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COMPANY LEDGER ACCOUNTS

Dividends

Shareholders for dividends B12							
3	Bank	GJ	50 000	2	Ordinary share dividends	GJ	50 000

When shareholders are paid the amount owed at the beginning of the following year, this does not affect the ordinary share dividends account, as the business is simply settling a liability from the previous year.

Nominal accounts section

Ordinary share dividends N15							
1	Bank	CPJ	25 000				
2	Shareholders for dividends	GJ	50 000				
			75 000				

Because the first (interim) dividend was paid when it was declared, you do not have to use the shareholders for dividends account. The second (final) dividend, however, has not been paid when it was declared, and so this liability must be shown at the end of the financial year.

Note:

It is very easy to confuse these two accounts. Just remember that the Statement of Financial Position account, i.e. shareholders for dividends, represents the liability, or amount owed to shareholders. It is therefore only used when dividends have not been paid. The ordinary share dividends, which is a nominal account, represents the total effect of dividends on owners' equity, and so all dividends (both paid and declared) are shown here.

Income tax

SARS (Income tax) B10							
2	Bank	CPJ	30 000	1	Balance	B/d	30 000
3	Bank	CPJ	35 000	5	Income tax	GJ	65 000
4	Bank	CPJ	35 000		Balance	C/d	5 000
			70 000				70 000
	Balance	B/d	5 000				

Because SARS has a debit balance in this example, it would appear as part of the trade and other receivables note to the Statement of Financial Position. This is because more provisional tax was paid than the tax that was actually due for the year. This debit balance could be set off against the first provisional payment of the following year.

Income tax N12							
5	SARS (Income tax)	GJ	65 000				

Appropriation account

This account shows how profits of the business are divided up between tax, dividends, and profits remaining in the business (accumulated profits).

1. The net profit calculated in the profit and loss account is transferred to the credit side of the appropriation account, as well as the accumulated profit from previous years. This is in order to show all the profit available for distribution.
2. In the same way that expenses are closed off to profit and loss, income tax and distributions are closed off to the debit side of this account.
3. The remaining balance in the account after taking income tax and ordinary share dividends into account is then transferred back to the accumulated profits account at the end, representing profits that remain in the business.

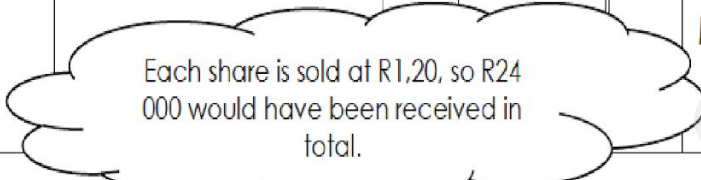
Note: Accumulated profits may also be called retained earnings or retained income.

Appropriation account					
2	Income tax	XXX	1	Accumulated profits	XXX
2	Ordinary share dividends	XXX	1	Profit and loss	XXX
3	Accumulated profits	XXX			
		XXX			XXX

SHARE CAPITAL

A company with an issued share capital of R100 000 issues 20 000 new shares at R1,20.

Ordinary share capital B1

	Balance		B/d	100 000
	Bank	0	CRJ	24 000
				124 000

Buy Back of Shares**The buying back of shares**

A company may decide to reduce its shareholding, and may either buy back shares from existing shareholders directly, or it may put out an offer to buy shares as an investor. Companies may decide to buy back shares for a number of reasons, including the following:

- There is extra cash available that they would like to use to reinvest in the company.
- Buying back shares instead of issuing a dividend results in the shareholders paying less tax on the cash they receive for the shares compared to dividends.
- Shareholding can be reduced and therefore control will not be spread as widely.
- Buying back shares can change gearing and other ratios that may be temporarily advantageous.
- A share buyback will usually have a favourable effect on the market's perception of the company, thereby increasing the value of its shares.
- A takeover from another company may be prevented, as the company increases its percentage of ownership.

When a company buys back its own shares, the share capital is reduced. If the shares are bought back at a price higher than the average share price (share capital divided by number of shares in issue), the difference will come from profits retained by the business from previous years, via the Appropriation Account. A share buyback account may be created to simplify the transaction.

ORDINARY SHARE CAPITAL

20.5					20.4				
June	30	Bank (number of shares X WAIP)	CPJ6	239 000	July	1	Balance	b/d	4 780 000
		Balance	c/d	4 541 000					

				4 780 000					4 780 000
					July	1	Balance	b/d	4 541 000

RETAINED INCOME

20.5					20.4				
		Bank							
		(number of shares X Retained inc portion)							
June	30		CPJ6	166 000	July	1	Balance	b/d	1 700 000
		Balance	c/d	1 534 000					
				1 700 000					1 700 000
					20.5				
					July	1	Balance	b/d	1 534 000

Step 1: Calculate WAIP (Ord share capital/number of shares issued)

Step 2: Split the buy back price

Number of buy back shares X WAIP -----Goes to Dr side of Ord Share Capital

Number of buy back shares X (retained Inc portion [BBP-WAIP])-----Goes to Dr side of Retained Income.