

Introduction to Bookkeeping: Summary of corrections to course materials

These changes affect version V003 of the materials.

Course Notes & Questions

Page 57	VAT Rates We recently found out that you may be required to calculate VAT using the 5% reduced rate, as well as the standard 20% rate. The handout at the end of this errata sheet has now been incorporated into the notes in Chapter 2.
Pages 252, 253, 266, 268	Lecture example 6, Lecture example 7, Practice example 8, Practice example 10 Part (a) should say: What will be the entries in the subsidiary (<u>receivables</u>) ledger? (The receivables ledger was previously referred to as the sales ledger, but this terminology is now out of date.)

Task Bank & Mocks

No changes

AAT LEVEL 2

Introduction to Bookkeeping (ITBK)

Extra notes on VAT

Chapter 2 – VAT and discounts

VAT rates

The majority of goods and services are standard rated, meaning that VAT is applied at a rate of 20%.

It is worth being aware that there are other VAT rates that apply to some specific items. The various VAT rates are:

- Standard rate (20%) – Relevant to most goods and services.
- Reduced rate (5%) – Domestic fuel, child car seats.
- Zero rate (0%) – Non luxury food, books, children's clothes.
- Exempt (non-taxable i.e. no VAT added) – Postal services, insurance.

You will not be expected to know which rates are applicable to different types of goods and services, but you may be required to calculate net, VAT or gross figures using a different VAT rate, e.g. 5%.

Let's remind ourselves of how we calculated those figures using a 20% VAT rate:

	%	£
GROSS	120.0%	48.00
VAT	20.0%	8.00
NET	100.0%	40.00

To get the VAT:
 $£48.00 / 120 \times 20$
 Or net of $£40.00 \times 0.2$

To get the net value:
 $£48.00 / 120 \times 100$
 Or $£48.00 / 1.2$

We can follow the same logic using a 5% VAT rate as follows:

	%	£
GROSS	105.0%	42.00
VAT	5.0%	2.00
NET	100.0%	40.00

To get the VAT:
 $£42.00 / 105 \times 5$
 Or net of $£40.00 \times 0.05$

To get the net value:
 $£42.00 / 105 \times 100$
 Or $£42.00 / 1.05$

Zero-rated or exempt transactions will always have £0 of VAT, so the net and the gross amounts will be the same.

Let's practice some more calculations using the 5% reduced rate of VAT:

PRACTICE QUESTION 1

Complete the following by calculating the NET, VAT and GROSS amounts as appropriate.

Rate of VAT	NET £	VAT £	GROSS £
5% reduced rate	880.00		
5% reduced rate		50.00	
5% reduced rate			33,600.00

PRACTICE QUESTION 2

Complete the following by calculating the NET, GROSS and VAT amounts as appropriate.

Rate of VAT	NET £	VAT £	GROSS £
5% reduced rate	750.00		
5% reduced rate		85.00	
5% reduced rate			50,400.00

Summary:

	If you have the NET amount	If you have the VAT amount	If you have the GROSS amount
Standard-rated: How to calculate the VAT	$\times (20/100)$	Already have this	$\times (20/120)$
Standard-rated: How to calculate the NET	Already have this	$\times (100/20)$	$\times (100/120)$
Standard-rated: How to calculate the GROSS	$\times (120/100)$	$\times (120/20)$	Already have this
Reduced rate: How to calculate the VAT	$\times (5/100)$	Already have this	$\times (5/105)$
Reduced rate: How to calculate the NET	Already have this	$\times (100/5)$	$\times (100/105)$
Reduced rate: How to calculate the GROSS	$\times (105/100)$	$\times (105/5)$	Already have this

ASSESS SMART

Find a method that works best for you and then stick to it!

Solutions:

PRACTICE QUESTION 1 - SOLUTION

Complete the following by calculating the NET, VAT and GROSS amounts as appropriate.

Rate of VAT	NET £	VAT £	GROSS £
5% reduced rate	880.00	44.00 $880 \times 5/100$	924.00 $880 \times 105/100$
5% reduced rate	1,000.00 $50 \times 100/5$	50.00	1,050.00 $50 \times 105/5$
5% reduced rate	32,000.00 $33,600 \times 100/105$	1,600.00 $=33,600 \times 5/105$	33,600.00

PRACTICE QUESTION 2 - SOLUTION

Complete the following by calculating the NET, GROSS and VAT amounts as appropriate.

Rate of VAT	NET £	VAT £	GROSS £
5% reduced rate	750.00	37.50 $750 \times 5/100$	787.50 $750.00 \times 105/100$
5% reduced rate	1,700.00 $85 \times 100/5$	85.00	1,785.00 $85 \times 105/5$
5% reduced rate	48,000.00 $50,400 \times 100/105$	2,400.00 $50,400 \times 5/105$	50,400.00