

Lesson no. 4: Introduction of VAT

Value Added Tax (VAT) in Tally ERP 9

VAT is an Indirect Tax on Goods, introduced in lieu of Sales Tax, to ensure transparency and compliance. The basic premise of VAT is to Tax the “True Value” added to the goods, at each stage of the transaction chain. This ultimately reduces

- Tax paid to the Government
- Cost / Tax passed onto the consumer.

VAT is a multi-point tax as against Sales Tax, which is a single-point tax. Under Sales Tax regime “Value” of goods to be taxed at each stage is computed as Basic cost + Profit Margin + Sales Tax earlier stage. VAT does away with the cascading effect of Tax on Tax, by allowing a set off for input Tax that is, Tax paid at earlier stage on purchases. It is an efficient, globally acceptable and easy administer taxation system.

Terms Associated with VAT

Term	Descriptions
Input TAX	This is a tax paid on Purchases.
Out Tax	This is a Tax charged on Sales.
Input Credit	The Amount of Input TAX that is permitted to be set of against Output Tax.
Composite Dealer	Dealers with annual gross turnover not exceeding a certain threshold (Threshold is decided by the respective State Governments) who can opt of a composition scheme whereby they will pay tax as a small percentage of their gross turnover. However, retailers opting for this composition scheme will not be entitled to input Credit. The State Government fix the periods and the procedures for the payments of the lump sum.

Calculation of VAT – (Example)

Example 1: The following Transaction has been done by the Swayam Education Pvt. Ltd. Bayar on this transaction compute the VAT payable to the Government.

1. Purchase from **Raj Infotech, 5 CDs of Antivirus Software @Rs.800 each, VAT rate 4%.**
2. Purchase from **Microtek India Ltd., 10 Monitors @Rs.4000 each, however discount allowed @5%, Excise tax @16%, i.e. Rs. 6080 and Educational Cess @2%.**
3. Sale of 2 Antivirus **CDs @ Rs. 1200 to Rajib Roy.**
4. Sale of 2 Monitors **@ Rs. 4500, VAT @ 4% to H. Goenka.**

Solutions:

For Purchase	Amount
For Transaction 1: VAT payable to party on assessable value of Rs. 4,000 @4% Input VAT	160.00
For Transaction 2: VAT payable to Party on the assessable Value of Rs. 44680 @ 4% Input VAT	1,787.20
Total of Input VAT (A)	1,947.20
For SALES	
For Transaction 3: VAT payable to the Govt. on assessable value of Rs. 2,400 @4% Output VAT	96.00
For Transaction 4: VAT Payable on Govt. on assessable value of Rs. 9,000 @ 4%	360.00
Total Output VAT (B)	456.00
Therefore VAT Payable / Receivable (A-B)	(1,491.20)

VAT Implementation on Tally ERP 9

Let us take the above example and see how it works on Tally. The procedure for implementation of VAT rate in Tally is very simple. Follow the steps given below:

Step-1:

Enabling VAT:

Go to **Gateway of Tally > Accounts info.> F11: Features > Statutory & Taxation.**

- Set Enable Value Added Tax (VAT) and set/Alter VAT Details to **YES**.

Company: ABC Company

Statutory & Taxation

Enable Dealer - Excise	? No	Enable Tax Deducted at Source (TDS)	? No
Set/Alter Dealer - Excise Details	? No	Set/Alter TDS Details	? No
Follow Excise rules for Invoicing	? No	Enable Tax Collected at Source (TCS)	? No
Enable Value Added Tax (VAT)	? Yes	Set/Alter TCS Details	? No
Set/Alter VAT Details	? Yes	Enable Fringe Benefit Tax (FBT)	? No
Enable Service Tax	? No	Set/Alter FBT Details	? No
Set/Alter Service Tax Details	? No		

Tax Information

VAT TIN (Composition) : 89745682134

VAT TIN (Regular) :

Local Sales Tax Number :

Inter-state Sales Tax Number :

PAN / Income - Tax No. :

Accept ?
Yes or No

F1: Accounts F2: Inventory F3: Statutory

- On enabling **SET/Alter VAT Details to Yes**. Tally will prompt with **VAT Details** Screen.

VAT Details		?	No
State	: Orissa	?	No
Type of Dealer	: Regular		
Regular VAT Applicable From	: 1-4-2006		
		Types of VAT Dealer	
		Composition	
		Composition To Regular	
		Regular	

VAT Details

- Select the state name.
- Set Type of Dealer? To Regular
- Enter the Regular VAT Applicable from date
- Accept the screen to save.

Step-2:

Create the Tax rate from ledger creation such as **“Input VAT 4%”** and **“Output VAT 4%”** under **“Duties & Taxes”**. Create the ledger Input VAT 4% from..

Gateway of Tally > Master > Accounts info. > Single Ledger > Create

At the time creation following things have to be specified in the respective ledgers such as:

- Type of Duty = VAT
- VAT / Tax Classes = Input VAT 4%
- Percentage of calculation and method of calculation will be posted automatics save the serene.

Ledger Creation		ABC Company
Name	: Input VAT@4%	Total Op. Bal.
(alias)	:	5,000.00 Dr
		<hr/>
		Difference
		5,000.00 Dr
<hr/>		
Under	: Duties & Taxes (Current Liabilities)	
Type of Duty/Tax	: VAT	
Default VAT/Tax Class	: Input VAT @ 4%	
Maintain balances bill-by-bill	? No	
Inventory values are affected	? No	
Percentage of Calculation (eg 5)	? 4 %	
Method of Calculation	: On VAT Rate	

Step-3:

Create the other Tax Ledger Output VAT 4% from...

Gateway of Tally > Master > Accounts info > Single Ledger > Create

At the time of creation following things have to be specified in the respective ledgers such as:

- Type of Duty = VAT
- VAT / Tax Classes = Output VAT 4%
- Percentage of calculation and method of calculation will be posted automatically save the serene.

Ledger Creation		ABC Company
Name	: Output VAT@4%	Total Op. Bal.
(alias)	:	5,000.00 Dr
		<hr/>
		Difference
		5,000.00 Dr
<hr/>		
Under	: Duties & Taxes (Current Liabilities)	
Type of Duty/Tax	: VAT	
Default VAT/Tax Class	: Output VAT @ 4%	
Maintain balances bill-by-bill	? No	
Inventory values are affected	? No	
Percentage of Calculation (eg 5)	? 4 %	
Method of Calculation	: On VAT Rate	

Step-4:

Create the Purchase and Sales Ledger such as **“Purchase @ 4%”** and **“Sales @ 4%”** from...

Gateway of Tally > Master > Accounts info.> Single Ledger > Create

Following things to be specified at the time of **“Purchase @4%”** Ledger creation:

- (A) Used in VAT Returns = **“YES”**
- (b) VAT /Tax Classes = Purchase @ 4%

Following things to be specified at the time of **“Sales @ 4%”** Ledger creation:

- (A) Used in VAT Returns = **“YES”**
- (b) VAT / Tax Classes = Sales @ 4%

Ledger Creation		ABC Company
Name : Purchases@4% (alias) :		Total Op. Bal.
Under : Purchase Accounts		
Maintain balances bill-by-bill	? No	
Inventory values are affected	? Yes	
<u>Statutory Information</u>		
Used In VAT Returns	? Yes	
Opening Balance (on 1-Apr-2006) :		Accept ? Yes or No

Used in VAT Return

- Set this to **YES** if you wish to select VAT/Tax class for this Ledger.

Note: Tally gives the flexibility to the user to either have the classification selected in the Ledger Master tagged to all transactions Or select different classifications each time during voucher entries.

- The rest of the ledger creation process is the same as in default Tally.
- In the above example we have selected a **VAT classification of 4%**.
- Like in the Purchase Ledger screen, select the required **VAT/Tax classification** in the Sales Ledger as well.

Go to **Gateway of Tally > Accounts info. > Ledger > Create / Alter**

Ledger Creation		ABC Company
Name	: Sales@4%	Total Op. Bal.
(alias)	:	5,000.00 Dr
		<i>Difference</i>
		5,000.00 Dr
Under	: Sales Accounts	
Maintain balances bill-by-bill	? No	
Inventory values are affected	? Yes	
Statutory Information		
Used In VAT Returns	? Yes	
Opening Balance (on 1-Apr-2006) :		Accept ?
		Yes or No

Step-5:

Create your respective Party Ledger (i.e. Sundry Creditors and Sundry Debtors) From....

Gateway of Tally > Master > Accounts info. > Single Ledger > Create

Under Sundry Creditor Group create the following Ledgers:

- (a) Raj Infotech
- (b) Microtech India

Under Sundry Debtor Group create the following Ledgers:

- (a) H. Goenka
- (b) Rajib Roy

Step-6:

Enter the Transactions for Purchase in the Invoice Mode, configure the Voucher Entry Screen by press **F12** and set option **“Use Common Ledger a/c for item allocation”** as **“YES”**.

Configure Invoices / Delivery Notes / Orders	
Accept Supplementary Details (Address Details, Despatch Details etc.)	? Yes
Use Common Ledger A/c for Item Allocation	<input checked="" type="radio"/> Yes
Use Defaults for Bill Allocations	? No
Use Excise Format	? <input type="radio"/> No
Use Addl. Description(s) for Item Name	? Yes
Allow separate Buyer and Consignee names	? No

Go to Gateway of Tally? Accounting Voucher > Purchase (F9)

Accounting Voucher Creation		Swayam Computer Education		Ctrl + M
Purchase	No. 15			25-Sep-2007
Ref:				Tuesday
Party's Ac Name : RAJ Infotech				
Current Balance :				
Purchase Ledger : PURCHASE-4%				
VAT/Tax Class: Purchases @ 4%				
Name of Item	Quantity	Rate per	Amount	
Antivirus CD	5 Pcs	800.00 Pcs	4,000.00	
INPUT VAT @ 4%		4 %	160.00	
Narration :				
				5 Pcs 4,160.00

Accounting Voucher Creation		Swayam Computer Education		Ctrl + M
Purchase	No. 15			25-Sep-2007
Ref:				Tuesday
Party's Ac Name : Microtek Ltd.				
Current Balance :				
Purchase Ledger : PURCHASE-4%				
VAT/Tax Class: Purchases @ 4%				
Name of Item	Quantity	Rate per	Amount	
Monitor	10 Pcs	3,800.00 Pcs	38,000.00	
Excise Duty		16 %	6,080.00	
ED Cess		2 %	760.00	
INPUT VAT @ 4%		4 %	1,793.60	
Narration :				
				10 Pcs 46,633.60

Step-8:

Enter your Sales Trisection from.....

Gateway of Tally > Accounting Vouchers > Sales (F8) (Invoice Mode)