Questions

Question 1

A business started trading on 1 April and its first year end is 31 March 2016. All supplies are standard-rated. Sales for the first 18 months are:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>7,000</td>
<td>January</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>2,000</td>
<td>February</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>4,000</td>
<td>March</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>8,000</td>
<td>April</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>10,000</td>
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<td>2,000</td>
<td></td>
</tr>
<tr>
<td>September</td>
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</tr>
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<td>October</td>
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<td>July</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>November</td>
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<td>August</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>5,000</td>
<td>September</td>
<td>4,000</td>
<td></td>
</tr>
</tbody>
</table>

By what date must the business apply to register for VAT?

a) 30 May 2016  
b) 30 April 2017  
c) 30 May 2017  
d) 30 August 2017

Question 2

A business makes mixed supplies of standard-rated and exempt items. The business started to trade in January and the sales to date have been spaced evenly throughout the year at £20,000 per month, with 30% of them being exempt.

The business must apply to register for VAT by:

a) 31 May  
b) 30 June  
c) 30 July  
d) 31 July
Question 3

Select which VAT scheme the following statements relate to:

<table>
<thead>
<tr>
<th>Flat rate scheme</th>
<th>Annual accounting scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>This scheme is available to businesses whose annual VAT-exclusive taxable turnover does not exceed £150,000</td>
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<tr>
<td>Under this scheme one VAT return is submitted per year</td>
<td></td>
</tr>
<tr>
<td>The deadline for submission of the VAT return is one month and seven days after the end of the VAT period for this scheme</td>
<td></td>
</tr>
<tr>
<td>The input tax on all taxable goods and services used for business purposes can generally be reclaimed using this scheme</td>
<td></td>
</tr>
</tbody>
</table>

Question 4

A business operates the annual accounting scheme and always has more output tax than input tax. The end of the VAT period is 31 March. The due date for the VAT return is:

- a) 30 April
- b) 7 May
- c) 31 May
- d) 7 June

Question 5

Identify which of the following statements is true or false.

<table>
<thead>
<tr>
<th></th>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>A business can voluntarily register for VAT if its taxable turnover exceeds the VAT registration limit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A business must register for VAT if its standard, reduced and zero-rated supplies exceed the VAT registration limit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A business must register for VAT within 60 days of its taxable supplies exceeding the annual VAT registration limit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The future turnover method means that a business can deregister for VAT</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Question 6

A simplified invoice can be issued in the following situations:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard-rated supplies of £240 plus VAT</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>A mixture of standard-rated and exempt supplies totalling £152</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Zero-rated supplies totalling £230</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Exempt supplies totalling £210</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Question 7

A customer collects goods from a business on 1 August and the business issues a VAT invoice on 10 August. The tax point for this supply is:

a) 1 August
b) 10 August

Question 8

A customer pays for goods on 2 July and the supplier sends the goods to the customer on 9 July. On 15 July the supplier issues an invoice to the customer. The tax point for this supply is:

a) 2 July
b) 9 July
c) 15 July

d) 15 July

Question 9

A customer pays for goods on 2 July and the supplier sends the goods to the customer on 9 July. The latest date by which the supplier can issue a VAT invoice is:

a) 2 July
b) 9 July
c) 7 August
d) 31 July
Question 10

A business uses the cash accounting scheme for VAT. The business makes a part-payment in
advance to a supplier on 25 March. The business received the goods and invoice on 4 April and paid
the remaining balance on 3 July. In which of the business's VAT periods must input tax be included in
the VAT return?

a) VAT period ending 31 March only
b) VAT period ending 30 June only
c) VAT period ending 30 September only
d) VAT periods ending 31 March and 30 September
e) VAT periods ending 30 June and 30 September

Question 11

A business incurs input VAT in relation to its standard-rated and exempt supplies. The input tax that it
incurs in relation to its exempt supplies is less than the "de minimis" amount. The business can
reclaim some of its input tax.

True or False?

Question 12

VAT has been paid to HMRC in the VAT period ending 31 March for an invoice dated 15 March, the
customer was given one month's credit. The business wrote off the debt on 30 September and all
conditions for claiming bad debt relief have been met by the business. The earliest VAT period in
which the business can claim bad debt relief is the VAT period ending:

a) 31 March
b) 30 June
c) 30 September
d) 31 December

Question 13

A business supplies a standard-rated item at £560, excluding VAT. The customer pays within 7 days,
taking advantage of a 5% prompt payment discount. What is the amount that the business should
include as output tax in its VAT account for this transaction?

Question 14

A business supplies a standard-rated item at £612, excluding VAT. The customer is offered a 6%
cash or settlement discount for payment within ten days, but does not take advantage of the discount.
What amount should the business include as output tax in its VAT account for this transaction?
Question 15

A business has recorded a credit note to a customer of £140 plus VAT as a sales invoice. The business’s VAT account currently shows output tax of £6,830. When the error is corrected what will the figure for output tax be?

Question 16

A business makes a reduced-rated supply for £150.51, including VAT. What amount of VAT will be shown on the VAT invoice?

Question 17

A business reached the VAT registration threshold over four months ago and has not registered for VAT.

Identify which of the following statements are True or False?

<table>
<thead>
<tr>
<th>Statement</th>
<th>True</th>
<th>False</th>
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</thead>
<tbody>
<tr>
<td>HMRC will only expect VAT to be accounted for once the business becomes registered</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMRC will treat the business as though it was registered on time and the business must recover the output tax payable to HMRC from its customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMRC will treat the business as though it was registered on time and the business may recover the output tax payable to HMRC from its customers.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Question 18

A business which is not registered under any special schemes and has a VAT period ending 30 April, must submit its VAT return electronically by:

a) 7 May
b) 31 May
c) 7 June
d) 30 June

Question 19

A business which fails to submit a VAT return could receive a misdeclaration penalty from HMRC.

True or False?
Question 20
A business which does not pay its VAT on time will be issued with a misdeclaration penalty if this is the first time the business has defaulted in the last 12 months.

True or False?

Question 21
A business which does not pay its VAT on time could be issued with a surcharge liability notice if this is the second time the business has defaulted in the last 12 months.

True or False?

Question 22
A VAT registered business, which does not use any specialist schemes, prepares a VAT return for the period ending 30 September. The date by which the return must be submitted online is:

a) 7 October  
b) 31 October  
c) 7 November  
d) 30 November

As the business has a direct debit set up for the payment, HMRC will take the payment on what date?

a) 31 October  
b) 3 November  
c) 7 November  
d) 10 November
Question 23
A business has a Box 6 figure on its current VAT return of £1,251,000. It has discovered a net error in the previous VAT period of £11,624. The figure has been included in the current VAT return with no separate notification to HMRC. HMRC will regard this as:

a) the correct action
b) the incorrect action and will issue a surcharge liability notice
c) a deliberate error and issue a penalty

Question 24
A business has a Box 6 figure on its current VAT return of £906,200. It has discovered a net error in the previous VAT period of £9,888. The figure has been included in the current VAT return with no separate notification to HMRC. HMRC will regard this as:

a) the correct action
b) the incorrect action and will issue a surcharge liability notice
c) a deliberate error and issue a penalty
Answers

Question 1

A business started trading on 1 April and its first year end is 31 March 2016. All supplies are standard-rated. Sales for the first 18 months are:

<table>
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<tr>
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<th>2016</th>
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<tr>
<td>June</td>
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<td>6,000</td>
</tr>
<tr>
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</tr>
<tr>
<td>August</td>
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<td>May</td>
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<tr>
<td>September</td>
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<td>June</td>
<td>5,000</td>
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<tr>
<td>October</td>
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<td>July</td>
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<td>August</td>
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</tr>
<tr>
<td>December</td>
<td>5,000</td>
<td>September</td>
<td>4,000</td>
</tr>
</tbody>
</table>

By what date must the business apply to register for VAT?

a) 30 May 2016
b) 30 April 2017
c) 30 May 2017
d) 30 August 2017

**Answer:** The business will exceed the current VAT registration limit of £83,000 in the 12 month period ending 31 July 2017. It must register within 30 days of that date, therefore, by 30 August 2017. This is calculated as a 'rolling' 12 month period: the 12 months up to March 2017 equal £77K. Once the initial 12 months has passed, each month is reviewed by deducting the first month of the period so a new month can be added to maintain the 12 month period. For example, April 17 is calculated as £77K - £7K + £8K = £78K.

Question 2

A business makes mixed supplies of standard-rated and exempt items. The business started to trade in January and the sales to date have been spaced evenly throughout the year at £20,000 per month, with 30% of them being exempt.

The business must apply to register for VAT by:

a) 31 May
b) 30 June
c) 30 July
d) 31 July

**Answer:** The standard-rated supplies are £14,000 (£20,000 x 70%) per month. The business will exceed the current registration limit of £83,000 in June and must register within 30 days of that date, that is, 30 July.
Question 3

Select which VAT scheme the following statements relate to:

<table>
<thead>
<tr>
<th></th>
<th>Flat rate scheme</th>
<th>Annual accounting scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>This scheme is available to businesses whose annual VAT-exclusive taxable turnover does not exceed £150,000</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Under this scheme one VAT return is submitted per year</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>The deadline for submission of the VAT return is one month and seven days after the end of the VAT period for this scheme</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>The input tax on all taxable goods and services used for business purposes can generally be reclaimed using this scheme</td>
<td></td>
<td>✅</td>
</tr>
</tbody>
</table>

**Answer:** The flat rate scheme is available to businesses whose annual VAT-exclusive taxable turnover does not exceed £150,000 and the VAT return must be submitted within one month and seven days of the end of the VAT period. Under the annual accounting scheme input tax may be reclaimed under the normal rules and one VAT return is submitted per annum.

Question 4

A business operates the annual accounting scheme and always has more output tax than input tax. The end of the VAT period is 31 March. The due date for the VAT return is:

a) 30 April  
b) 7 May  
c) 31 May  
d) 7 June

**Answer:** The deadline for the submission of a VAT return under the annual accounting scheme is two months from the end of the VAT period.
Question 5
Identify which of the following statements is true or false.

<table>
<thead>
<tr>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>A business can voluntarily register for VAT if its taxable turnover exceeds the VAT registration limit</td>
<td>✓</td>
</tr>
<tr>
<td>A business must register for VAT if its standard, reduced and zero-rated supplies exceed the VAT registration limit</td>
<td>✓</td>
</tr>
<tr>
<td>A business must register for VAT within 60 days of its taxable supplies exceeding the annual VAT registration limit</td>
<td>✓</td>
</tr>
<tr>
<td>The future turnover method means that a business can deregister for VAT</td>
<td>✓</td>
</tr>
</tbody>
</table>

Answer: A business must register for VAT within 30 days of its taxable turnover (standard, reduced and zero-rated supplies) exceeding the VAT registration limit, or if it is likely to within the next 30 days (future turnover method).

Question 6
A simplified invoice can be issued in the following situations:

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard-rated supplies of £240 plus VAT</td>
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<tr>
<td>A mixture of standard-rated and exempt supplies totalling £152</td>
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</tr>
<tr>
<td>Zero-rated supplies totalling £230</td>
<td>✓</td>
</tr>
<tr>
<td>Exempt supplies totalling £210</td>
<td>✓</td>
</tr>
</tbody>
</table>

Answer: A simplified invoice can be issued if the amount including VAT does not exceed £250. They cannot include any exempt supplies.

Question 7
A customer collects goods from a business on 1 August and the business issues a VAT invoice on 10 August. The tax point for this supply is:

a) 1 August
b) 10 August

Answer: The VAT invoice has been issued within 14 days of the physical supply and therefore becomes the actual tax point.
Question 8
A customer pays for goods on 2 July and the supplier sends the goods to the customer on 9 July. On 15 July the supplier issues an invoice to the customer. The tax point for this supply is:

a) 2 July  
b) 9 July  
c) 15 July  

**Answer:** The date of payment is the tax point as it was received in advance of the goods being supplied and the invoice being issued.

Question 9
A customer pays for goods on 2 July and the supplier sends the goods to the customer on 9 July. The latest date by which the supplier can issue a VAT invoice is:

a) 2 July  
b) 9 July  
c) 7 August  
d) 31 July  

**Answer:** The latest date the supplier can issue the invoice is within 30 days of the tax point. However, in this case the date of payment is the tax point, as it was received in advance of the goods being supplied and the invoice being issued.

Question 10
A business uses the cash accounting scheme for VAT. The business makes a part-payment in advance to a supplier on 25 March. The business received the goods and invoice on 4 April and paid the remaining balance on 3 July. In which of the business's VAT periods must input tax be included in the VAT return?

a) VAT period ending 31 March only  
b) VAT period ending 30 June only  
c) VAT period ending 30 September only  
d) VAT periods ending 31 March and 30 September  
e) VAT periods ending 30 June and 30 September  

**Answer:** The part payment will be included in the VAT period ending 31 March and the balance in the VAT period ending 30 September. This is because, under the cash accounting scheme, VAT cannot be reclaimed on purchases until they have been paid for.
Question 11

A business incurs input VAT in relation to its standard-rated and exempt supplies. The input tax that it incurs in relation to its exempt supplies is less than the "de minimis" amount. The business can reclaim some of its input tax.

True or False?

Answer: The business can reclaim all of its input tax.

Question 12

VAT has been paid to HMRC in the VAT period ending 31 March for an invoice dated 15 March, the customer was given one month's credit. The business wrote off the debt on 30 September and all conditions for claiming bad debt relief have been met by the business. The earliest VAT period in which the business can claim bad debt relief is the VAT period ending:

a) 31 March  

b) 30 June  

c) 30 September  

d) 31 December

Answer: The invoice was due on 15 April and was therefore six months old on 15 October. This falls into the VAT period ending 31 December.

Question 13

A business supplies a standard-rated item at £560, excluding VAT. The customer pays within 7 days, taking advantage of a 5% prompt payment discount. What is the amount that the business should include as output tax in its VAT account for this transaction?

Answer: The output tax is £106.40 (£560 x 95% x 20%).

Question 14

A business supplies a standard-rated item at £612, excluding VAT. The customer is offered a 6% cash or settlement discount for payment within ten days, but does not take advantage of the discount. What amount should the business include as output tax in its VAT account for this transaction?

Answer: The output tax is £122.40 (£612 x 20%).

Question 15

A business has recorded a credit note to a customer of £140 plus VAT as a sales invoice. The business's VAT account currently shows output tax of £6,830. When the error is corrected what will the figure for output tax be?

Answer: The VAT on the credit note is £28 (£140 x 20%). As it has been incorrectly posted as an invoice this transaction needs to be reversed and then the correct posting made. The result is the VAT being deducted from the output tax twice: £6,830 - £28 - £28 = £6,774.
Question 16
A business makes a reduced-rated supply for £150.51, including VAT. What amount of VAT will be shown on the VAT invoice?

**Answer:** The VAT is £7.16. This can be calculated as £150.51 ÷ 21 or £150.51 + 105 x 5.

Question 17
A business reached the VAT registration threshold over four months ago and has not registered for VAT.

Identify which of the following statements are True or False?

<table>
<thead>
<tr>
<th>Statement</th>
<th>True</th>
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<tr>
<td>HMRC will only expect VAT to be accounted for once the business becomes registered</td>
<td></td>
<td>√</td>
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<tr>
<td>HMRC will treat the business as though it was registered on time and the business must recover the output tax payable to HMRC from its customers</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>HMRC will treat the business as though it was registered on time and the business may recover the output tax payable to HMRC from its customers.</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

**Answer:** HMRC will expect VAT to be accounted for from the date the business should have been registered and it must pay output tax from this time. The VAT may be recovered from the customers.

Question 18
A business which is not registered under any special schemes and has a VAT period ending 30 April, must submit its VAT return electronically by:

- a) 7 May
- b) 31 May
- c) 7 June
- d) 30 June

**Answer:** The VAT return must be submitted electronically within one month and seven days after the end of the VAT period: 7 June.

Question 19
A business which fails to submit a VAT return could receive a misdeclaration penalty from HMRC.

True or **False**?

**Answer:** A business which fails to submit a VAT return could receive an assessment from HMRC.
Question 20
A business which does not pay its VAT on time will be issued with a misdeclaration penalty if this is the first time the business has defaulted in the last 12 months.

True or False?

Answer: A business which does not pay its VAT on time will be issued with a surcharge liability notice if this is the first time the business has defaulted in the last 12 months.

Question 21
A business which does not pay its VAT on time could be issued with a surcharge liability notice if this is the second time the business has defaulted in the last 12 months.

True or False?

Answer: A business which does not pay its VAT on time could be issued with a default surcharge if this is the second time the business has defaulted in the last 12 months.

Question 22
A VAT registered business, which does not use any specialist schemes, prepares a VAT return for the period ending 30 September. The date by which the return must be submitted online is:

a) 7 October  

b) 31 October  

c) 7 November  

d) 30 November  

As the business has a direct debit set up for the payment, HMRC will take the payment on what date?

a) 31 October  

b) 3 November  

c) 7 November  

d) 10 November  

Answer: A VAT return is due one month and seven days after the end of the period to which it relates and the direct debit will be taken by HMRC after a further three days.
Question 23

A business has a Box 6 figure on its current VAT return of £1,251,000. It has discovered a net error in the previous VAT period of £11,624. The figure has been included in the current VAT return with no separate notification to HMRC. HMRC will regard this as:

a) the correct action
b) the incorrect action and will issue a surcharge liability notice
c) a deliberate error and issue a penalty

Answer: The error is below the net error figure of 1% of the Box 6 figure at £12,510, therefore the action is correct.

Question 24

A business has a Box 6 figure on its current VAT return of £906,200. It has discovered a net error in the previous VAT period of £9,888. The figure has been included in the current VAT return with no separate notification to HMRC. HMRC will regard this as:

a) the correct action
b) the incorrect action and will issue a surcharge liability notice
c) a deliberate error and issue a penalty

Answer: The error is higher than the net error figure of 1% of the Box 6 figure at £9,062, but it is less than £10,000, therefore the action is correct.