COMPANIES & CLOSE CORPORATIONS 21 FEBRUARY 2013

Lesson Description

In this lesson we:

- Unpack the term "company"
- Look at the differences between private & public companies
- Discuss relevant terms
- Look at the Recording of Transactions
- Look at the Recording of Year End Adjustments

Key Concepts

What is a "Company"?

In general terms, a company can be defined as a society of persons working together to make a profit. A company is a legal person distinct from its owners, and is incorporated in accordance with the stipulations of the Companies Act 61 of 1973.

Distinctive Features

- The entity exists independently from its owners, the shareholders.
- The owners of a company (the shareholders) have limited liability as far as the debts of the business is concerned.
- The company can do everything that a person with contractual capacity can do, in its own name. This includes the buying and selling of non-current assets, entering into contracts, etc.
- A company can sue and can be sued.
- A company is liable to pay income tax.

The following are some of the advantages of Companies over Sole Proprietorships and Partnership:

- More capital can be accumulated.
- The continued existence of the business is independent of its owners.
- Ownership can be exchanged.
- Financial liability of the owners is limited.

Differences between Private and Public Companies

The following are some of the differences between Private and Public companies:

Private Companies	Public Companies
Name ends with the letters (Pty) Ltd	Name ends with the letters Ltd
Minimum of 1 shareholder to a maximum of 50.	Minimum of 7 shareholders and limited to the number of shares issued.
Raises capital by issuing shares to founder members.	Raises capital by issuing shares to members of the public.
Financial statements need not be audited or published	Financial statements need to be audited and published
Minimum of 1 director appointed	Minimum of 2 directors appointed
Is not compelled to hold Annual General Meetings	Is compelled to hold Annual General Meetings

Terms

Term	Definition	Calculation where applicable
Authorised Shares/Capital	The number of shares a company is **allowed** to sell in order to raise capital.	Number of authorised shares x par value = Authorised capital
Issued Shares/Capital	The number of shares a company **has already sold** in order to raise capital.	Number of issued shares x par value = Issued share capital. **OR** Issued share capital divided by par value = Number of issued shares
Ordinary Share Capital	Capital raised through the issue of ordinary shares. (The curriculum only deals with the issue of ordinary shares, therefore the Issued and the Ordinary Share Capital would be the same amount).	Same calculation as above applies.
Par Value	The nominal or initial price of a share as stipulated in the Memorandum of Association.	Issued share capital divided by number of shares issued = Par value
Share premium	Shares sold at a price higher than the par value.	E.g. Par value of a share is R2 and the share is sold for R3, therefore the premium is R1.
Dividends	The portion of a companies profits declared by directors to be given to shareholders. The dividends are always declared as a number of cents per share. • Interim dividends: Dividends declared during the financial year. • Final dividends: Dividends declared at the end of the financial year.	Number of shares issued x dividends per share = Amount of dividend
Income tax	Portion of the net income payable to SARS as tax for the year.	Net income (before tax) x rate of tax = Income tax for the year.
Provisional tax	Payment of an estimated amount of tax during the year to SARS.	

Directors fee	Fees paid to directors for services rendered. This is an expense for the company.	
Audit fee	Fees paid to auditors for services rendered. This is an expense for the company.	
Retained Income	The portion of the company profits which are not given out.	Retained income (at beginning) + Net profit before tax – dividends – income tax = Retained income at the end.

Recording of Transactions

Issue of shares at par value

E.g. ABC Limited issued 10 000 ordinary shares @ the par value of R2. The shares were allotted and the money banked.

Cash Receipts Journal

Doc	Day	Details	Bank	Sundry accounts	
				Amount	Details
		Sundry shareholders	20 000	20 000	Ordinary share capital

Issue of shares at a premium

E.g. ABC Limited issued a further 5 000 ordinary shares @R3. The shares were allotted and the money banked.

Cash Receipts Journal

Doc	Day	Details	Bank	Sundry accounts	
				Amount	Details
		Sundry shareholders	15 000	10 000 5 000	Ordinary share capital Ordinary share premium

Payment of provisional income tax

E.g. ABC Limited issued a cheque of R12 000 as provisional tax payment.

Cash Payments Journal

Doc	Day	Details	Bank	Sundry accounts	
				Amount	Details
		SARS	12 000	12 000	SARS: Income tax

Payment of amounts due to SARS and Shareholders.

E.g. Balances at the beginning of the financial year:

SARS: Income tax	R2 500 Cr
Shareholders for dividend	R6 000

Issued cheques to SARS and shareholders to settle amounts due.

Cash Payments Journal

Doc	Day	Details	Bank	Sundry accounts	
				Amount	Details
		SARS	2 500	2 500	SARS: Income tax
		Sundry shareholders	6 000	6 000	Shareholders for dividends

Payment of interim dividend

E.g. The directors of ABC Ltd declared and paid an interim dividend of 25c per share.

Calculation: 15 000 x .25 = R3 750

Cash Payments Journal

Doc	Day	Details	Bank	Sundry accounts	
				Amount	Details
		Sundry shareholders	3 750	3 750	Ordinary share dividends

Recording of Year End Adjustments

Recording income tax for the year

E.g. The income tax for the year was assessed at R18 000.

General Journal

Doc	D	Details	DR	CR
		Income Tax	18 000	
		SARS: Income tax		18 000
		Tax assessment for the year		

Recording of final dividend declared.

E.g. The directors declared a final dividend of 80c per share.

Calculation: 15 000 x .8 = 12 000

General Journal

Doc	D	Details	DR	CR
		Ordinary share dividends	12 000	
		Shareholders for dividends		12 000
		Final dividend declared at 80c per share.		

Questions

Question 1: Company Concepts, Records & VAT.

You are provided with information relating to Garland Limited for the financial year ended 30 June 2008.

Required:

a.) Briefly explain why a company has to have 'Limited' or 'Ltd' in its name. (2)
b.) Analyse the transactions for the current financial year in the table provided. Show the account debited, account credited and the missing amounts. (25)
c.) The company plans to issue the remaining unissued shares next year.
   i. How many shares will the company issue? (3)
   ii. Gary Garland, the managing director, currently owns 230 000 shares in this company. What is the minimum number of shares Gary will have to buy to keep control of the company? (3)

[35]

Background information and opening balances:

- The business was started in 2004 with an authorised share capital of 500 000 ordinary shares of R2,00 par value each.
- By 1 July 2007, the start of the current financial year, the business had issued 300 000 of these shares at par.

Transactions for the year ended 30 June 2008:

Example: Directors' fees of R150 000 were paid.

1. Provisional tax payments totalling R143 550 were made to SARS.
2. Interim dividends of R24 000 were paid to the shareholders.
3. Further 120 000 shares were issued at a premium of 60 cents each.
4. The tax assessment for income tax for the year amounted to R154 356.
5. A final dividend of 17 cents per share was declared.