

Welcome to your final year Accounting course. At the outset I may say "Hearty Congratulations" to the successful matriculants of the 2007 academic year. I am positive that "K12" will feature prominently in your revision programme.

I also want to say a "warm welcome" to Mrs. P. Harijhan (subject advisor) who will be sharing her expertise with us during the course of the year.

Accounting is a crucial part of everyday life. It is used by organisations to determine which projects to participate in and which not. As you enter the working environment, you will be confronted with a number of situations where your knowledge of Accounting will be of great value. The importance of Accounting in business is emphasised by the fact that almost every after school business course includes Accounting as a core subject.

Finally, the better you want to perform in your final exam, the more you need to put in during the course of the year. Accounting is a wonderful subject to study; however, it does involve practicing your skills on a regular basis because last minute cramming definitely won't help you if you wish to do well.

We wish you success and hope that you will enjoy working through the publications of KZN 12 and that studying will be a lot of fun!

**LET'S GET STARTED THEN!!!!**

The same basic accounting principles which apply to sole traders and partnerships, also apply to companies. The accounting records are similar to those of close corporations, with the main difference being in the terminology with regards to owners' equity and that transactions do not have to be disclosed to the owners.

**Owners Equity** for companies will include share capital and share premium. Accounting principles involve disclosure in financial statements and the recording of share issues.

### TYPES OF SHARES

#### Ordinary shares:

These shareholders are entitled to share in available profits after tax. The dividend received will therefore vary from year to year, depending on profits, and is at the discretion of the directors as to how much of the available profit should be distributed in the form of dividends.

### SHARE VALUE

**Par value:** If shares are issued at their current nominal value, it is referred to as the par value, and entered at that amount in the share capital account.

**No par value shares:** Shares that are not assigned a nominal value on foundation of the company thus eliminating the confusion that may arise with regard to the par value of the shares. When these shares are issued, it forms the stated share capital.

**Premium:** If shares are issued at a higher value than its nominal (par) value, the difference between these two values is referred to as a premium. The amount received in this instance is then split up into the nominal value (par value) and the premium, and posted to two separate accounts.

### DISCLOSURE IN THE FINANCIAL STATEMENTS:

#### Authorised share capital:

The maximum number of shares that the company is authorised to issue.

#### Issued share capital:

The shares that were actually issued to date.

### RECORDING OF SHARES

<u>Ordinary shares issued at par value:</u>	<b>Dr.</b>	<b>Cr.</b>
Bank	xx	
Ordinary share capital		xx

<u>Ordinary shares issued at a premium</u>	<b>Dr.</b>	<b>Cr.</b>
Bank	xxx	
Ordinary share capital (par value)		xx

**NOTE** The difference between the price at which share was issued and the par value of the share, multiplied by the number of shares issued.

#### Specific entries applicable to a company

**Income Tax:** A company, like any other legal entity, is also liable to pay tax. **Two** provisional payments need to be made during the year (based on previous profits and estimates).

### RECORDING OF INCOME TAX

#### First provisional payment (6 months after the beginning of the current accounting period)

SARS: Income Tax	<b>Dr.</b>	<b>Cr.</b>
Bank	x	x

#### Second provisional payment (at end of current accounting period)

SARS: Income Tax	<b>Dr.</b>	<b>Cr.</b>
Bank	x	x

#### Recording of tax assessed by SARS:

Income Tax	<b>Dr.</b>	<b>Cr.</b>
SARS: Income Tax	x	x

If all provisional payments are less than the tax amount assessed by SARS, then this will be reflected as a liability at the end of the current accounting period.

If all provisional payments exceed the tax amount assessed by SARS, then this will be reflected as an asset at the end of the current accounting period.

In the case of a liability this must be paid at the beginning of the following accounting period. It will be recorded as follows:

Bank	<b>Dr.</b>	<b>Cr.</b>
SARS: Income Tax	x	x

### DIVIDENDS:

Not all profits will be distributed to the shareholders of the company in the form of dividends, but will be retained in order to expand the business activities of the company. The dividend amount payable will be proposed by the directors, which then should be approved by the shareholders at the AGM, before it

### RECORDING OF DIVIDENDS

Interim dividends: This is a dividend declared during the year, based on profits up to date, and normally paid in full.

Ordinary share dividends	<b>Dr.</b>	<b>Cr.</b>
Bank	X	x

Final dividend: This is a dividend declared at the end of the accounting period, based on the total profits for the accounting period.

Ordinary share dividends	<b>Dr.</b>	<b>Cr.</b>
Shareholders for dividends	X	x

(Because these dividends are declared at year end they are normally not paid out at the end of the accounting period and we therefore need to create a liability!)

Payment of outstanding dividend: This outstanding amount will then be paid in the following accounting period.

	<b>Dr.</b>	<b>Cr.</b>
Shareholders for dividends	X	
Bank		x

**NOTE** During the current accounting period we will need to pay the final dividends outstanding from the previous accounting period!

### CLOSING TRANSFERS AT THE END OF THE ACCOUNTING PERIOD

An Appropriation account is used to show the distribution of profits between tax, the owners (dividends), and the profit that is retained to fund the future growth.

	<b>Dr.</b>	<b>Cr.</b>
Retained income (previous year)	xx	
Profit and Loss account (net income for current year)	xx	
Appropriation account		xx
Appropriation account	xx	
Income tax (total assessed tax for current year)		xx
Ordinary share dividends (interim and final dividends)		xx

The retained income for the current accounting period, the balancing figure in the Appropriation account, is then transferred to the following accounting period as follows:

	<b>Dr.</b>	<b>Cr.</b>
Appropriation account	xx	
Retained income		xx

### ACTIVITY:

#### \*LO1

**AS2:** Within the context of the Accounting cycle, record the unique information for a company.

**AS3:** Analyse and interpret the influence of transactions on the Accounting equation.

**AS5:** Prepare Final accounts and financial statements

### REQUIRED:

Draw up the following general ledger accounts for the year ended 28 February 2006:

Ordinary share capital  
 Share premium  
 South African Revenue Service  
 Ordinary share dividends  
 Appropriation account

### INFORMATION:

You are provided with information from the accounting records of Student Ltd, a public company.

Transactions for the year ended 28 February 2006

<u>Balances on 01 March 2005</u>	
Ordinary share capital	R400 000
South African Revenue Service	R8000 (Cr.)
Retained income	R20 000

- The company has an authorised share capital of 300 000 shares of R2 each.
- On 09 March 2005 a cheque was sent to SARS, for the amount due.
- The unissued shares were issued at a premium of 30c each and all the money was received and deposited on 30 June 2005
- Provisional tax payments of R20 000 each were made on 31 August 2005 and 25 February 2006
- An interim dividend of R25 000 was paid on 01 September 2005, and a final dividend of 10c per share was declared on 28 February 2006
- The profit before tax was calculated as R100 000 and tax is levied at 29%.

**Suggested answers to follow in next ARTICLE**