

Module 5 : Accounting for Equities

5.1 Accounting Equation

5.2 What is Equity

5.3 Equity Component

5.4 Capital Contribution

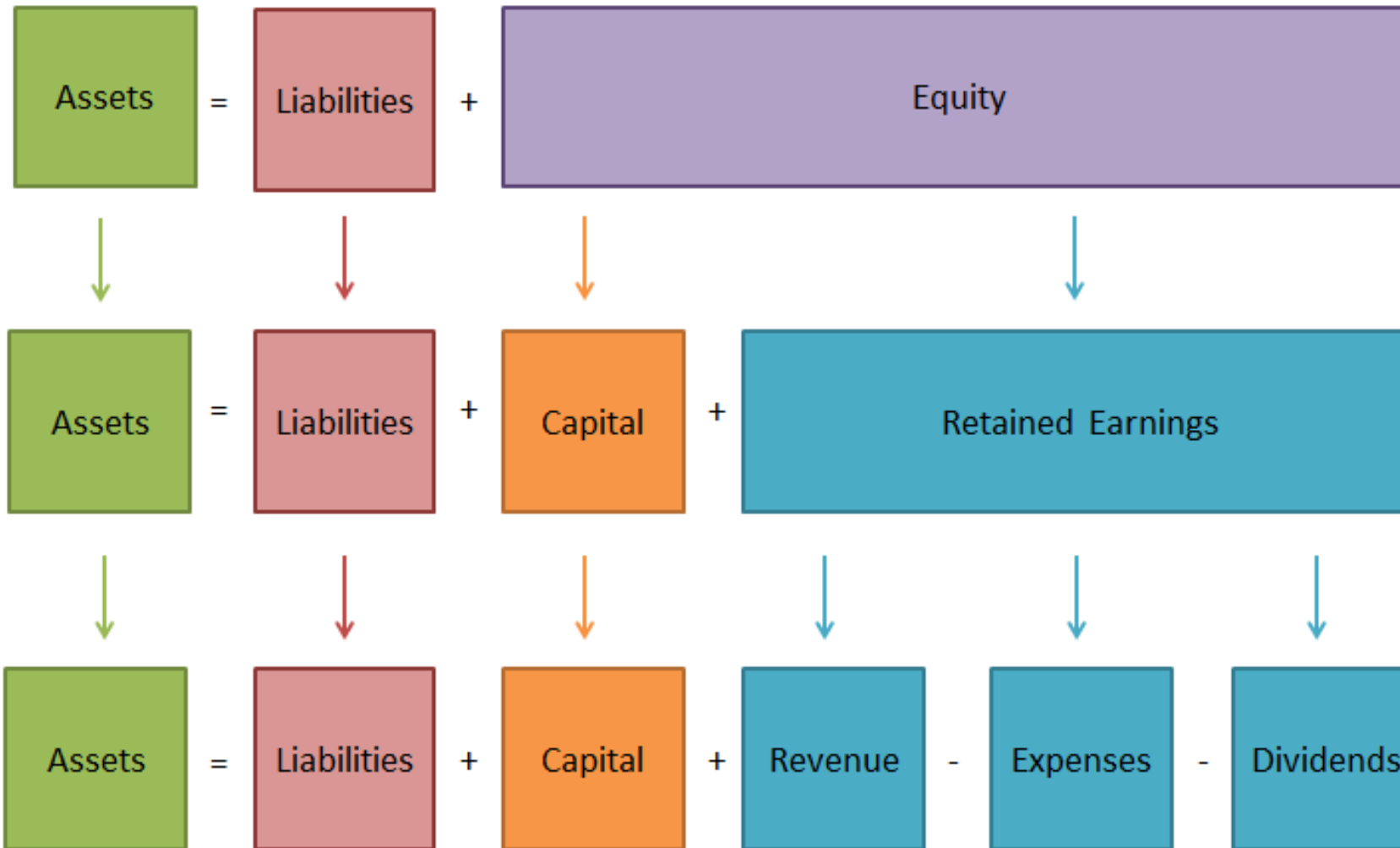
5.5 Retained Earning / Accumulated Profit

5.6 Profit Distribution

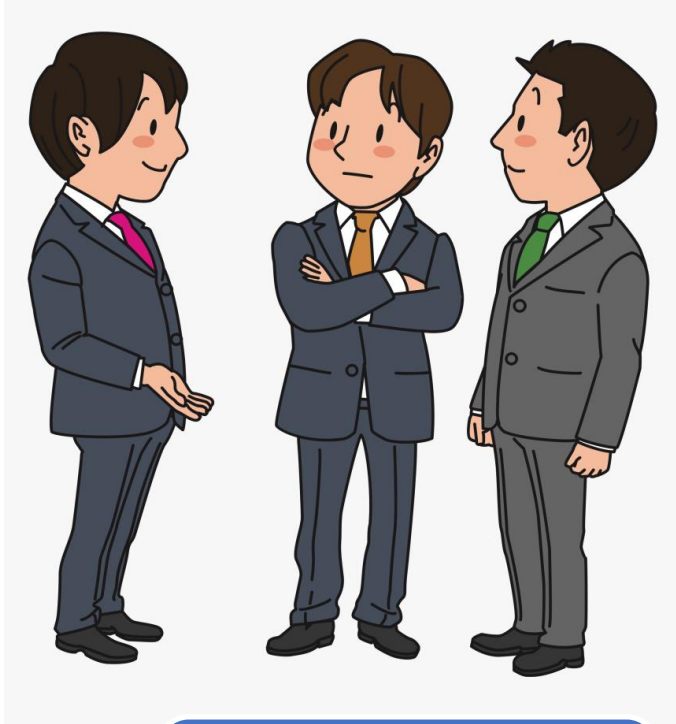
5.7 Drawings

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5.1 Accounting Equation



5.2 What is Equity



Individual /
a group of
people



Put in money
(investment /
capital)



Set up a
business



COMPANY

5.3 Equity Components



Money put into the company by owner / shareholders / partner / members



Business profit earned from day 1 to now.

- Accumulated profit/ (Losses)
- Retained Earnings



Profit Sharing / Withdrawal

- Dividend
- Drawings

5.4 Capital Contribution / Investment

- Any investment made by owner / shareholders
- Either in RM term or equipment. For example, fixed assets bring in or trading stock bring in
- Company will credit its capital account when shareholders inject money.

	Investor	Money Invested	Share	Report	Return
Sole proprietors	Owner	Capital	X	BS	All profit
Partnership	Partner	Capital	X	BS	Share profit
Limited Liabilities Partnership	Partner	Capital	X	BS	Share profit
Corporation (Sdn Bhd / Bhd)	Shareholder / Member	Share Capital	V	BS	Dividend

5.4 Capital Contribution / Investment

Example 5.4.1

Sole Proprietorship

Ali starts his business by investing his money into a business account for RM50,000 cash and equipment valued at RM30,000

Example 5.4.2

Partnership

Sufi, Syabeel and Damia have formed a partnership business to sell school stationery in Bandar Baru Bangi. All partners agree to contribute RM40,000 cash each. In addition, Syabeel brings in his personal computer valued at RM4,000 to the partnership.

5.4 Capital Contribution / Investment

Example 5.4.3

Corporation

Media Bhd has outstanding share capital amounting to RM15,000,000. The company requires additional capital to finance its plant construction in Kota Kinabalu at an expected cost of RM10,200,000. The company has issued 10,000,000 units of shares at RM1.30 per share to the public. The share are fully subscribed by investors.

5.5 Retained Earnings / Accumulated Profit

- refers to the historical profits earned by a company, **minus any dividends**.
- earnings were not paid out to shareholders as dividends they were instead retained by the company.
- For this reason, retained earnings decrease (debited) when a company either loses money or pays dividends, and increase when new profits are created.

Retained Earnings = Profit Earned b/f + this year profit – Dividend

5.6 Profit Distribution

- Profit refer to **Sales – Cost of Sales + Other Income – Expenses – Tax Expense**. The profit then will close and transfer from Statement of Comprehensive Income Statement to Balance Sheet as Retained Earnings.
- Profit distribution refer to **money payback** to shareholders, owners, and partners.
- payback goes directly to the sole proprietor. Any gain or loss attained by the business is borne by the sole owner
- For partnership / LLP payback is share between partners according to profit sharing
- For company payback is through declaration of dividend

5.7 Drawings

- Personal drawings are allowed in sole proprietorships, partnership and LLP business
- When owner / partners made a private drawings their respective capital account will reduce accordingly.
- Companies is not allowed to have personal drawings / loan from company.

5.7 Drawings

Example 5.7.1

Sole proprietorship

Anthony operates an enterprise **business selling doughnuts** to a chain of coffee shops in Kuala Lumpur. In January , he draw RM2,000 from his business to pay for his **children's tuition fees**.

5.7 Drawings

Example 5.7.2

Partnership

Shima and her good friend, Sethi, formed a partnership to open a fashion boutique 2 years ago. During the year, records show that both partners have made the following cash and inventories drawing for personal use:

Partner	Cash Withdrawal	Inventories drawings	Total
Shima	2,500	500	3,000
Sethi	1,800	-	1,800
Total	4,300	500	4,800

5.7 Drawings

Example 5.7.3

Companies

Shima is shareholder and director for Shima Sdn Bhd, during the year she asked account to transfer RM50,000 to her personal account. Same year, she took 1 unit of stock for personal use.

Is these transactions allowed? What if the directors insist ?

Dr Other Debtor – Shima RM50,000
Cr: Bank RM50,000

Dr Trade Debtors – Shima RM5,000
Cr: Sales RM5,000

5.8 Report Presentation

Companies – Balance Sheet

EQUITY AND LIABILITIES

EQUITY

Equity attributable to owners of the Company:-

Share capital	10	100,000	100,000
Retained earnings		<u>890,512</u>	<u>830,835</u>
Total equity		<u>990,512</u>	<u>930,835</u>

5.8 Report Presentation

Companies

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD FROM 1 JULY 2018 TO 31 DECEMBER 2019**

	<u>Note</u>	<u>Share capital</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
Balance at 1 October 2017		100,000	593,842	693,842
Total comprehensive income for the financial period		-	236,993	236,993
Balance at 30 June 2018		100,000	830,835	930,835
<u>Transaction with owners:-</u>				
Dividends paid	19	-	(200,000)	(200,000)
Total comprehensive income for the financial period		-	259,677	259,677
Balance at 31 December 2019		100,000	890,512	990,512

Accounting Certified Coach

5.8 Report Presentation

Sole Proprietorship – Balance Sheet

I.Lamb							
Balance Sheet As At 31 October 2019							
						RM	RM
<u>Capital</u>							
Opening Balance							65,535.00
Add: Net Profit							23,765.00
Less: Drawings							(4,200.00)
Net Capital							85,100.00
							93,900.00

5.8 Report Presentation

Partnership & LLP – Balance Sheet

Pavlou & Markou Partnership
Balance Sheet As At 30 Sep

	RM	RM
<u>Capital</u>		
Pavlou		382,170.00
Markou		166,780.00
<u>Current Account</u>		
Pavlou		0.00
Markou		0.00
		<hr/>
		548,950.00

5.8 Report Presentation

Partnership & LLP – Balance Sheet

Current Account							
Date	Particulars	Allen	Ben	Date	Particulars	Allen	Ben
2016				2016			
31-Dec	Cash Drawing	1,000	4,000	31-Dec	Interest on capital	1,000	2,000
	31 Interest on drawing	100	400		31 Salary	2,000	0
	31 Balance b/d	4,900			31 Share or profit	3,000	2,000
					31 Balance b/d		400
		<u>6,000</u>	<u>4,400</u>			<u>6,000</u>	<u>4,400</u>
2017				2017			
1-Jan	Balance c/d	Note 2	400	1-Jan	Balance c/d	4,900	Note 1

Note 1: There is a balance carried down of \$4,900 for Allen in the credit side. This means that the business actually owes Allen \$4,900. So Allen is a creditor to the business.

Note 2: There is a balance carried down of \$400 for Ben in the debit side. This means that Ben owes the business \$400. So Ben is a debtor to the business.

As a matter of rule, anything that increases the partner account, you credit it and anything that decreases the partner account, you debit it. If you read from the Current Account above, you will notice that interest on capital, salary, and share of profit are income to the partners' accounts (increases their accounts) while cash drawing and interest on drawing are expenses to the partners' accounts (decreases their accounts).