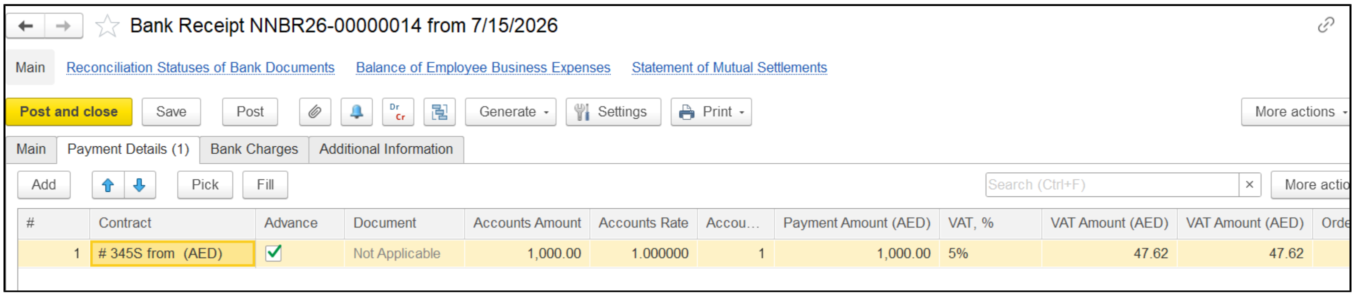
VAT on Advance Payments with Multiple Tax Rates

Problem: How to decrease the output VAT previously recognized on an advance payment?

Solution: Create an Output VAT Transaction to decrease the output VAT previously recognized on an advance payment.

Assume you have received an **advance payment of AED 1,000 (VAT inclusive at 5%)**, and you need to reduce the output VAT previously recognized for this advance.



The accounting entries are as follows:

Dr Bank Accounts — Cr Prepayments from Customers — AED 1,000

Dr VAT Accrued on Prepayments Received — Cr Current VAT Payable — AED 47.62

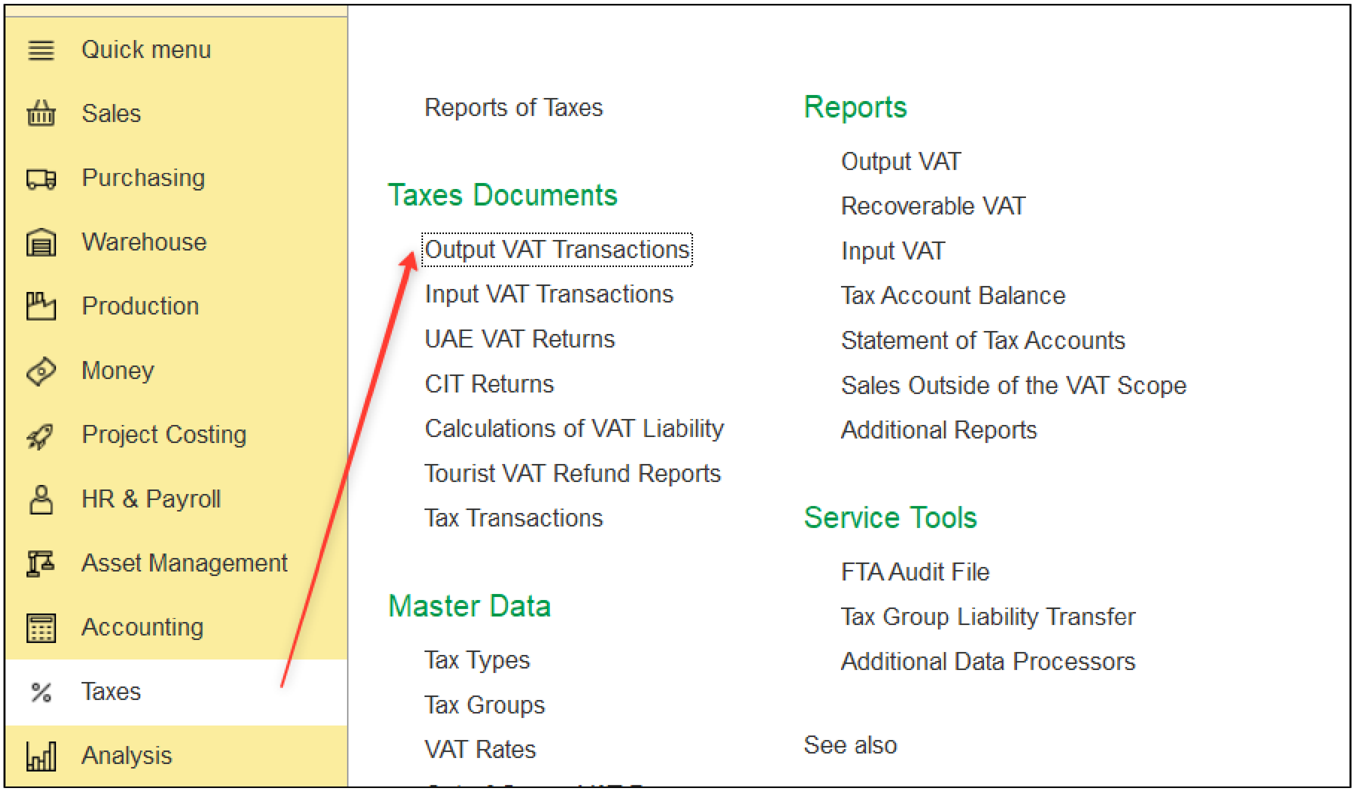
Bank Receipt NNBR26-00000014 from 7/15/2026
Document's Registers Records

Accounting Register "General Ledger"

Period	Account Dr	Extra Dimension Dr	Quantity Dr	Account Cr	Extra Dimension Cr	Quantity Cr	Amount
Entity			Currency Dr			Currency Cr	Accounting Currency
Line Number	Department Dr		Amount (Cur.) Dr	Department Cr		Amount (Cur.) Cr	Content
7/15/2026 6:22:02 PM	Bank Accounts	credit card, 123456789, in NBD		Prepayments from Customers	Secamare		1,000
Nel New Trading Limited		Payment from Customers (Sale of Goods, Works, Services)	AED		# 345S from (AED)	AED	AED
1			1,000			1,000	Appearance of customer's advance
7/15/2026 6:22:02 PM	VAT Accrued on Prepayments Received	Secamare		Current VAT Payable	VAT		47.62
Nel New Trading Limited		Bank Receipt NNBR26-00000014 from 7/15/2026	AED		Tax	AED	AED
2			47.62			47.62	Output VAT on Prepayments Received

Steps to Decrease the Output VAT

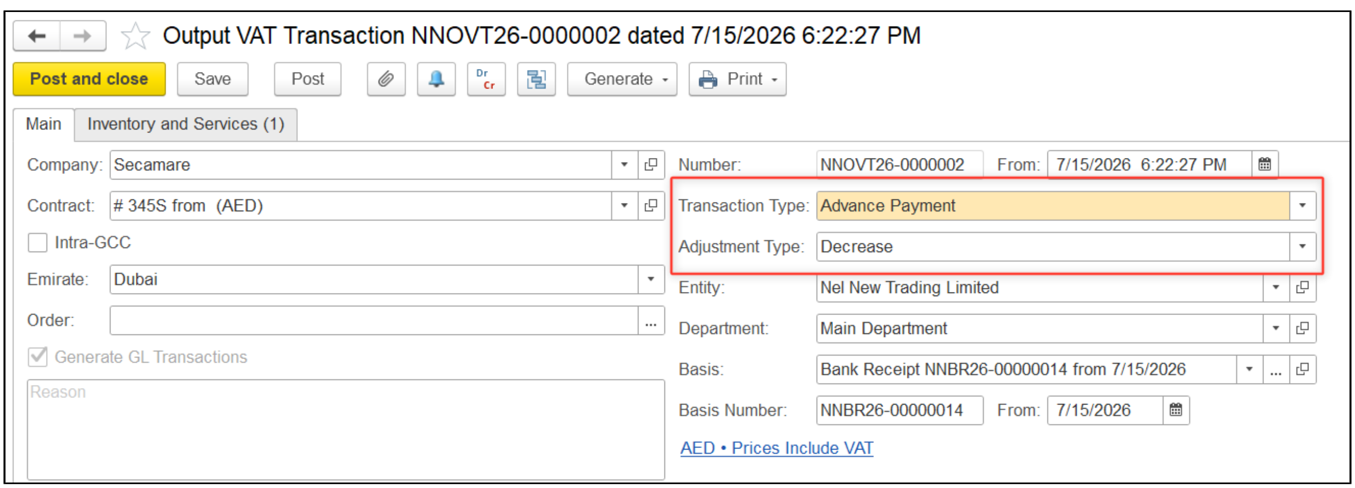
1. Go to **Taxes Tax Documents Output VAT Transactions**.



2. Create a new document.

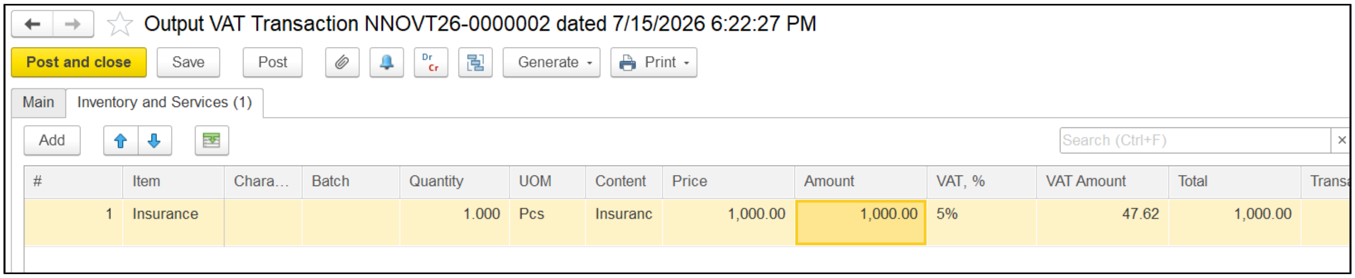
3. Specify:

- **Company**
- **Contract**
- **Transaction Type:** *Advance Payment*
- **Adjustment Type:** *Decrease*
- **Basis:** Select the related advance payment document.



4. On the **Inventory and Services** tab, click **Add** and enter the transaction details:

- **Amount:** AED 1,000 (VAT inclusive)
- **VAT Rate:** 5%
- **Income Account:** Select the same account that was used in the original transaction.
- Complete any other required analytics.

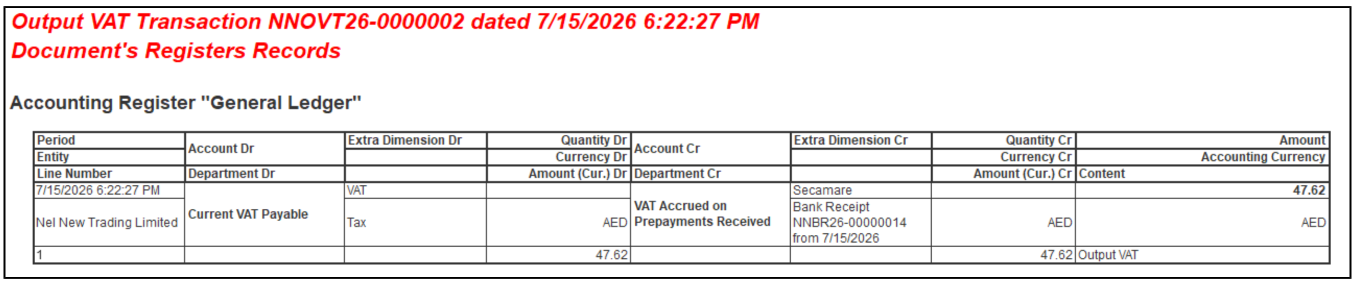


5. Click **Post** to save and post the document.

The system will reverse the VAT previously recognized on the advance payment.

The following journal entry will be generated:

Dr Current VAT Payable — Cr VAT Accrued on Prepayments Received — AED 47.62

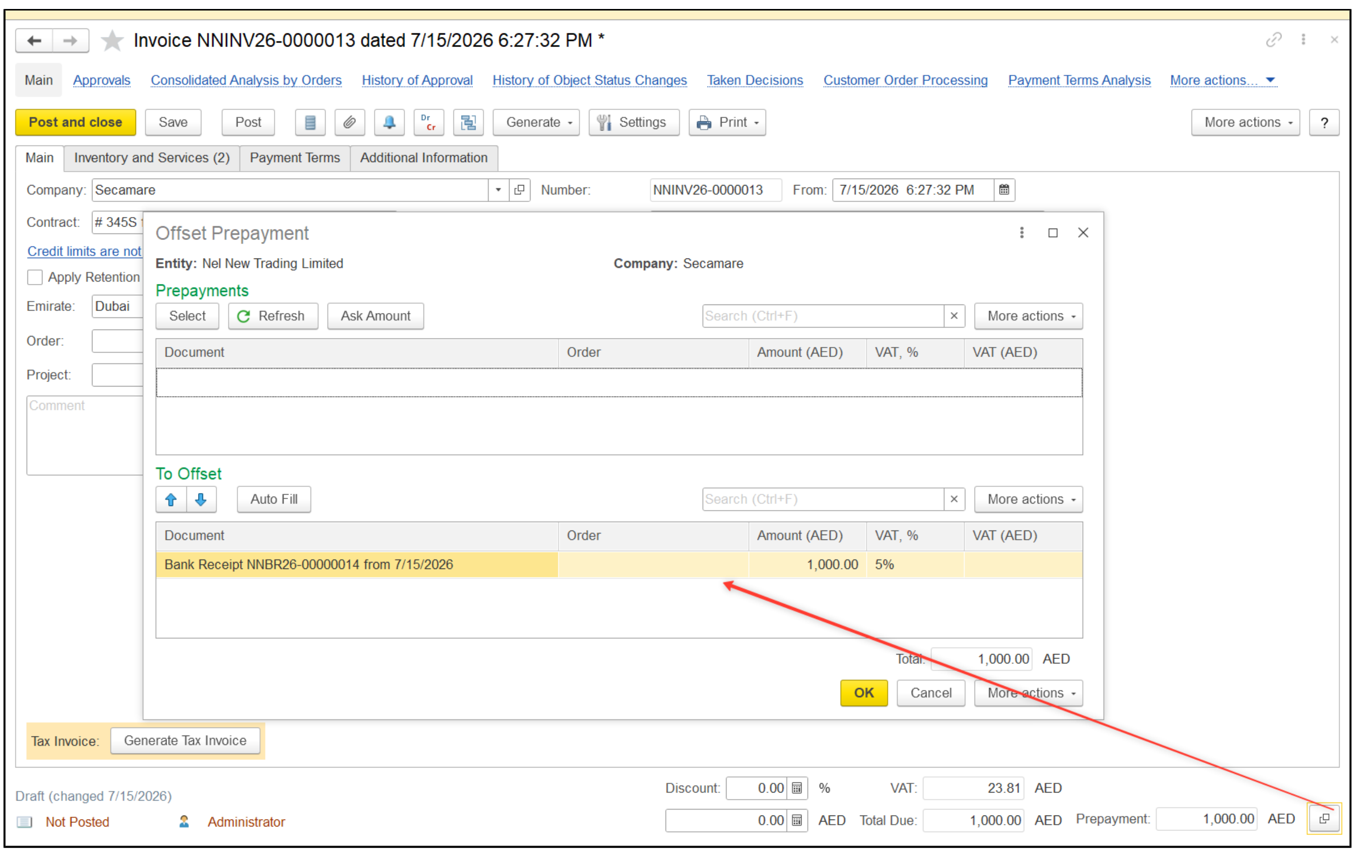


Output VAT Transaction NNOVT26-0000002 dated 7/15/2026 6:22:27 PM
Document's Registers Records

Accounting Register "General Ledger"

Period Entity Line Number	Account Dr Department Dr	Extra Dimension Dr	Quantity Dr Currency Dr Amount (Cur.) Dr	Account Cr Department Cr	Extra Dimension Cr	Quantity Cr Currency Cr Amount (Cur.) Cr	Amount Accounting Currency Content
7/15/2026 6:22:27 PM Nel New Trading Limited 1	Current VAT Payable	VAT Tax	 AED 47.62	VAT Accrued on Prepayments Received	Secamare Bank Receipt NNBR26-00000014 from 7/15/2026	 AED 47.62	47.62 AED Output VAT

Later, when the advance payment is allocated to the **Invoice Issued**, the system will recognize that the VAT on the advance payment has already been reversed.



As a result, no additional posting to the *VAT Accrued on Prepayments Received* account will be generated during the allocation of the advance payment.

Invoice NNINV26-0000013 dated 7/15/2026 6:27:32 PM
Document's Registers Records

Accounting Register "General Ledger"

Period	Account Dr	Extra Dimension Dr	Quantity Dr	Account Cr	Extra Dimension Cr	Quantity Cr	Amount
Entity			Currency Dr			Currency Cr	Accounting Currency
Line Number	Department Dr		Amount (Cur.) Dr	Department Cr		Amount (Cur.) Cr	Content
7/15/2026 6:27:32 PM	**Current Trade Receivables from Customers**	Secamare		**Sales of Services**	Sales Revenue		**476.19**
Nel New Trading Limited		# 345S from (AED)	AED		Insurance		AED
1			476.19	Main Department	Furniture		Sales revenue
7/15/2026 6:27:32 PM	**Current Trade Receivables from Customers**	Secamare		**Sales of Services**	Sales Revenue		**500**
Nel New Trading Limited		# 345S from (AED)	AED		Translation		AED
2			500	Main Department	Furniture		Sales revenue
7/15/2026 6:27:32 PM	**Prepayments from Customers**	Secamare		**Current Trade Receivables from Customers**	Secamare		**1,000**
Nel New Trading Limited		# 345S from (AED)	AED		# 345S from (AED)	AED	AED
3			1,000			1,000	Prepayments
7/15/2026 6:27:32 PM	**Current Trade Receivables from Customers**	Secamare		**Current VAT Payable**	VAT		**23.81**
Nel New Trading Limited		# 345S from (AED)	AED		Tax	AED	AED
4			23.81			23.81	Output VAT

Thanks for being a Firstbit Customer!

#VATAdjustment #OutputVAT #AdvancePayment #Prepayment #OutputVATTransaction #VATDecrease #CurrentVATPayable #VATAccruedOnPrepaymentsReceived #TaxDocuments