



VAT in EXACT 2007/2008

We have noticed that many book-keepers make it very difficult for themselves and others to reconcile certain accounts because of the way that they structure the cashbook or chart of accounts.

This applies particularly to the VAT account where, we have seen that many book-keepers or accountants put all VAT transactions into a single account, making it extremely laborious to check whether a transaction has been posted correctly or not.

In order to run VAT correctly within EXACT or ALCHEMIST it is essential that the following setup methods should be employed:

You will need a minimum of the following ledger accounts:

- Vat Input - from purchases
- Vat Output - from sales
- Vat on Settlement Discount Allowed to Customers
- Vat on Settlement Discount Received from Suppliers
- Vat Paid to SARS

You may also require further accounts, for example, for Vat Liability brought forward, VAT on capital goods and/or Vat Penalties and interest.

If you are running a cashbook with groups, you may make a header account with sub accounts, thus:

930.* VAT CONTROL ACCOUNT

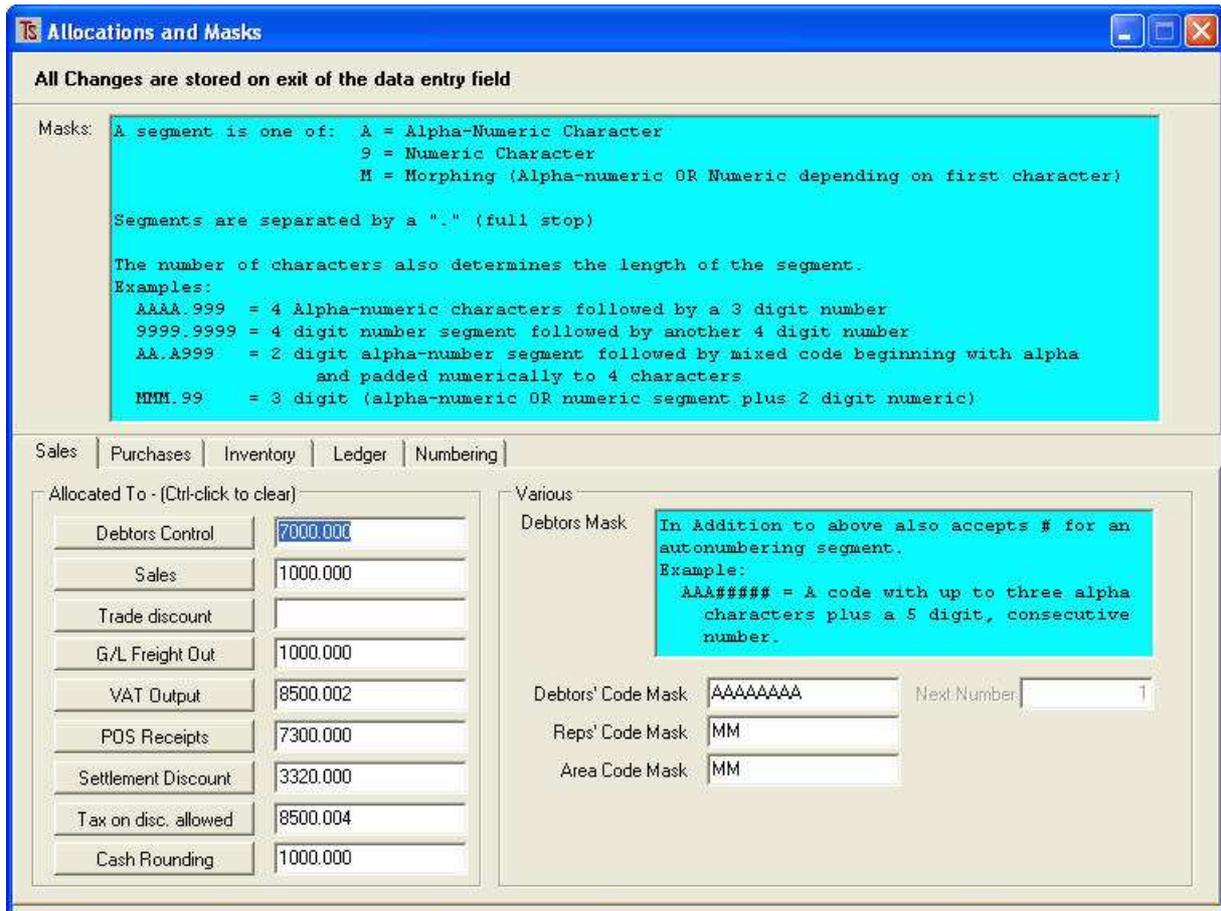
- 930.001 VAT Input
- 930.002 VAT Output
- 930.003 Vat on Settlement Discount Allowed to Customers
- 930.004 Vat on Settlement Discount Received from Suppliers
- 930.005 Vat Paid to SARS

Or:

- VAT.***
- VAT.001
- VAT.003, etc.

It should be noted that the cashbook automatically extracts the VAT content of the cost of items bought for cash, whether with a cheque or with petty cash, and will do the same for cash sales. This is why the accounts must be set up properly in the system as shown below:

However you choose to set-up your VAT accounts in the General Ledger it is important that under: [\[System Control\]\[Maintenance\]\[Allocations\]](#) (shown below) (The tabs [\[Sales\]](#), [\[Purchases\]](#), [\[Inventory\]](#) and [\[Ledger\]](#)) the correct allocations for the VAT accounts are inserted.



The VAT reports will not work correctly if all VAT transactions are posted into the same account. You must have a separate account, or sub account that is reserved for VAT PAYMENTS.

You may set your ledger up so that all of the VAT accounts are part of the same group, under one header account, but then **all of the accounts must be of the same type as the header account** (*usually a short-term liability in the case of VAT accounts*) and the correct sub account for **VAT Paid** under : [\[System Control\]\[Maintenance\]\[Allocations\]\[Ledger\]\[Vat Paid\]](#) must be entered. (shown below)

Allocations and Masks

All Changes are stored on exit of the data entry field

Masks: A segment is one of: A = Alpha-Numeric Character
 9 = Numeric Character
 M = Morphing (Alpha-numeric OR Numeric depending on first character)

Segments are separated by a "." (full stop)

The number of characters also determines the length of the segment.

Examples:
 AAAA.999 = 4 Alpha-numeric characters followed by a 3 digit number
 9999.9999 = 4 digit number segment followed by another 4 digit number
 AA.A999 = 2 digit alpha-number segment followed by mixed code beginning with alpha
 and padded numerically to 4 characters
 MMM.99 = 3 digit (alpha-numeric OR numeric segment plus 2 digit numeric)

Sales | Purchases | Inventory | Ledger | Numbering

Allocated To - (Ctrl-click to clear)

Profit and Loss	5100.000
Interest Charged	2600.000
Interest Payable	3800.000
Post-Dated Cheques	
Taxation	4613.000
VAT paid	8500.005

Various

Ledger Code Mask: MMMM.MMM

Header A/C:

Note on Account Types: These determine whether an account is a balance sheet item or not. The account type also determines where the account is printed on the income statement or the balance sheet. Balance-sheet items are carried forward at year-end, non balance sheet items are zeroed.

Operation of the VAT Accounts

1] Before you produce your VAT reports you must ensure that all of the customers' invoices and all of the suppliers' invoices have been processed.

Preferably any journal entries effecting VAT accounts should also have been processed.

2] The VAT report should then be produced and examined carefully. **Vat on discount allowed or received is currently not taken into consideration on this report and therefore will have to be considered separately.**

This may be done by printing a detailed transaction report for the vat period from the relevant ledger account (or viewing it on the screen), checking to see if the transactions are correct and then making the necessary adjustments to your return.

3] The sales reported on the VAT report should agree with the Sales in the general Ledger. It should be borne in mind that the programme processes discounts on a line by line basis, therefore there may be an error of a few cents on these accounts.

The report should be examined for entries where input VAT has been claimed on non-vatable items, such as vehicle fuel.

4] It is suggested that the VAT report be run and examined **monthly**, especially in those companies with a lot of transactions. This will ensure that, in the event of a discrepancy fewer transactions will need to be examined than if the report is only produced at the end of a two month VAT period.

If a discrepancy is discovered, the best way to pin it down is to examine a VAT report for smaller and smaller periods until the transaction causing the discrepancy can be found. In other words, look at a month, then at each two week period in the month, then for a week, then for a period of three days within the week that has the suspected fault, etc..

5] Finally, once you have submitted your returns to SARS, **close the ledger period!**

This will ensure that no unauthorized person posts a transaction that affects the VAT into an earlier period for which you have submitted your returns.

The receiver is not impressed if he finds that you have submitted a return with one set of numbers on it, but when he checks your books for the same period, he finds completely different numbers!

While checking output VAT is easy, this is not the case with input VAT because input VAT can be posted from various places, and probably many more accounts.

Payments made may or may not have VAT content, depending on what is paid. This is determined by the relevant setting in the account.

Special Cases

Companies that import goods, and where shipping agents are involved, often receive invoices where an item is VAT only, the actual goods received having been processed at a zero rate when stock was updated.

The VAT portion of such invoices needs to be posted **directly** to the appropriate VAT account, which will mark the transaction as being VAT only. Any posting of an amount to a VAT account as per setup above will deal with VAT only; the transaction is 100% VAT in itself.

Note that the VAT account must be set up to receive postings from Purchasing, as shown in the red outline area of the following screen shot of a Ledger account:

Go to [\[General Ledger\]](#)[\[Maintenance\]](#)[\[Accounts\]](#) call up the account and click on the [\[Setup\]](#) tag.

ACCOUNT

Locate [Navigation Buttons]

Account: 8500.001 Name: VAT INPUT - PURCHASES Make Budgets

Current Balance 9,050.00

Transactions | Periods | Budget | Periods (Last Year) | **Setup**

Account Type: Assets

Consolidate into Balance Sheet Total: []

Include/Exclude Postings to this Account from Sales Rep's Commission Report
 Tick To Exclude

Account Accepts Postings From
 Sales
 Contributes To Turnover
 Purchasing

Tax Rate for Direct Payments In G/L
 14.00 %
 00.00 %
 100.00 %

Sales to export accounts are redirected to
 Locate []

Set up suppliers correctly

The easiest way to process the VAT correctly in this case is to have the Freight agent in your records as a supplier.

When you get an invoice from them for duty, freight, VAT, etc., process their invoice in the normal way, but post the VAT to the relevant VAT account, as shown in the example below.

Item	Name	Inv Qty	U	Inv Price	Addit. Cost	Disc. %	Excl Value	G/L Code	Tax %	Vat Value	ETA
	VAT ON SHIPMENT	1.00		3,000.0000	0.0000	0.00	0.00	8500.001	100.00	3,000.00	
	FREIGHT ON SHIPMENT	1.00		2,000.0000	0.0000	0.00	2,000.00	1900.010	14.00	280.00	
X	DUTY	1.00		1,000.0000	0.0000	0.00	1,000.00	1900.010	14.00	140.00	

You will notice that the rate for the VAT changes to 100% when items are posted directly to this account.

If your accounts are set up as above, and the transactions are posted to the correct ledger accounts you will have no problem getting your VAT reports to function correctly and give you accurate figures.

Anomalies

There is only one area where some intervention may be required, and that is with VAT on Settlement discount where your company purchases non-vatable items on invoices that also contain vatable items. If, for example, you process a payment to a supplier who has sent you an invoice for Cobalt Sulphate (Vatable) and Illuminating Paraffin (non Vatable) and you decide to take a 5% settlement discount on the whole invoice, how is the system to know what the VAT content is in the discount you are claiming?

The figures would have to be adjusted by a journal.