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Effect Shares have on the books of a business

Companies issue shares to raise capital.

Important Words:

- Share capital: capital a company has as a result of selling shares.
- Authorized Share Capital: the total amount of money that may be raised by selling of shares at first issue. The amount of money made is not capped like the definition says but rather the number of shares that can be in circulation can be capped.
- Issued share capital: this represents the number of shares currently in circulation.

There many new accounts

1. SARS (income Tax) – when we owe SARS is credit balance. When SARS owe us, it is a debit balance.
2. Income Tax- Debit is +
3. Appropriation Account- an account that others get closed off to and shows how the net profit of the year has been appropriated/ allocated.
4. Ordinary Share Capital- credit is +
5. Retained income- Credit is +
6. Shareholders for Dividends- debit is +

Transactions:

- The first transactions you must do are always paying off the balance of the SARS (income tax) account and the Shareholders for Dividends account unless you are told a date if a date is given put the in for that date.
- Provisional income tax payments: (!)
 - ♥ Debit: SARS (income tax)
 - ♥ Credit: Bank
- Income tax for the year is XYZ
 - ♥ First-> (F)
 - o Debit: Income Tax
 - o Credit: SARS Income tax
 - ♥ Second->
 - o Debit: Appropriation
 - o Credit: Income Tax
 - ♥ For income tax when you do the income tax for the year adjustment you don't pay the income tax. That only happens next year. At the start of the next financial year your SARS (income tax) will have a balance you have to pay this amount if the balance is credit. (&)

- Sold share at Rx (#)
 - ♥ Debit: Bank
 - ♥ Credit: Ordinary Share Capital
- By back of shares
 - ♥ At average price (*)
 - Debit: Ordinary Share Capital
 - Credit: Bank
 - ♥ At above average price
 - Debit: Ordinary Share Capital according to the average price. (*)
 - Credit: Bank
 - Debit: Retained Income with anything above the average price.(\$)
 - Credit: Bank
 - Meaning if you sell shares for R5 but the average price is R2. R2 per share is deducted from Ordinary share capital and R3 is deducted from retained income.
- Interim dividends declared and paid: (L)
 - ♥ Debit: Ordinary Share Dividend
 - ♥ Credit: Bank
- Final dividends: (Q)
 - ♥ Final dividends will be declared at the end of the financial year but only paid the next year. Therefore, you treat them like this-
 - ♥ This Year:
 - Debit: Ordinary Share Dividend
 - Credit: Shareholders for Dividends
 - ♥ Next year: (J)
 - Debit: Shareholders for dividends
 - Credit: Bank

Ordinary Share Capital					
date	Bank	*	1 March 2014	Balance	XXX
	balance	XXX+#-*	date	bank	#
		XXX+#			XXX+#
			1 March 2015	balance	XXX+#-*
Retained Income					
date	bank	\$	1 March 2014	Balance	YYY
	balance	YD-\$	28 Feb 2015	Appropriation	DDD
		YD			YD
			1 March 2015	Balance	YD-\$
SARS (Income Tax)					
date	bank	&	1 March 2014	Balance	A
date	bank	!	28 Feb 2015	Income tax	F
	balance	T=A+F-&-!			A+F
		A+F	1 March 2015	balance	T

Income Tax					
28 Feb 2015	SARS (income tax)	F	28 Feb 2015	Appropriation	F
Appropriation					
28 Feb 2015	Income tax	F	28 Feb 2015	Profit & Loss	Y
28 Feb 2015	Retained inc	DDD			
28 Feb 2015	Ordinary Share Dividends	K			
		Y			Y
Ordinary Share Dividends					
date	Bank	L	28 Feb 2015	appropriation	K
28 Feb 2015	Shareholders for Dividend	Q			
		k			k
Shareholders for Dividends					
Date	Bank	J	1 March 2014	Balance	J
	balance	Q(Q+J-J)		Ordinary Share Dividends	Q
		J+Q			J+Q
			1 March 2015	Balance	Q

Earnings per share: $\text{Net Profit after tax} / \text{number of shares in circulation} \times 100 / 1 = \text{Ry cents.}$

You pay interim dividends and provisional income tax to help keep cash flow steady throughout the year. If you paid all dividends and income tax at the end of the year, there would be a cash flow issue.

Effects on income statement:

Bottom of income statement now has extra parts they go in this order.

Net profit before income tax

Income tax (xxx)

Net profit after tax

Earnings per share

Changes to balance sheet and notes to the balance sheet:

Balance sheet:

Under equity and liabilities

Capital Reserves (which is made up of)

Ordinary Share capital (note)

Retained Income (note)

Notes to the balance sheet:

Trade and other Recievables	
Net trade debtors	
• Trade debtors	
• Provision for bad debts	
Accrued income	
Prepaid expenses	
Deposit on.....	
SARS (Income Tax) only when this account is debit balance	
Debtors for insurance	

Ordinary Share Capital	
Authorized Share Capital	xxx
Issued share capital:	
Xxx shares in issue at xxx cents each on	
Xxxx share at xxx cents each issued during year	
Xxx shares at xxx cents repurchase on....	

Retained income	
Balance on first day of year	
Net profit after tax	
Buy back of share	(xxx)
Dividends	(zzz+yyy)
• interim	zzz
• Final/recommended	yyy
Balance on last day of year	

Trade and other Payables	
Trade creditors	
Income received in advance	
Accrued expenses	
Loan (short term period)	
Shareholders for dividends	
SARS:	
• PAYE	
• Income Tax	
Creditors for wages/salaries	
Pension Fund	