
| <b>VAT is a tax on income or profit</b> |   |
| <b>VAT is an indirect tax</b>           | ✓ |
| <b>VAT is a direct tax</b>              |   |

### Question 5.4

VAT paid by a trader and reclaimable from HMRC is known as:

|                        |   |
|------------------------|---|
|                        | ✓ |
| <b>Input tax</b>       | ✓ |
| <b>Output tax</b>      |   |
| <b>Corporation tax</b> |   |

### Question 5.5

Calculate the VAT at standard rate (20%) to be added to the net goods prices for each of the following, and also calculate the total gross goods price:

|                   | <b>£ : p</b>         |
|-------------------|----------------------|
| Net goods price   | 418.00               |
| Add VAT @ 20%     | <b>83.60</b>         |
| Gross goods price | <u><b>501.60</b></u> |

|                   | <b>£ : p</b>           |
|-------------------|------------------------|
| Net goods price   | 1,356.50               |
| Add VAT @ 20%     | <b>271.30</b>          |
| Gross goods price | <u><b>1,627.80</b></u> |

|                   | <b>£ : p</b>           |
|-------------------|------------------------|
| Net goods price   | 2,752.25               |
| Add VAT @ 20%     | <b>550.45</b>          |
| Gross goods price | <u><b>3,302.70</b></u> |

**Question 5.6**

Calculate the VAT element at standard rate (20%), already included in the total gross goods prices of each of the following, and also calculate the net goods price:

|                   | <b>£ : p</b>    |
|-------------------|-----------------|
| Net goods price   | <b>1,317.75</b> |
| Add VAT @ 20%     | <b>263.55</b>   |
| Gross goods price | <u>1,581.30</u> |

|                   | <b>£ : p</b>    |
|-------------------|-----------------|
| Net goods price   | <b>2,420.50</b> |
| Add VAT @ 20%     | <b>484.10</b>   |
| Gross goods price | <u>2,904.60</u> |

|                   | <b>£ : p</b>    |
|-------------------|-----------------|
| Net goods price   | <b>6,012.50</b> |
| Add VAT @ 20%     | <b>1,202.50</b> |
| Gross goods price | <u>7,215.00</u> |

**Question 5.7**

Which **one** of the following forms is submitted to HMRC when making a payment of VAT, or reclaiming VAT?

|                       |   |
|-----------------------|---|
|                       | ✓ |
| <b>VAT 100</b>        | ✓ |
| <b>VAT Notice 700</b> |   |
| <b>VAT 1</b>          |   |

### Question 5.8

Identify whether **each** of the items on the following list would be subject to VAT at standard rate, reduced rate, zero rate or the item would be exempt for VAT:

| Item   | Standard rate<br>✓ | Reduced rate<br>✓ | Zero rate<br>✓ | Exempt from VAT<br>✓ |
|--|--------------------|-------------------|----------------|----------------------|
| Membership fees payable to a professional body |                    |                   |                | ✓                    |
| Children's car seats                           |                    | ✓                 |                |                      |
| Children's clothing                            |                    |                   | ✓              |                      |
| Domestic fuel or power                         |                    | ✓                 |                |                      |
| Chocolate biscuits                             | ✓                  |                   |                |                      |
| Postage stamps                                 |                    |                   |                | ✓                    |
| Books  |                    |                   | ✓              |                      |
| Take away meals                                | ✓                  |                   |                |                      |

### Question 5.9

A business invoices goods to a credit customer at a value of £12,500.00 (excluding VAT). The goods are a mixed supply of standard rated and zero rated goods. The net value of the zero rated goods invoiced is £4,200.00. The business offers the customer a settlement discount of 5% for payment of the invoice in 10 days, otherwise payment must be made in full in 30 days.

Given the above information which one of the following represents the VAT which should be charged on the invoice (assuming the standard rate of VAT to be 20%)?

|           |   |
|-----------|---|
|           | ✓ |
| £2,500.00 |   |
| £2,375.00 |   |
| £1,660.00 | ✓ |
| £1,577.00 |   |

### Question 5.10

Using appropriate words from the following list complete the gaps in the sentences below:

- cash accounting scheme
- misdeclaration penalties
- annual accounting scheme
- default surcharges
- flat rate scheme
- standard accounting scheme

1. The accounting scheme that allows a business to submit one VAT return each year is the **annual accounting scheme**.
2. The **cash accounting scheme** allows a business to account for VAT on based only on payments received and payments made in the VAT period
3. The **standard accounting scheme** requires a business to keep detailed VAT records and submit a quarterly VAT return
4. The penalty payments introduced by HMRC in an effort to get businesses to submit accurate VAT returns are known as **misdeclaration penalties**.

**Question 5.11**

A business is registered for VAT. Indicate whether the VAT element of **each** of the transactions listed in the table below would be recorded as a debit entry or credit entry in the VAT account kept by the business.

| <b>Transaction</b>                                   | <b>DR</b><br>✓ | <b>CR</b><br>✓ |
|--|----------------|----------------|
| <b>VAT on sales to credit customers</b>              |                | ✓              |
| <b>VAT on Purchases from credit suppliers</b>        | ✓              |                |
| <b>VAT on purchases returned to credit suppliers</b> |                | ✓              |
| <b>VAT on sales returned by credit customers</b>     | ✓              |                |
| <b>VAT on cash sales</b>                             |                | ✓              |
| <b>VAT on cash purchases</b>                         | ✓              |                |
| <b>VAT on payments of business expenses</b>          | ✓              |                |
| <b>VAT on the purchase of fixed assets</b>           | ✓              |                |