



Mock Exam One

AAT L3 Indirect Tax

(For assessments from January 2021)

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This practice assessment is ONE of a set of FIVE AAT mock practice assessments which have been published for this subject. They are produced by expert AAT tutors to ensure real AAT exam style and real AAT exam standard tasks and ensure the best chance of success.

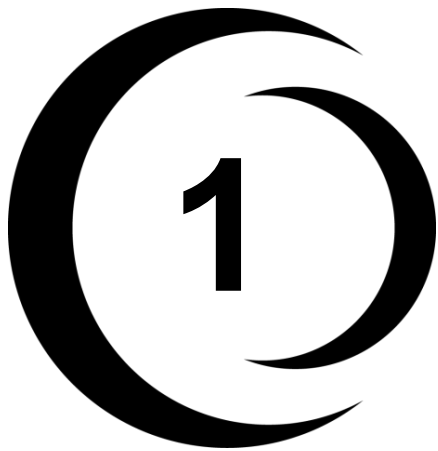
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For feedback please contact our team aatlivelearning@gmail.com



Mock Exam One

AAT L3 Indirect Tax

Assessment information:

You have **90 minutes** to complete this practice assessment.

This assessment contains **8 tasks** and you should attempt to complete every task. Each task is independent. You will not need to refer to your answers to previous tasks. Read every task carefully to make sure you understand what is required.

Where the date is relevant, it is given in the task data.

Never use minus signs or brackets to indicate negative numbers **unless** task instructions say otherwise.

You must use a full stop to indicate a decimal point.
For example, write 100.57 not 100,57 or 100 57

You may use a comma to indicate a number in the thousands, but you don't have to.
For example, 10000 and 10,000 are both acceptable.

If your answer requires rounding, apply normal mathematical rounding rules unless the task instructions say otherwise. If your answer is a calculation of VAT and requires rounding, apply the relevant VAT rounding rules.

You should use a copy of the AAT's VAT reference data when attempting this practice exam. VAT reference data will be provided during your real exam assessment and can be viewed at any time by clicking on blue links that list different VAT subjects to refer to and help answer task requirements. A PDF copy is available on the AAT websites lifelong learning portal, or we can e-mail you a copy.

Task 1 (8 marks)

(a) A business is not sure whether a supply of goods is zero rated or standard rated, to find out the answer the business should first.

(2 marks)

Look up the answer on the HMRC website

Contact the VAT Enquires Helpline

Write a letter to HMRC

(b) Identify what type of software is a digital tool that acts as the middleman between other applications and the HMRC portal for submitting VAT returns online.

(2 marks)

Bridging software

MTD-compatible software

Electronic invoicing

Accounting software

A wholesaler buys a good for £3,000 plus VAT of £600 and then sells the good to a retailer for £7,000 plus VAT of £1,400. The retailer sells the good for £15,000 plus VAT of £3,000 to a non-VAT registered business. Both the wholesaler and retailer are a VAT registered business. The rate of VAT is 20%.

(c) Calculate the cost to each of the parties for the £3,000 VAT received by HMRC. If your answer is zero, enter '0'.

(3 marks)

Cost to the wholesaler

£

Cost to the retailer

£

Cost to the non-VAT registered business

£

(d) Which of the following is a non-taxable supply.

(1 mark)

Zero-rated sales

Reduced rate sales

Exempt sales

Standard rated sales

End of Task

Task 2 (9 marks)

A business sells both taxable and non-taxable goods and has input VAT which it wants to reclaim for its VAT return. Input VAT in connection with taxable and non-taxable sales include the following:

	Input VAT
Standard Rated Supplies	£8,000
Zero Rated Supplies	£20,000
Exempt Supplies	£12,000

Input tax in relation to exempt supplies made is more than the de minimis amount.

(a) Complete the following statement.

(1 mark)

The amount of input VAT that can be reclaimed by the business is 

Picklist: All of it, Some of it, None of it.

A business failed to register for VAT when it was required to do so. During the period that it should have been registered for VAT is made standard rated sales of £36,000.

(b)(i) If the business chooses to treat the invoices as VAT inclusive and absorb the VAT which should have been charged the VAT amount would be:

(1 mark)

£

(b)(ii) If the business chooses to recover the VAT from its customers, the VAT amount would be:

(1 mark)

£

(b)(iii) Complete the following sentence.

(1 mark)

The business may face a  because it did not register for VAT when it is was required to do so.

Picklist: Prison sentence, Civil penalty, Criminal prosecution.

(c) Identify whether the following documents are valid or not valid when accounting for VAT on a VAT Return.

(3 marks)

	Valid	Not valid
A simplified invoice	<input type="checkbox"/>	<input type="checkbox"/>
A pro-forma invoice	<input type="checkbox"/>	<input type="checkbox"/>
A credit or debit note	<input type="checkbox"/>	<input type="checkbox"/>

Goods were collected by a customer on 7 June 20X9. The business invoiced the customer for the goods on 5 May 20X9. Payment for the goods was made by the customer on 7 May 20X9.

(d) Identify the correct VAT Return when the transaction should be included.

(2 marks)

VAT Return quarter ending 30 November 20X8

VAT Return quarter ending 28 February 20X9

VAT Return quarter ending 31 May 20X9

VAT Return quarter ending 31 August 20X9

End of Task

Task 3 (5 marks)

A business is preparing its VAT return for the quarter ended 30 June 20X2. The following transactions were recorded in the previous three months.

- Sales invoices £340,000 plus VAT.
- Payments received from customers £310,000 plus VAT.
- Purchases invoices £80,000 plus VAT.
- Payments made to suppliers £60,000 plus VAT.

(a) Based only on the information above for the current VAT Return, is the business better off using the cash accounting scheme. 

(2 marks)

Picklist: Yes, No, Not possible to tell from the information.

(b) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
Whenever a vehicle is used for business purposes, the business can reclaim the input VAT it has paid on repairs and maintenance.	<input type="checkbox"/>	<input type="checkbox"/>
A business can reclaim all input VAT paid on fuel if vehicles are used 100% for business purposes.	<input type="checkbox"/>	<input type="checkbox"/>
Detailed records of business and private mileage must be kept, when fuel scale charges are used to work out how much VAT is reclaimed.	<input type="checkbox"/>	<input type="checkbox"/>

End of Task

Task 4 (9 marks)

A business submits its VAT Return late and has submitted its previous two VAT Returns late to HMRC.

(a) Which one of the following statements is most likely correct.

(2 marks)

The business would incur a surcharge

A Surcharge Liability Notice would be issued by HMRC

A surcharge is only issued by HMRC if the businesses VAT return is late again

No action would be taken by HMRC

A business has discovered an error from a previous VAT Return.

(b) Identify for each of the circumstances explained below, whether the error can be corrected by adjusting the current VAT Return of the business (method 1), or whether the business would need to make a separate declaration to HMRC's VAT Error Correction Team in writing about the mistake (method 2).

(3 marks)

	Method 1	Method 2
A careless error made of £55,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.	<input type="checkbox"/>	<input type="checkbox"/>
A deliberate error made of £24,000. The total sales of the business included in box 6 of its current VAT Return is £1.2 million excluding VAT.	<input type="checkbox"/>	<input type="checkbox"/>
A careless error made of £45,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.	<input type="checkbox"/>	<input type="checkbox"/>

An AAT student is asked to prepare a VAT Return for her close friends building business that the friend and two other partners own. The AAT student does not have the necessary experience, but the friend still wants her to prepare the VAT Return anyway and help save money for the business.

(c) Which ONE of the following is the most likely action the AAT student should take.

(2 marks)

To accept the task assigned because the client is a close friend.

To accept the task assigned but make it known to the friend that the student does not possess the necessary experience to carry out the task assigned.

To reject the task assigned but help the friend obtain competitive quotes from a qualified accountancy practice to carry out the work.

A business made a non-careless and non-deliberate error on a previous VAT Return.

- VAT of £128 on an invoice to a UK customer was omitted in the accounting records.
- VAT of £15 on a credit note to a UK customer was duplicated in the accounting records.

The business is allowed to correct the net error on its current VAT Return.

(d) Which one of the following corrections should the business make in Box 1 of its current VAT Return.

(2 marks)

Add £113

Add £143

Deduct £113

Deduct £143

End of Task

Task 5 (7 marks)

A business recorded an invoice sent to a customer showing VAT of £1,270, the correct VAT amount that should have been recorded was £1,207. Currently the business's VAT account shows output tax of £6,230 and input tax of £1,380.

(a) Identify which of the following figures will be shown in the business's VAT account when the error has been corrected.

(2 marks)

Input tax £1,317	<input type="checkbox"/>
Input tax £1,443	<input type="checkbox"/>
Output tax £6,293	<input type="checkbox"/>
Output tax £6,167	<input type="checkbox"/>

(b) Identify which one of the accounting records would not be relevant when completing a VAT Return.

(1 mark)

Wages control account	<input type="checkbox"/>
VAT control account	<input type="checkbox"/>
Sales account	<input type="checkbox"/>

A business sold standard rated goods for £500 plus VAT to a UK customer. Payment terms offered a 2% discount if the customer paid within 7 days of the invoice date. The invoice amount did not include a deduction for the 2% discount. The customer paid the invoice within 5 days of the invoice date.

(c) Identify what the business must do.

(2 marks)

Issue an VAT invoice for the 2% discount

Issue a VAT credit note for the 2% discount

Reissue a VAT invoice for the full amount before the 2% discount

Take no further action

A manufacturer sells an item to a customer for £41.13 plus VAT.

(d) Calculate the total VAT payable that would be shown on a VAT invoice.

(2 marks)

£

End of Task

Task 6 (7 marks)

You need to prepare selected figures for a business's VAT Return for the period ended 31 December. The following accounts have been extracted from the ledgers.

Sales account

Date	Details	Debit £	Date	Details	Credit £
1/10-31/12	Sales returns day book - UK	655.55	1/10-31/12	Sales day book - UK	51,522.90
31/12	Balance c/d	53,367.35	1/10-31/12	Cash book - UK sales	2,500.00
	Total	54,022.90		Total	54,022.90

Purchases account

Date	Details	Debit £	Date	Details	Credit £
1/10-31/12	Purchases day book - UK purchases	41,522.81	1/10-31/12	Purchases returns day book - UK	3,551.22
			31/12	Balance c/d	37,971.59
	Total	41,522.81		Total	41,522.81

VAT account

Date	Details	Debit £	Date	Details	Credit £
1/10-31/12	Sales returns day book - UK sales	131.11	1/10-31/12	Purchases returns day book - UK purchases	710.24
1/10-31/12	Purchases day book - UK purchases	8,304.56	1/10-31/12	Sales day book - UK sales	10,304.58
			1/10-31/12	Cash book - UK sales	500.00

The following errors and omissions have been discovered from a previous VAT Return.

- VAT of £128 on a sales invoice to a UK customer was included twice in the accounting records of the business.
- VAT of £34 on a credit note to a UK customer was omitted from the accounting records of the business.

The business is able to correct the above errors and omissions on the current VAT Return.

(a) Calculate the figure that should be included in box 1 of the VAT Return, once any necessary corrections have been made to the ledger accounts. Enter your figure in pounds sterling, including pence.

(5 marks)

£

(b) Calculate the figure that should be included in box 4 of the VAT Return, once any necessary corrections have been made to the ledger accounts. Enter your figure in pounds sterling, including pence.

(2 marks)

£

End of Task

Task 7 (17 marks)

A business has voluntarily registered for VAT but has not registered for Making Tax Digital. You need to prepare all the figures for completion of its on-line VAT Return for the period ended 30 April.

The following accounts have been extracted from the ledgers.

Sales account

Date	Details	Debit £	Date	Details	Credit £
30/4	Balance c/d	108,663.09	1/2-30/4	Sales day book - UK sales	90,972.12
			1/2-30/4	Sales day book - EU Dispatches	12,390.00
			1/2-30/4	Cash book - UK sales	5,300.97
	Total	108,663.09		Total	108,663.09

Purchases account

Date	Details	Debit £	Date	Details	Credit £
1/2-30/4	Purchases day book UK purchases	- 109,922.82	30/4	Balance c/d	117,004.60
1/2-30/4	Cash book UK purchases	- 7,081.78			
	Total	117,004.60		Total	117,004.60

VAT account

Date	Details	Debit £	Date	Details	Credit £
1/2-30/4	Purchases day book - UK purchases	21,984.56	1/2-30/4	Sales day book - UK sales	18,194.42
1/2-30/4	Cash book - UK purchases	1,416.35	1/2-30/4	Cash book - UK sales	1,060.19

You are told that all EU Dispatches were zero-rated goods.

**(a) Enter the relevant figures into the on-line VAT Return for the period ended 30 April.
Do not leave any box blank.**

(13 marks)

On-line VAT Return for period ended 30 April	
Please note: Enter values in pounds sterling, including pence, for example 1000.00, except where indicated.	
VAT due in this period on sales and other outputs (Box 1)	<input type="text"/>
VAT due in this period on acquisitions from other EC member states (Box 2)	<input type="text"/>
Total VAT due (the sum of boxes 1 and 2) (Box 3)	Calculated value
VAT reclaimed in the period on purchases and other inputs (including acquisitions from the EC) (Box 4)	<input type="text"/>
Net VAT to be paid to HM Revenue & Customs or reclaimed by you (difference between boxes 3 and 4) (Box 5)	Calculated value
Total value of sales and all other outputs excluding any VAT. Include your Box 8 figure. (Box 6)	<input type="text"/> <small>Enter values in whole pounds only</small>
Total value of purchases and all other inputs excluding any VAT. Include your Box 9 figure. (Box 7)	<input type="text"/> <small>Enter values in whole pounds only</small>
Total value of all supplies of goods and related costs, excluding any VAT, to other EC member states (Box 8)	<input type="text"/> <small>Enter values in whole pounds only</small>
Total value of all acquisitions of goods and related costs, excluding any VAT, to other EC member states (Box 9)	<input type="text"/> <small>Enter values in whole pounds only</small>

(b) Calculate the values that will be shown on-line when you submit the VAT Return for the following boxes. If a repayment is due, use a minus sign in Box 5. Enter the values in pounds sterling, including pence.

(4 marks)

Total VAT due (the sum of boxes 1 and 2) (Box 3)

Net VAT to be paid to HM Revenue & Customs or reclaimed by you (difference between boxes 3 and 4) (Box 5)

End of Task
=====

Task 8 (8 marks)

You work for a business and have just submitted its on-line VAT Return. The business pays HMRC any VAT due by Direct Debit. Today's date is Wednesday 24 April, there are no bank holidays in April or May. The following information has been submitted on-line for its VAT Return.

On-line VAT Return for period ended 31 March	
VAT due in this period on sales and other outputs (Box 1)	11200.00
VAT due in this period on acquisitions from other EC member states (Box 2)	1800.00
Total VAT due (the sum of boxes 1 and 2) (Box 3)	Calculated value
VAT reclaimed in the period on purchases and other inputs (including acquisitions from the EC) (Box 4)	8464.58
Net VAT to be paid to HM Revenue & Customs or reclaimed by you (difference between boxes 3 and 4) (Box 5)	Calculated value
Total value of sales and all other outputs excluding any VAT. Include your Box 8 figure. (Box 6)	56000
Total value of purchases and all other inputs excluding any VAT. Include your Box 9 figure. (Box 7)	42323
Total value of all supplies of goods and related costs, excluding any VAT, to other EC member states (Box 8)	0
Total value of all acquisitions of goods and related costs, excluding any VAT, to other EC member states (Box 9)	9000

(a) Complete the following e-mail to the finance manager of the business.

(6 marks)

To: Finance Manager
From: Accounting Technician
Date: Wednesday 24 April
Subject: Completed VAT Return

Please be advised that the VAT Return for the period ended 31 March has been completed.

The amount of VAT will be £

Picklist: Payable, Reclaimable.

Please allow sufficient funds to permit HMRC to direct debit our account on

Picklist: Tuesday 30 April, Tuesday 7 May, Friday 10 May.

Kind regards,
Accounting Technician

The purchases manager has called you and has a VAT query. The business is buying goods from a supplier in an EU member state and a non-EU member state, the purchases manager has queried whether VAT is applicable and if so at what rate and how to account for it. You feel that the query from the purchases manager is beyond your current level of expertise.

(b) Identify which one of the following would not be an appropriate response to the purchases manager.

(2 marks)

Respond that I don't know the answer to this query and I will refer this to my line manager

The rate of VAT is normally 20%, so advise the purchases manager about this information

Respond that I cannot provide advice without instruction from someone who is competent

End of Task



Mock Exam One

- Solutions

AAT L3 Indirect Tax

Task 1 (8 marks)

(a) A business is not sure whether a supply of goods is zero rated or standard rated, to find out the answer the business should first.

(2 marks)

A business is not sure whether a supply of goods is zero rated or standard rated, to find out the answer the business should first.

Look up the answer on the HMRC website



Contact the VAT Enquires Helpline

Write a letter to HMRC

(b) Identify what type of software is a digital tool that acts as the middleman between other applications and the HMRC portal for submitting VAT returns online.

(2 marks)

Bridging software



MTD-compatible software

Electronic invoicing

Accounting software

A wholesaler buys a good for £3,000 plus VAT of £600 and then sells the good to a retailer for £7,000 plus VAT of £1,400. The retailer sells the good for £15,000 plus VAT of £3,000 to a non-VAT registered business. Both the wholesaler and retailer are a VAT registered business. The rate of VAT is 20%.

(c) Calculate the cost to each of the parties for the £3,000 VAT received by HMRC. If your answer is zero, enter '0'.

(3 marks)

Cost to the wholesaler

£0.

Cost to the retailer

£0.

Cost to the non-VAT registered business

£3,000.

VAT is collected and administered by a VAT registered business, but it is ultimately suffered by the general public or a non-VAT registered business who is not able to reclaim back VAT they have suffered.

(d) Which of the following is a non-taxable supply.

(1 mark)

Zero-rated sales

Reduced rate sales

Exempt sales

Standard rated sales

Task 2 (9 marks)

(a) Complete the following statement.

(1 mark)

The amount of input VAT that can be reclaimed by the business is **Some of it**.

A business that is registered for VAT but that makes some exempt supplies is referred to as partly exempt. If the amount of input tax incurred relating to exempt supplies is below the minimum 'de minimus' amount, input tax can be reclaimed in full. If the amount of input tax incurred relating to exempt supplies is above the 'de minimus' amount, only the part of the input tax that relates to taxable (standard rated and zero rated) supplies can be reclaimed.

A business failed to register for VAT when it was required to do so. During the period that it should have been registered for VAT is made standard rated sales of £36,000.

(b)(i) If the business chooses to treat the invoices as VAT inclusive and absorb the VAT which should have been charged the VAT amount would be:

(1 mark)

£6000.

Standard rated sales $£36,000 \div 120\% \times 20\% = £6,000$ VAT.

(b)(ii) If the business chooses to recover the VAT from its customers, the VAT amount would be:

(1 mark)

£7200.

Standard rated sales $£36,000 \div 100\% \times 20\% = £7,200$ VAT.

(b)(iii) Complete the following sentence.

(1 mark)

The business may face a **Civil penalty** because it did not register for VAT when it was required to do so.

(c) Identify whether the following documents are valid or not valid when accounting for VAT on a VAT Return.

(3 marks)

	Valid	Not valid
A simplified invoice	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A pro-forma invoice	<input type="checkbox"/>	<input checked="" type="checkbox"/>
A credit or debit note	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(d) Identify the correct VAT Return when the transaction should be included.

(2 marks)

VAT Return quarter ending 30 November 20X8	<input type="checkbox"/>
VAT Return quarter ending 28 February 20X9	<input type="checkbox"/>
VAT Return quarter ending 31 May 20X9	<input checked="" type="checkbox"/>
VAT Return quarter ending 31 August 20X9	<input type="checkbox"/>

- Date of supply 7 June 20X9.
- Date of invoice 5 May 20X9.
- Date of payment 7 May 20X9.

The earliest date shown above is the date of invoice on 5 May 20X9 which is therefore the actual tax point. 5 May 20X9 determines the correct VAT Return period to account for the VAT which would be the quarter ending 31 May 20X9.

Task 3 (5 marks)

A business is preparing its VAT return for the quarter ended 30 June 20X2. The following transactions were recorded in the previous three months.

- Sales invoices £340,000 plus VAT.
- Payments received from customers £310,000 plus VAT.
- Purchases invoices £80,000 plus VAT.
- Payments made to suppliers £60,000 plus VAT.

(a) Based only on the information for the current VAT Return above, is the business better off using the cash accounting scheme. Yes.

(2 marks)

Standard VAT accounting

- Sales invoices £340,000 x 20% VAT = £68,000.
- Purchases invoices £80,000 x 20% VAT = £16,000.
- VAT payable £52,000 (£68,000 - £16,000).

Cash accounting for VAT

- Payments received from customers £310,000 x 20% VAT = £62,000.
- Payments made to suppliers £60,000 x 20% VAT = £12,000.
- VAT payable £50,000 (£62,000 - £12,000).

The business would be £2,000 (£52,000 - £50,000) better off in cash-flow, if it joined the cash accounting scheme.

(b) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
Whenever a vehicle is used for business purposes, the business can reclaim the input VAT it has paid on repairs and maintenance.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A business can reclaim all input VAT paid on fuel if vehicles are used 100% for business purposes.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Detailed records of business and private mileage must be kept, when fuel scale charges are used to work out how much VAT is reclaimed.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

One of the merits of using fuel scale charges to work out how much VAT is reclaimed is that detailed records of business and private mileage do not need to be kept.

Task 4 (9 marks)

(a) Which one of the following statements is most likely correct.

The business would incur a surcharge



A Surcharge Liability Notice would be issued by HMRC

A surcharge is only issued by HMRC if the businesses VAT return is late again

No action would be taken by HMRC

A business may enter a 12-month 'surcharge period' if it defaults. The first default is dealt with by a warning known as a 'Surcharge Liability Notice'. This notice tells the business that if it submits its return or pays its VAT late again ('defaults') during the 12-month period (the surcharge period) then it may incur a surcharge.

If the business defaults again during the 12 months period, the surcharge period will be extended by a further 12 months and the business may have to pay a 'surcharge'. The surcharge is a percentage of the VAT outstanding on the due date for the accounting period that was in default. The surcharge percentage increases every time the business defaults in a surcharge period.

(b) Identify for each of the circumstances explained below, whether the error can be corrected by adjusting the current VAT Return of the business (method 1), or whether the business would need to make a separate declaration to HMRC's VAT Error Correction Team in writing about the mistake (method 2).

	Method 1	Method 2
A careless error made of £55,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
A deliberate error made of £24,000. The total sales of the business included in box 6 of its current VAT Return is £1.2 million excluding VAT.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
A careless error made of £45,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- **A careless error made of £55,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.**

The error is non-deliberate so the error reporting threshold may apply.

Error reporting threshold is the greater of:

- £10,000, or
- 1% of £6,000,000 (box 6 amount) on the current VAT Return. $£6,000,000 \div 100\% \times 1\% = £60,000$ (subject to an upper limit of £50,000).

The greater of the two amounts above is £60,000 (not £10,000). However, the £60,000 has an upper limit of £50,000. The error reporting threshold is therefore £50,000.

The net value of all errors is £55,000 and is above the threshold of £50,000 therefore the business must separately declare to HMRC the errors and omissions and not make an adjustment on its current VAT Return (method 2).

- **A deliberate error made of £24,000. The total sales of the business included in box 6 of its current VAT Return is £1.2 million excluding VAT.**

The correction of deliberate inaccuracies must always be reported to HMRC's VAT Error Correction Team (method 2), regardless of the error reporting threshold.

- **A careless error made of £45,000. The total sales of the business included in box 6 of its current VAT Return is £6 million excluding VAT.**

The error is non-deliberate so the error reporting threshold may apply.

Error reporting threshold is the greater of:

- £10,000, or
- 1% of £6,000,000 (box 6 amount) on the current VAT Return. $£6,000,000 \div 100\% \times 1\% = £60,000$ (subject to an upper limit of £50,000).

The greater of the two amounts above is £60,000 (not £10,000). However, the £60,000 has an upper limit of £50,000. The error reporting threshold is therefore £50,000.

The net value of all errors is £45,000 and is below the threshold of £50,000 therefore method 1 can be used, and the errors corrected by making an adjustment on the current VAT Return.

(c) Which ONE of the following is the most likely action the AAT student should take.

To accept the task assigned because the client is a close friend.

To accept the task assigned but make it known to the friend that the student does not possess the necessary experience to carry out the task assigned.

To reject the task assigned but help the friend obtain competitive quotes from a qualified accountancy practice to carry out the work.

(d) Which one of the following corrections should the business make in Box 1 of its current VAT Return.

Add £113

Add £143

Deduct £113

Deduct £143

A business made a non-careless and non-deliberate error on a previous VAT Return. The business is allowed to correct the net error on its current VAT Return.

- VAT of £128 on an invoice to a UK customer was omitted in the accounting records. This is output VAT that should have been added to Box 1 in a previous VAT return to increase output VAT payable. Add £128 to Box 1.
- VAT of £15 on a credit note to a UK customer was duplicated in the accounting records. This is output VAT that was deducted from Box 1 in a previous VAT return to decrease output VAT payable. It was deducted twice in error therefore add back £15 to Box 1.
- Add £128 and £15 to Box 1 (total amount $£128 + £15 = £143$).

Task 5 (7 marks)

A business recorded an invoice sent to a customer showing VAT of £1,270, the correct VAT amount that should have been recorded was £1,207. Currently the business's VAT account shows output tax of £6,230 and input tax of £1,380.

(a) Identify which of the following figures will be shown in the business's VAT account when the error has been corrected.

(2 marks)

<hr/> Input tax £1,317 <hr/>	<input type="checkbox"/>
<hr/> Input tax £1,443 <hr/>	<input type="checkbox"/>
<hr/> Output tax £6,293 <hr/>	<input type="checkbox"/>
<hr/> Output tax £6,167 <hr/>	<input checked="" type="checkbox"/>

VAT on sales invoices to customers would increase output tax payable by the business. Output VAT was increased by £1,270, but the correct VAT amount should have increased output VAT by £1,207. Output tax currently payable of £6,230, must be reduced by £63 ($£1,270 - £1,207$). $£6,230 - £63 = £6,167$.

(b) Identify which one of the accounting records would not be relevant when completing a VAT Return.

(1 mark)

<hr/> Wages control account <hr/>	<input checked="" type="checkbox"/>
<hr/> VAT control account <hr/>	<input type="checkbox"/>
<hr/> Sales account <hr/>	<input type="checkbox"/>

There would be no reason to use the wages control account because no VAT is charged on wages and wages is not a transaction accounted for on a VAT Return, it is outside the scope of VAT.

A business sold standard rated goods for £500 plus VAT to a UK customer. Payment terms offered a 2% discount if the customer paid within 7 days of the invoice date. The invoice amount did not include a deduction for the 2% discount. The customer paid the invoice within 5 days of the invoice date.

(c) Identify what the business must do.

(2 marks)

Issue an VAT invoice for the 2% discount

Issue a VAT credit note for the 2% discount

Reissue a VAT invoice for the full amount before the 2% discount

Take no further action

A prompt payment discount (PPD) offered to a customer has uncertainty whether the customer will settle the invoice early or late. A prompt payment discount (PPD) has three different ways to account for the VAT.

- Issue the invoice with the PPD deducted and issue an 'additional sales invoice' for the PPD amount, if not taken by the customer.
- Issue the invoice without the PPD deducted and issue a 'credit note' for the PPD amount, if taken by the customer.
- Issue the invoice with two amounts to pay, one amount to pay if the PPD is taken by the customer and another amount to pay if the PPD is not taken by the customer.

A manufacturer sells an item to a customer for £41.13 plus VAT.

(d) Calculate the total VAT payable that would be shown on a VAT invoice.

(2 marks)

£8.22.

VAT calculation:

- $£41.13 \times 20\% \text{ VAT} = £8.226 \text{ VAT.}$
- Round down any VAT to the nearest whole penny, VAT is £8.22.

The total VAT payable on all goods and services shown on a VAT invoice may be rounded down to the nearest whole penny, which means that any fraction of a penny can be ignored. If the VAT comes to 0.5 of one penny or more, it would be rounded down rather than rounded up. The concession above is not available to retailers, so if the VAT comes to 0.5 of one penny or more for a retailer, it should be rounded up (the normal mathematical rule). A retailer is a business that sells goods to the general public in relatively small quantities to each customer, so a penny on each transaction can make a big difference, hence the rounding down rule does not apply to a retailer.

Task 6 (7 marks)

Answers can be rounded up or rounded down. Both options are equally valid for the purposes of your assessment. The double entry to record transactions in a sales and purchases account would always be excluding VAT.

The following errors and omissions have been discovered from a previous VAT Return.

- VAT of £128 on a sales invoice to a UK customer was included twice in the accounting records of the business. **Reduce output VAT by £128 overpaid in a previous return (Box 1).**
- VAT of £34 on a credit note to a UK customer was omitted from the accounting records of the business. **Reduce output VAT by £34 that was not deducted from output VAT in a previous return (Box 1).**

(a) Calculate the figure that should be included in box 1 of the VAT Return, once any necessary corrections have been made to the ledger accounts. Enter your figure in pounds sterling, including pence.

(5 marks)

£10511.47.

(b) Calculate the figure that should be included in box 4 of the VAT Return, once any necessary corrections have been made to the ledger accounts. Enter your figure in pounds sterling, including pence.

(2 marks)

£7594.32.

VAT due in this period on sales and other outputs (Box 1)	$10304.58 + 500.00 - 131.11 - 128.00 \text{ error} - 34.00 \text{ omission} =$	10511.47
VAT reclaimed in the period on purchases and other inputs (including acquisitions from the EC) (Box 4)	$8304.56 - 710.24 =$	7594.32

Task 7 (17 marks)

(a) Enter the relevant figures into the on-line VAT Return for the period ended 30 April.

Do not leave any box blank.

(13 marks)

Exam note: Answers can show figures rounded up or rounded down. Both options are equally valid for the purposes of your exam assessment.

The double entry to record transactions in a sales and purchases account would always be excluding VAT.

On-line VAT Return for period ended 30 April		
Please note: Enter values in pounds sterling, including pence, for example 1000.00, except where indicated.		
VAT due in this period on sales and other outputs (Box 1)	18194.42 + 1060.19 =	19254.61
VAT due in this period on acquisitions from other EC member states (Box 2)	None	0.00
Total VAT due (the sum of boxes 1 and 2) (Box 3)		Calculated value
VAT reclaimed in the period on purchases and other inputs (including acquisitions from the EC) (Box 4)	21984.56 + 1416.35 =	23400.91
Net VAT to be paid to HM Revenue & Customs or reclaimed by you (difference between boxes 3 and 4) (Box 5)		Calculated value
Total value of sales and all other outputs excluding any VAT. Include your Box 8 figure. (Box 6)	Total sales from the sales account	108663
Total value of purchases and all other inputs excluding any VAT. Include your Box 9 figure. (Box 7)	Total purchases from the purchases account	117005
Total value of all supplies of goods and related costs, excluding any VAT, to other EC member states (Box 8)	EU sales from the sales account	12390
Total value of all acquisitions of goods and related costs, excluding any VAT, to other EC member states (Box 9)	None	0

(b) Calculate the values that will be shown on-line when you submit the VAT Return for the following boxes. If a repayment is due, use a minus sign in Box 5. Enter the values in pounds sterling, including pence.

(4 marks)

Total VAT due (the sum of boxes 1 and 2) (Box 3)	Box 1 (19254.61) + Box 2 (0) =	19254.61
Net VAT to be paid to HM Revenue & Customs or reclaimed by you (difference between boxes 3 and 4) (Box 5)	19254.61 - 23400.91 =	-4146.30

Task 8 (8 marks)

Complete the following e-mail to the finance manager of the business.

(6 marks)

To: Finance Manager
From: Accounting Technician
Date: Wednesday 24 April
Subject: Completed VAT Return

Please be advised that the VAT Return for the period ended 31 March has been completed.

The amount of VAT **Payable** will be **£4535.42**.

Please allow sufficient funds to permit HMRC to direct debit our account on **Friday 10 May**.

Kind regards,
Accounting Technician

Exam note: The exam task will accept the VAT payable as a positive or negative figure (4535.42 or -4535.42).

VAT payable

Box 1 (£11,200.00) + Box 2 (£1,800.00) = £13,000.00 - Box 4 (£8,464.58) = £4,535.42.

The normal due date for submitting each VAT Return and electronically paying HMRC any VAT that is owed is one calendar month after the end of the relevant VAT period. Online filing and electronic payment mean that businesses get an extended due date for filing the return of seven extra calendar days after the normal due date shown on the VAT Return.

- VAT period ended 31 March.
- The business has one calendar month and 7 days after 31 March to file and pay its VAT.
- Today is Wednesday 24 April, Tuesday 30 April is one calendar month after 31 March.
- 7 days after Tuesday 30 April, is Tuesday 7 May. This is the deadline to submit the VAT Return and pay any VAT due.
- However, if the business pays HMRC by Direct Debit, HMRC automatically collects payment from the business's bank account three bank working days after the extra seven calendar days following the normal due date.
- The deadline to submit the VAT Return and pay any VAT due is Tuesday 7 May, therefore HMRC should automatically collect payment by direct debit on Friday 10 May.

The purchases manager has called you and has a VAT query. The business is buying goods from a supplier in an EU member state and a non-EU member state, the purchases manager has queried whether VAT is applicable and if so at what rate and how to account for it. You feel that the query from the purchases manager is beyond your current level of expertise.

(b) Identify which one of the following would not be an appropriate response to the purchases manager.

(2 marks)

Respond that I don't know the answer to this query and I will refer this to my line manager

The rate of VAT is normally 20%, so advise the purchases manager about this information

Respond that I cannot provide advice without instruction from someone who is competent

Accepting a task without possessing the adequate expertise or experience to carry out the task assigned would be a breach of professional competence and due care. You must know when it is appropriate to obtain guidance from HMRC or seek expertise about VAT matters, particularly in respect of issues where there is doubt over the correct treatment.

You must be able to identify when a query about VAT is beyond your current experience or expertise and so should be referred to a line manager. A member should not undertake a task or provide advice if they do not possess an adequate level of competence or if without competence, then to be either supervised, instructed or have their work reviewed by someone who is competent.