VAT education session

Guidance by the Secretariat

ASB
ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Fact Sheet 11 – Classification of VAT

ACCOUNTING STANDARDS BOARD

What is the issue?

VAT receivable

VAT payable

- Financial instrument vs Statutory receivable/payable?
- Is the accounting different for vendors on an invoice (accrual) vs payments (cash) basis?

What do the Standards say?

What Standards could apply?	Receivables GRAP 104 on Financial Instruments GRAP 108 on Statutory Receivables Payables GRAP 104 on Financial Instruments GRAP 19 on Provisions, Contingent Liabilities and Contingent Assets [there is no specific Standard that deals with statutory payables]

What do the Standards say?

What is the definition of a financial asset?	A financial asset is: (a) cash; (b) a residual interest of another entity; or (c) a contractual right to receive cash or another financial asset from another entity; or exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.
What is the definition of a financial liability?	A financial liability is any liability that is a contractual obligation to: (a) deliver cash or another financial asset to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

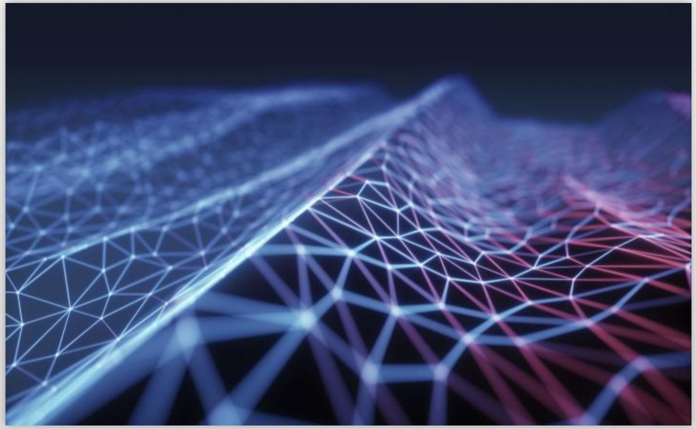
What do the Standards say?

What is the definition of a statutory receivable?	Statutory receivables are receivables that: (a) arise from legislation, supporting regulations, or similar means; and (b) require settlement by another entity in cash or another financial asset.
What is the definition of a legal obligation?	A legal obligation is an obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law.

A S B
ACCOUNTING STANDARDS BOARD

Which Standard to apply?

Unpacking the theory



- Distinguishing factor between applying GRAP 104 or another Standard is whether the arrangement is contractual or not.
- Arrangements are contracts when there are willing parties to the arrangement, the parties have rights and obligations, and the rights and obligations are enforceable.
- If the arrangement is contractual, GRAP 104 is applied. Other arrangements are accounted using GRAP 108, GRAP 19 or another applicable Standard.

Classification on initial recognition

Sales of goods and/or services

Initial recognition

Entity provides goods/services on credit to another party in terms of a contractual arrangement .

VAT vendor (invoice basis)	VAT vendor (payments basis)
Dr Receivable/Debtor	Dr Receivable/Debtor
Cr Revenue	Cr Revenue
Cr VAT control (payable to SARS)	Cr VAT accrual (only liable to SARS once cash is received)

Statutory payable

Statutory obligation to collect VAT

A S B
ACCOUNTING STANDARDS BOARD

Classification after initial recognition

Sales of goods and/or services

ASB
ACCOUNTING STANDARDS BOARD

After initial recognition

Debtor makes payment for goods/services they took on credit.

VAT vendor (invoice basis)	VAT vendor (payments basis)
Dr Bank	Dr Bank
Cr Receivable/Debtor	Cr Receivable/Debtor
	Dr VAT accrual
	Cr VAT control

Statutory payable

Presentation in financial statements

Presentation

Can VAT receivable from and payable to SARS be "set off" in the financial statements?	VAT receivable from/payable to SARS is not a financial instrument – it should be treated as a statutory receivable or payable. VAT receivable from/payable to SARS is calculated as the net amount of output VAT collected and input VAT paid. As the amount due from or to SARS is already a net amount, there is no separate recognition of a receivable or payable.
VAT accrual account (debit or credit)	VAT accrual account does not represent amounts to be received or paid – rather amounts that are associated with transactions that are yet to be settled. There is no money to be received or paid to SARS for these amounts as yet. As there is no transaction to "settle" with a specific counterparty at this point – requirements for set off are inappropriate. Separate presentation of the VAT accrual "debit" and "credit" may be more appropriate.

FAQ 4.12 – Is VAT receivable or payable an exchange or non-exchange receivable or payable?

ACCOUNTING STANDARDS BOARD

Exchange or non-exchange

Presentation

GRAP 1 requires an entity to separately disclose receivables and payables from exchange and non-exchange transactions in the statement of financial position.

- Non-exchange transaction concluded between the entity imposing the tax (national government) and the consumer.
- Entity (VAT vendor) selling goods/services to consumers is responsible to collect taxes.
- VAT vendor is a deemed debtor to the national government when collecting and remitting VAT.
- VAT due to the national government by the VAT vendor results in a deemed debtor-creditor relationship and is an exchange rather than a non-exchange transaction.

A S B
ACCOUNTING STANDARDS BOARD

Links to guidance

[Fact Sheet 11 - Classification of VAT]

[FAQs on Standards of GRAP]

ACCOUNTING STANDARDS BOARD

Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

GRAP Knowledge Hub: