Value Added Tax

Different Methods of Computation of VAT

Wisdom Manufacturing Ltd purchased goods from Mr. Winner (Dealer) for Rs. 1000. His expenses are Salary and Wages paid Rs. 100, storage and other expenses Rs. 150, Interest Rs. 50, Depreciation Rs. 50 and Profit of Rs. 100. His selling price is Rs. 1500. Vat rate (Sales tax) is 10%.

Calculate the VAT payable under different methods.

"Under Adverse conditions - some people break down, some break records"

Wisdom Institute of Finance and Accounts

Value Added Tax

Invoice Method		Subtraction Method				Addition Method	
		Indirect Sub		Direct Sub			
Invoice of Dealer	1000	Invoice of Dealer	1100	Invoice of Dealer	1100	Invoice of Dealer	1100
VAT 10%	100	Invoice of Mft	1650	Invoice of Mft	1650	Invoice of Mft	1650
Total	**1100**	All above incl of VAT		All above incl of VAT			
Invoice of Mft	1500	Gross Sale Price	1650	Net Sale Price	1000		
VAT 10%	150	Gross Purchase Price	1100	Net Purchase Price	1500		
Total	**1650**	Subtraction - INDIRECT	550	Substraction - DIRECT	500		
Invoice of Mft	150	By back calculation since this is incl of VAT (100+10)	550	Net Amount	500	Value addition by Winner	500
Paid by Dealer	100	Sale Price (550/110*100)	500	VAT 10%	50	VAT 10%	50
Net VAT	**50**	**Net VAT (550/110*10)**	**50**	**Net VAT**	**50**	**Net VAT**	**50**
Invoice method is otherwise known as Tax Credit Method		Diff between gross prices and VAT can be arrived byback calculations		Diff between Net prices and apply VAT on Value addition		Add all value additions including profit portion and apply VAT Rate	
Very popular method and adopted by most of the countires		Tax cannot be shown separately in invoice under both this methods. This method can be possible only when VAT rate is uniform in all commodities				This method is useful when VAT on the basis of Gross Income	

"One man has enthusiasm for 30 minutes, another has it for 30 days, but is the man who has it for 30 years who makes a success of his life"

Stay hungry, Stay foolish

Stay Connected & Inspired
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