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	Lecture example 6, Lecture example 7, Practice example 8, Practice example 10			
252,	Part (a) should say:			
253,	What will be the entries in the subsidiary (<u>receivables</u>) ledger?			
266,				
268	(The receivables ledger was previously referred to as the sales ledger, but this terminology is now out of date.)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

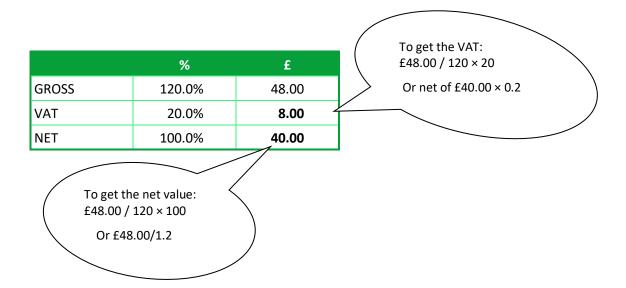
The majority of goods and services are standard rated, meaning that VAT is applied at a rate of 20%.

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:



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

	%	£	To get the VAT: £42.00 / 105 × 5
ROSS	105.0%	42.00	Or net of £40.00 × 0.05
/AT	5.0%	2.00	_
IET	100.0%	40.00	
£42.0	et the net value: 00 / 105 × 100 £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	x (20/100)	Already have this	x (20/120)
Standard-rated: How to calculate the NET	Already have this	x (100/20)	x (100/120)
Standard-rated: How to calculate the GROSS	x (120/100)	x (120/20)	Already have this
Reduced rate: How to calculate the VAT	x (5/100)	Already have this	x (5/105)
Reduced rate: How to calculate the NET	Already have this	x (100/5)	x (100/105)
Reduced rate: How to calculate the GROSS	x (105/100)	x (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 x 5/100	924.00 880 x 105/100
5% reduced rate	1,000.00 50 x 100/5	50.00	1,050.00 50 x 105/5
5% reduced rate	32,000.00 33,600 x 100/105	1,600.00 =33,600 x 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 x 5/100	787.50 750.00 x 105/100
5% reduced rate	1,700.00 85 x 100/5	85.00	1,785.00 85 x 105/5
5% reduced rate	48,000.00 50,400 x 100/105	2,400.00 50,400 x 5/105	50,400.00

