

Eight lecture: Value-added Tax Accounting

1- Definition and scope of application

In the following, we discuss the definition of the value-added tax, its current percentages, burden, and scope of application.

1-1- Value added tax Definition

The value-added tax (VAT) is an indirect tax imposed on operations of an industrial, commercial and service nature, except in cases stipulated by law.

1-2- Value added tax rates

The value-added tax has known several rates since its establishment in Algeria under Law No. 36-90 of December 31, 1990, which includes the Finance Law of 1991, and entered into practice on April 1, 1992.

The last amendment to the ratios came in the Finance Law of 2017, which defined them as follows:

The normal rate: 19% for all commercial, industrial and service operations.

Reduced rate: 09% for some operations specified by law with the aim of encouraging their production or for consumer protection.

1-3- Value-added tax burden

Economic entities, whether they are production, commercial or service, do not bear the burden of VAT, but it is borne by the last consumer (non-trader) because the entities are considered intermediaries only. Every month, they collect the value-added tax amounts related to sales and pay them to the tax authority after deducting from them the total amounts of the value-added tax related to purchases.

1-4- value added tax scope

VAT applies to all sales and service transactions, with the exception of transactions exempted by law.

The subject transactions are:

- sales of movables;
- real estate operations;
- service delivery operations;
- Self-delivery operations. (The owner of the establishment sells himself a specific product, so he becomes the last consumer.)

- Sales of goods and products carried out by persons affiliated with the real regime (producers, importers, wholesalers, large areas...)
- Real estate-related operations (construction and sale of real estate, buying and selling real estate, zoning and selling land...);
- Service provision operations (transport, rent, banks, insurance, liberal professions, medical clinics, private schools, etc.);
- Self-delivery operations (The owner of the establishment sells a specific merchandise or product to himself, therefore he becomes the final consumer.)

Exemptions:

- sales carried out by farmers;
- Sales transactions carried out by retail traders affiliated to the single flat-rate tax system
- Exemption of some essential commodities(bread, semolina, milk, medicine, ...).

2- Value-added tax deductibility (or value added tax deducting conditions)

The tax law set a number of conditions that must be respected in order for the value-added tax on purchases to be refundable. Among these conditions, we find:

- The right of refund is only authorized to persons subject to the value-added tax of the real system;
- Return is not acceptable unless the goods, products, services or purchased items are used in operations that are actually subject to the value-added tax. In the event that the goods disappear or the transaction is not subject to tax, the deducted tax must be repaid;
- The value-added tax must appear on the purchase invoices or customs documents in case of import or any other document;
- Send to the Tax Authority the monthly declaration (G50) for each month before the 20th of the following month;
- A list of refunded fees and necessary information about suppliers must be attached to the G50 monthly declaration;
- The value-added tax related to bills paid in cash cannot be refunded when the amount of all taxes exceeds 100,000 DZD, that is, in order for the VAT related to these bills to be acceptable for refund, the bills must be paid by another means of payment other than the cashier;

- As for the installations, the value-added tax related to them cannot be refunded unless these installations were acquired in a new or renewed condition with a guarantee, and they were kept within the organization's assets for a period of not less than 5 years. (In the event of waiving the installation before 5 years, the tax on the value-added previously recovered must be returned to the tax authority in proportion to the number of remaining years).

3- Value-added tax amount Calculating

The value-added Tax is calculated on the net financial amount appearing in the invoice (the amount excluding tax (E.T))

If the VAT rate is 19%, and amount including tax (IT) Then :

$$\begin{array}{l}
 \text{VAT} = \text{ET} \times 0.19 \quad \text{or} \quad \text{VAT} = \frac{0.19 \times \text{IT}}{1.19} \quad \text{or} \quad \text{VAT} = \text{IT} - \text{ET} \\
 \text{IT} = \text{ET} \times 1.19 \quad \text{or} \quad \text{IT} = \text{VAT} \times 1.19 \div 0.19 \quad \text{or} \quad \text{IT} = \text{ET} + \text{VAT} \\
 \text{ET} = \frac{\text{VAT}}{0.19} \quad \text{or} \quad \text{ET} = \frac{\text{IT}}{1.19} \quad \text{or} \quad \text{ET} = \text{IT} - \text{VAT}
 \end{array}$$

Examples

1) If the net purchase price excluding Tax is: 200,000 DZD, then:

$$\text{VAT} = 200000 \times 0.19 = 38000 \quad , \quad \text{IT} = 200000 + 38000 = 238000$$

2) If the amount including Tax is: 357,000 DZD, then:

$$\text{VAT} = 357000 \times 0.19 \div 1.19 = 57000 \quad , \quad \text{ET} = 357000 \div 1.19 = 300000$$

3) If the amount of TVA is 76,000 DZD, then:

$$\text{ET} = 76000 \div 0.19 = 400000 \quad , \quad \text{IT} = 76000 + 400000 = 476000 \text{ DZD}$$

4-Value-added tax accounting registration(or VAT accountyng entry)

The tax shown on the purchase invoice is recorded as a debit in account 4456 "deductible value-added tax", as for the tax shown on the sale invoice, its recorded as a credit in account 4457 "collected value-added tax". When they are settled at the end of each month, they result in either a value-added tax payable to the Tax Authority and recorded as a credit in account 4455, or a value-added tax prepayment to postpone to the following month and recorded as a debit in account 44567, as follows:

4-1- Accounting entry of deductible value added tax

When the entity obtains an invoice for the acquisition of a fixed asset, the purchase of goods (or raw materials), or the obtainment of a service, the amount of value-added tax shown on the invoice is recorded as a debit in the account of 4456 “deductible v.a.t”, as follows:

➤ Acquisition of a fixed asset :

		Date		
20 or 21 4456	404 or 512 or 53	fixed asset deductible v.a.t Fixed asset suppliers, bank or cashbox (fixed asset acquisition Invoice no...)	XX X	XXX

➤ Merchandise purchase or Raw materials and supplies purchase

		Date		
380 or 381 4456	401 or 512 or 53	Stocked merchandises or Raw materials and supplies stored deductible v.a.t Stock suppliers, bank or cashbox (Merchandise purchase Invoice no...)	XX XX X	XXX

➤ Purchase of consumables or services

		Date		
60 or 61 or 62 4456	401 or 512 or 53	Consumed purchases or external services deductible v.a.t Stock suppliers, bank or cashbox (Purchase invoice for consumables or services no)	XX XX X	XXX

4-2- Accounting entry of collected value added tax

When the entity prepares and delivers an invoice for the sale of goods or products or the provision of a service, the amount of the value-added fee shown on the invoice is recorded as a creditor in the account 4457 “collected v.a.t.” as follows:

➤ sell goods

		Date		
411 or 512 or 53	4457 700	Customers or bank or cashbox Collected v.a.t sale of goods (goods sales invoice no..)	XXX	X XX

➤ **sell finished products**

		Date		
411 or 512 or 53	4457 701	Customers or bank or cashbox Collected v.a.t Sell finished products (finished products sales invoice no.)	xxx	X XX

➤ **providing services**

		Date		
411 or 512 or 53	4457 706	Customers or bank or cashbox Collected v.a.t Providing other services (Providing other services invoice no.)	xxx	X XX

4-3-Settlement of the value-added tax at the end of each month

At the end of each month, the entity sends the monthly declaration document (G50) to settle its tax status with the Tax Authority, by offsetting the total amounts of the value-added tax collected and recorded in account 4457 and the total amounts of the **deductible** value-added tax registered in account 4456. Here we distinguish three cases:

➤ **The first case:** If the sum of the amounts recorded in A/4457 is greater than the sum of the amounts recorded in A/4456, the difference will be recorded in A/4455 “value-added tax payable” and will be paid to the Tax Authority before the 20th of the following month.

The accounting recording of the settlement is as follows :

		30/m/y		
4457	4455 4456	Collected v.a.t value-added tax payable deductible value-added tax (Settlement of the value-added tax of month...)	xxx	X XX

When paying the tax before the 20th of the following month, the accounting entry is as follows:

		before 20/m/y		
4455	512 or 53	value-added tax payable Bank or Cashbox (monthly declaration document (G50) for the month...)	X	X

- **The second case:** If the sum of the amounts recorded in A/4456 is greater than the sum of the amounts recorded in A/4457, the difference will be recorded in A/44567 “ value-added tax prepayment ” to postpone its deduction to the next month.

The accounting recording of the settlement is as follows :

		30/m/y		
4457	4456	Collected v.a.t	xx	xxx
44567		value-added tax prepayment deductible value-added tax (Settlement of the value-added tax of month...)	x	

- **The third case:** If the sum of the amounts recorded in A/4456 is equal to the sum of the amounts recorded in A/4457, in this case there is no value-added tax for payment and no value-added tax to postpone.

The accounting recording of the settlement is as follows :

		30/m/year		
4457	4456	Collected v.a.t	xx	xxx
		deductible value-added tax (Settlement of the value-added tax of month...)	x	

Example

During the month of March 2018, the entity carried out the following operations, noting that the value-added tax rate is 19%.

On March 02/2018: A production machine was purchased by bank check for 238,000 DA, tax included.

On March 15/2018: goods were purchased by bank check for 250,000 DA, excluding tax.

On March 26/2018: Goods were sold by bank check and the amount of VAT shown in the invoice was 95,000 DA

Required:

- 1) Record transactions in the journal.
- 2) **Settlement of the value-added tax at the end of March**
- 3) Accounting registration for the payment of value-added tax due to the Tax Authority.

Solution :**1) Record transactions in the journal.**

On March 02/2018: Acquisition of a production machine by bank check for 238,000 DA, tax included. this means:

$$\text{production machine price} = 238000 \div 1.19 = 200\ 000\ \text{AD}$$

$$\text{VAT} = 200\ 000 \times 0.19 = 38\ 000\ \text{AD}$$

Accounting registration is:

March/02/2018				
215 4456	512	production machine deductible v.a.t bank (fixed asset acquisition Invoice no...)	200000 38000	238000

On March 15/2018: purchase of goods by bank check for 250,000 DA, excluding tax. this means:

$$\text{purchase price of merchandise} = 250\ 000\ \text{AD}$$

$$\text{VAT} = 250\ 000 \times 0.19 = 47\ 500\ \text{AD}$$

$$\text{total amount including tax} = 250000 + 47\ 500 = 297\ 500\ \text{AD}$$

Accounting registration is:

March/15/2018				
380 4456	512	Stocked merchandises deductible v.a.t bank (Merchandise purchase Invoice no...)	250000 47500	297500

On March 26/2018: Goods were sold by bank check and the amount of VAT shown in the invoice was 95,000 DA. this means:

$$\text{merchandise selling price} = 95\ 000 \div 0.19 = 500\ 000\ \text{AD}$$

$$\text{VAT} = 95\ 000\ \text{AD}$$

$$\text{total amount including tax} = 500\ 000 + 95\ 000 = 595\ 000\ \text{DZD}$$

Accounting registration is:

March/26/2018				
512	4457 700	bank Collected v.a.t sale of merchandise (merchandise sale invoice no..)	595000 95000	595000

2) Value Added Tax settlement for the month of March

the sum of the amounts recorded in A/4457 is 95 000 DZD

the sum of the amounts recorded in A/4456 is : $38000+47500=85500$ DZD
 the difference ($95000-85500=5000$) will be recorded in **A/4455** “value-added tax payable”

Accounting registration is:

March/31/2018				
4457		Collected v.a.t	95000	
	4455	value-added tax payable		5000
	4456	deductible value-added tax		85500
(Settlement of the value-added tax of March)				

3) Accounting registration for the payment of value-added tax due to the Tax Authority is :

befor 20/march/2018				
4455	512	value-added tax payable	5000	5000
		Bank or Cashbox		
(monthly declaration document (G50) for march 2018)				