

COMPANY LEDGER ACCOUNTS

28 FEBRUARY 2013

Lesson Description

In this lesson we:

- Cover concepts related to company bookkeeping
- Look at the eight important ledger accounts for companies – specifically the Appropriation Account
- Discuss how to enter company transactions in the general ledger.

Key Concepts

Terminology

Concepts you should know:

- Par value
- Share premium
- Market value
- Steps in forming a company
- Articles of Association
- Memorandum of Association
- Dividends – interim and final
- Provisional tax

Check List

You need to know how to draw up the following ledger accounts:

- Ordinary share capital
- Share premium
- Retained income / Accumulated profits
- Ordinary share dividends
- Shareholders for dividends
- SARS (income tax)
- Income tax
- Appropriation (Learn this one well!)

Appropriation

Income tax	GJ	(c)	Profit and loss	GJ	(a)
Ordinary share dividends	GJ	(d)	Retained income	GJ	(b)
Retained income	GJ	(e)			

- Net profit **before tax** for the year
- Retained income **at the beginning of the year**
- Income tax for the year (the income tax account gets closed off here)
- Total dividends paid and declared = interim and final (the ordinary share dividends account gets closed off here)
- Retained income **at the end of the year** (this is usually the balancing figure)

This account is important as you will often use it to answer other questions!

You will be required to know how to record the following transactions for companies:

TRANSACTION	GENERAL LEDGER ENTRIES
The company issues ordinary shares at a premium	Dr Bank (no. of shares x [par value + premium]) Cr Ordinary share capital (no. of shares x par value) Cr Share premium (no. of shares x premium)
The company pays the tax owing at the beginning of the financial year	Dr SARS (income tax) Cr Bank
The company pays shareholders the final dividend that was declared last year	Dr Shareholders for dividends Cr Bank
The company pays provisional tax	Dr SARS (income tax) Cr Bank
The company pays an interim dividend	Dr Ordinary share dividends Cr Bank Remember to calculate the dividend! Dividends per share x no. of shares Make sure that you consider whether there were new shares issued during the year!
The company declares a final dividend	Dr Ordinary share dividends Cr Shareholders for dividends
The company receives its income tax assessment	Dr Income tax Cr SARS (income tax)

Questions

Question 1: Company General Ledger Accounts

Use the information below to prepare the relevant ledger accounts of McDot Trading Ltd for the year ending 28 February 2011.

Information relating to McDot Trading Ltd:

Balances on 1st March 2010 included the following:

Accumulated profits	R82 000
Shareholders for dividends	R60 000
South African Revenue Services (Income tax)	R14 500 (credit)

By 28 February 2011, McDot Trading Limited had issued 500 000 ordinary shares.

100 000 of these shares were issued at a premium of 10 cents per share on 3rd January 2011. All of the money was received.

The following transactions took place during the year:

2010 March 31	Paid the amount due to the SARS and to the shareholders
2010 September 30	Made a provisional income tax payment of R53 500 Paid an interim dividend of R20 000 to the shareholders.
2010 December 1	Made a second provisional payment of R57 000. 100 000 new shares were issued at a premium of 10 cents per share. All of the money was received.
2011 February 28	Calculated the net income before tax at R320 000 Income tax was calculated at 30% for the year. Declared a final dividend of 10 cents per share.

a.) **Ordinary share capital**

b.) **South African Revenue Services (Income tax)**

c.)

Ordinary share dividends

d.)

Appropriation account

(11)
