

PRACTICE QUESTIONS

In a VAT period, Mason Ltd. sells \$100,000 of goods excluding VAT. It purchases various goods and services for \$70,500 including VAT. The company also bought a machine for \$10,000 excluding VAT. All VAT is at 15% and is recoverable.

Use this information to tick the correct answers.

1. The output VAT, to the nearest \$1, posted to the VAT Account will be:

\$15,000 Debit	<input type="checkbox"/>
\$15,000 Credit	<input type="checkbox"/>
\$14,825 Debit	<input type="checkbox"/>
\$14,825 Credit	<input type="checkbox"/>

2. The input VAT, to the nearest \$1, posted to the VAT Account will be:

\$12,075 Debit	<input type="checkbox"/>
\$10,696 Debit	<input type="checkbox"/>
\$12,075 Credit	<input type="checkbox"/>
\$10,696 Credit	<input type="checkbox"/>

3. The Balance on the VAT Account will be:

\$15,000 Debit	<input type="checkbox"/>
\$ 4,304 Credit	<input type="checkbox"/>
\$14,825 Debit	<input type="checkbox"/>
\$ 2,750 Credit	<input type="checkbox"/>

ANSWERS

In a VAT period, Mason Ltd. sells \$100,000 of goods excluding VAT. It purchases various goods and services for \$70,500 including VAT. The company also bought a machine for \$10,000 excluding VAT. All VAT is at 15% and is recoverable.

1. The output VAT, to the nearest \$1, posted to the VAT Account will be:

Answer: $(\$100,000 \times 15\%)$

\$15,000 Debit	<input type="checkbox"/>
\$15,000 Credit	<input checked="" type="checkbox"/>
\$14,825 Debit	<input type="checkbox"/>
\$14,825 Credit	<input type="checkbox"/>

2. The input VAT, to the nearest \$1, posted to the VAT Account will be:

Answer: $(\$70,500 \times [15\%/1.15\%]) + (\$10,000 \times 15\%)$

\$12,075 Debit	<input type="checkbox"/>
\$10,696 Debit	<input checked="" type="checkbox"/>
\$12,075 Credit	<input type="checkbox"/>
\$10,696 Credit	<input type="checkbox"/>

3. The Balance on the VAT Account will be:

Answer: $(\$15,000 - \$10,696)$

\$15,000 Debit	<input type="checkbox"/>
\$ 4,304 Credit	<input checked="" type="checkbox"/>
\$14,825 Debit	<input type="checkbox"/>
\$ 2,750 Credit	<input type="checkbox"/>

EXERCISE 2

Today is September 17, 2014. The VAT was introduced in the Bahamas on July 1, 2014 at a standard rate of 15%.

Brown's Company Ltd is a registered person under the Bahamas VAT legislation. He was registered with effect from July 1, 2014. The Manager of the Company, Mr. Brown, has telephoned the CRA requesting that one of the officers visit the his office to assist him in completing the Company's VAT return for September 2014.

The Company is in the business of making taxable supplies, zero-rated supplies and exempt supplies.

Mr. Brown has the following information:

1. Taxable Cash Sales including VAT for the month of August 2014 was \$150,000
2. Taxable Credit Supplies made and invoiced in August 2014 including VAT was \$30,000
3. \$5,000 was received for supplies made in March 2014-No VAT was charged.
4. A Customer had given the Company \$3,000 in June 2014 to import a television for her. That television was imported and delivered to her in July 2014, however, the customer had already paid \$3,000 in June 2014 and therefore, no VAT was charged.
5. The exempt sales for the month of August were \$40,000.
6. Zero-rated sales for that month of August were \$10,000.
7. The Company paid \$1,000 VAT to BEC in respect of August 2014 electricity bill for the Company
8. In August 2014, the Company imported taxable goods paid \$40,000 VAT to the Comptroller of Customs.

9. In August, the Company paid \$10,000 VAT on domestic purchases in respect of taxable goods for resale.
10. The Company paid \$500 VAT to BTC for August 2014 office bill
11. In July 2014 the Company undercharged VAT on a VAT invoice to a registered person. Therefore in August 2014, the Company issued a debit note to that Customer. The VAT on the debit note is \$150.

How much is the tax liability or tax refund for that Company? Show the entire computation.

ANSWER

Standard Rated Sales	Incl.	Excl.	
(1) Cash Sales	\$150,000		
(2) Credit Sales	<u>\$ 30,000</u>		
Total Standard rated Supp.	\$180,000	\$156,521.74	
(6) Zero-rated Supplies		<u>\$ 10,000.00</u>	
Value of taxable Supp.			\$166,521.74
(5) Exempt supplies			<u>\$ 40,000.00</u>
Total Supplies for Aug.			\$206,521.74
Output Tax			
Standard rated supplies	\$23,478.26		(\$180,000 x [15%/1.15])
(11) Debit note	<u>\$ 150.00</u>		
Total output tax	\$23,628.26		
Input Tax			
(7) Electricity BEC	\$ 806.31		(\$1,000 X [\$166,521.74/206,521.74])
(8) Imports	\$40,000.00		
(9) Purch. For taxable sup.	\$10,000.00		
(10) Telephone	<u>\$ 403.16</u>		(\$500X [\$166,521.74/206,521.74])
Total input tax	\$51,209.47		
ANSWER:	Excess Credit	\$27,581.21	