**EXERCISE VAT**

During 201X Coco Ltd delivered and invoiced goods for €100,000 excluding VAT. During the same period it also purchased goods for which it has been invoiced amounting to € 150,000 excluding VAT. Purchases amounting to €20,000 are not tax deductible. The VAT rate is 20%.

**Required:**

Determine the balance of the VAT account at the end of 201X and provide the accounting entries for this.

**Solution**

The VAT to be paid results from the difference between the VAT collected on sales and the deductible VAT from purchases. If the VAT collected exceeds the deductible VAT, then the company has a liability toward tax authorities. On the other hand, if the VAT deductible is higher than the VAT collected, the company has a receivable from the tax authorities. In the case of the Coco Company, the latter is true.

**VAT Collected: 100,000 x 20 % = € 20,000**

**Deductible VAT: (150 000 – 20 000) x 20% = € 26,000**

The journal entry for this is:

Dr VAT deductible/recoverable 26,000

Cr VAT payable 20,000