



May 11 –May 15, 2020

SUPPLEMENTARY LESSON

TOPIC: RECORDING PAYMENT OF EXPENSES WITH VAT

Most expenses paid by the business are also subject to VAT. They include Light and Water, Telephone, Rent, Advertising, Insurance, Supplies, etc.

Example 1

May 16 - Paid Telephone bill P 1,520 exclusive of VAT

Journal Entry:

Telephone Expense	P 1,520	
VAT Input (P 1,520 x 12%)	182.40	
Cash		P 1,702.40

Example 2

May 30 - Paid rent for the month P 16,800 inclusive of VAT

Journal Entry:

Rent Expense (P 16,800/1.12)	P 15,000	
VAT Input (P 5,000 x 12%)	1,800	
Cash		P 16,800

Note: Expenses paid which are not subject to VAT include among others (not all-inclusive) Postage and Communication Stamps, Publications, Taxes, Licenses, Interest, etc.

Topic: Recording of Revenue or Income for a Service Business

June 3 - Rendered service to a customer P 25,000. VAT exclusive

Journal Entry:

Cash (25,000 x 112%)	P 28,000	
VAT Output (25,000 x 12%)		P 3,000
Service Income		25,000

June 4 - Billed Marvel Company for P 35,000 for the services rendered. VAT exclusive

Journal entry:

Accounts receivable	P 39,200	
VAT Output (35,000 x 12%)		P 4,200
Service Income		35,000

June 14 – Collected the account of Marvel Company in full

Journal Entry:

Cash	P 39,200	
Accounts Receivable		P 39,200

Alternative entries:

Journal entry June 4		
Accounts receivable	P 35,000	
Service Income		P 35,000

Journal entry June 14		
Cash	P 39,200	
Accounts Receivable		P 35,000
VAT Output		4,200

Topic: Recording Payment of VAT

To illustrate: Assumed that the total VAT Input amounted to P 3,000 and the total VAT Output amounted to P 4,200 at the end of June. In this case, the VAT Output is higher than the VAT Input tax, therefore the difference between the two is called VAT Payable.

Journal entry: June 30		
VAT Output	P 4,200	
VAT Input		P 3,000
VAT Payable		1,200
To record tax payable to the BIR		

To illustrate: Assumed that the payment of taxes is every 15th of the following month. The journal entry using the information above is:

Journal entry: July 15		
VAT Payable	P 1,200	
Cash		P 1,200
To record payment to the BIR		

Note: If the VAT Input is higher than the VAT Output, the difference between the two should be debited to an asset account called Deferred Tax which could be applied against the future output taxes.

ACTIVITY

The following transactions were the transactions of Zulon Enterprise during August 2018;

August 1 - Mr. Zulon invested P 700,000 cash to open his trading business.

- 1 - Paid mayor's permit to city government P 3,200
- 2 - Bought office equipment from Computer Link P 50,400 on account VAT inclusive
- 3 - Purchased office furniture from SM Department Store, P 35,840 inclusive of VAT
- 3 - Paid freight on the above-purchased P 350 VAT exclusive
- 4 - Bought merchandise from Drypers Supplier P 12,500 VAT exclusive. Terms 2/10, n/30
- 5 - Issued a debit memo for P 500 for defective merchandise returned
- 6 - Sold merchandise to Hansel Store P 7,840 inclusive of VAT. Terms: C.O.D
- 6 - Cash refunded to Hansel Store P 336 for defective merchandise returned
- 7 - Paid telephone bill for the month P 1,702.40 VAT inclusive
- 8 - Cash sales for the week P 16,720 VAT exclusive
- 8 - Purchased merchandise for P 27,000 exclusive of VAT and paid the freight for P 250
- 9 - Paid rent for the month P 5,600 inclusive of VAT

- 10 - Purchased supplies P 3,200 inclusive of VAT
- 11 - Sold merchandise to Gretel Store P 6,720 on credit.
- 12 - Paid advertising expense P 2,800 inclusive of VAT
- 15 - Paid salaries of employees, P 20,000
- 17 - Collected the account due to Hansel Store in full
- 18 - Paid Drypers Supplier in full
- 20 - Sold merchandise to Graham Store P 5,000 exclusive of VAT. Terms 2/10,n/30
- 23 - Bought merchandise from Horizon Supplier P 19,040 inclusive of VAT. Terms: 2/10,n/20
- 25 - Sold merchandise P 3,500 exclusive of VAT. Terms C.O.D
- 26 - Collected 50% of the account due to Graham Store
- 27 - Sold merchandise to Denzo Store P 9,520 inclusive of VAT. Terms 2/10, n/20
- 29 - Issued a credit memo for P 200 for defective merchandise returned by Denzo
- 30 - Paid insurance premium P 36,000 exclusive of VAT.

Required:

1. Give the journal entries to record the above transactions.
2. Compute for Input and Output Tax for the month and prepare the necessary journal entries