

COMPANIES: PREPARATION OF FINAL ACCOUNTS

13 FEBRUARY 2014



Lesson Description

In this lesson we:

- Focus on the Preparation of Final Accounts



Summary

New Accounts Which Affect Companies

Income Tax

A company is a legal person and has to pay taxes of its own on profits and dividends declared and are shown as and debited to: Income tax (Nominal account)

It is not regarded as an overhead expense, but rather as an appropriation of a share of the company's profits to which the government is entitled to, in terms of the Income Tax Act. At present (year 2012/2013), the income tax due by a company is calculated as follows:

28% of taxable income PLUS

Income tax (Nominal account –closed off to the Appropriation account).

Ordinary Share Dividends

The portion of net income not retained is distributed to the shareholders in the form of dividends.

Ordinary share dividends (Nominal account –closed off to the Appropriation account).

Directors Fees

Executive and non-executive directors are compensated by fees, salary.

However, the amount of remuneration cannot exceed the amount specified in the MOI.

Directors fees (Nominal account –closed off to the Profit & loss account)

Audit Fees

A fee a company pays an external auditor in exchange for performing an audit. Company financial statements have to be audited and payment is recorded in the books of the company.

Audit fees account (Nominal account –closed off to the Profit & loss account).

Retained Income

Shareholders are not automatically entitled to dividends. The directors are entitled to retain part or all of the net profit for utilisation by the company as Retained income. The income retained at the beginning and at the end of the year will increase shareholders' equity.

In the 1st year of operation, a company's Income Statement will reflect the following:

INCOME STATEMENT OF A COMPANY (continued)

Net profit before tax	XXX
Taxation	(XXX)
Net profit after tax	XXX

- The Net profit after tax is credited to the Retained income account, which will be reflected in the notes to the financial statements (Note 8-Retained Income).



Test Yourself

Question 1

Legal persona means that:

Choose the **incorrect** statement

- (A) A company can be sued
- (B) A company cannot enter into legal contracts
- (C) In the eyes of the law the company is regarded as a person
- (D) None of the above

Question 2

The profits made by a company, belong to the

- (A) The company
- (B) The shareholders
- (C) The directors
- (D) None of the above

Question 3

The word LTD in the name of a company means that

- (A) The directors are limited
- (B) The shareholders are limited
- (C) The liability of the directors are limited
- (D) The liability of the company is limited

Question 4

Authorised shares means that this is :

- (A) The minimum number of share that a company may sell
- (B) The maximum number of shares that a company may sell
- (C) The authority given to shareholders
- (D) None of the above

Question 5

What type of an account is the Retained Income?

- (A) Asset
- (B) Liability
- (C) Income
- (D) Equity

Question 6

Which two components will make up Shareholders Equity?

- (A) Assets +Liabilities
- (B) Ordinary Share Capital +Liabilities
- (C) Ordinary share Capital+ Retained Income
- (D) None of the above

Question 7

The buy Back of shares at higher than the Average price will RESULT the following double entry:

- (A) Debit Ordinary Share Capital Credit Bank
- (B) Debit Retained Income: Credit Bank
- (C) Debit Ordinary Share Capital and Retained Income: Credit Bank
- (D) Debit Ordinary Share Capital and Retained Income: Credit Shareholders

Question 8

The buy back of shares will affect the following:

- (A) Net asset value per share
- (B) Issue price
- (C) Market price
- (D) None of the Above

Question 9

The following items will appear on the Debit side of the Appropriation Account:

- (A) Income tax and ordinary share dividends
- (B) Ordinary Share Dividends
- (C) Audit fees
- (D) Directors fees

Question 10

The net profit AFTER tax Amounted to R 2 100 000.The tax at a rate of 30% for the year would amount to:

- (A) 630 000
- (B) 900 000
- (C) 3 000 000
- (D) 90 000

**Improve your Skills****Question 1**

Happy Badgers Limited trades in making matric badges. The Company is authorized to issue 1 000 000 ordinary shares.

The directors are concerned that the market price per share at Johannesburg Securities Exchange (JSE) on 1 March 2013 has declined from R9,00 to R6,00 per share. The directors informed the internal auditor to investigate what contributed to the declined market price per share.

You have been requested by shareholders to present information relating to the following company accounts for the period 1 March 2013 to 28 February 2014.

Required

Complete the following accounts and balance/close off the accounts on 28 February 2014.

- Ordinary share capital
- Retained income
- Shareholders for dividends
- SARS: income tax
- Ordinary share dividends
- Income tax
- Appropriation

Information

The following balances appeared in the books on 1 March 2013:

Ordinary Share Capital (100 000 shares issued)	500 000
Retained Income/ Accumulated Profits	98 000
SARS (Income Tax) (Dr)	15 000
Shareholders for dividends	85 000

Additional Information

1

2013 The amounts due to the shareholders for dividends were paid. We also received a
Mar 31 refund cheque from SARS for the amount due to us

2 **Income tax details are as follows:**

2013 The company paid their first provisional tax of R280 000.
Aug 31

2014 A second provisional tax payment of R290 000 was made.
Feb 28

The Income tax for the year amounted to R600 000, being 30% of net profit.

3 **Shares and Dividends**

2013

Mar 31 Issued 40 000 no par value ordinary shares for R240 000.

Mar 31 Issued another 50 000 no par value ordinary shares @ R8 per share.

Aug 30 The directors decided to pay an interim dividend R140 000.

Sep15 After investigation the directors realised that the shares were undervalued in the market place and therefore decided to buy 45000 ordinary shares for R333 000.

2014

28 Feb The directors recommended and declared a dividend of 245cents per share to the shareholders at the AGM meeting.