FACT SHEET

SBA SMALL BUSINESS ACCOUNTING

CURRENT ACCOUNTS

Current Accounts are a record in the financial accounts of a business of the money put into and withdrawn from the business by the owners, or in the case of a partnership, the partners.

Generally when a business starts up or requires additional capital the owners will inject capital into it by making a deposit into the business bank account. Also assets can be introduced to the business such as vehicles, or tools & machinery.
When the business receives value such as described above the financial value is described as "Capital Introduced" and the value is entered into the Current Account. The business now owes the Current Account owner that amount of capital.

The Current Account could be described as a bank account within the business with the business being the "bank".
When Capital is introduced it is like a deposit into the bank account, and the business (think bank) now owes the owner of the Current Account that amount of money.
When Drawings are taken from the business it is treated as a withdrawal from the Current Account and the business (think bank) now owes the owner of the Current Account a lesser amount of money.
Current Account balances therefore are constantly changing.
It is common that sometimes drawings sometimes exceed capital introduced and then the current account goes into overdraft. In Sole Traders or Partnerships this does not cause a problem as the owners "are" the business so the money is directly theirs anyway.

However with a limited company an overdrawn current account does cause problems. This is because a limited company is a separate entity from its owners (the shareholders). Therefore when a shareholder of a limited company overdraws his/her current account they are no longer using their own money but are taking the companies money. In this case there is no difference to overdrawing your account at your bank. Like a bank, the company must charge you interest on your overdrawn current account which is deemed to be income to the company. We are required to provide information relating to this to the IRD when we complete company tax returns.

When a shareholder is allocated a Non PAYE wage at the end of the year this is credited to the Current Account as a Shareholder Salary and has the effect of offsetting any drawings taken throughout the year. However if the drawings have been excessive the Current Account may still be overdrawn and interest (at the IRD's prescribed rate) will have to be charged. This in turn over draws the Current Account further and can cause an out of control spiral if measures are not taken earlier enough to bring it under control.

Shareholders of companies should therefore take great care to the extent that they take drawings from a company. Our monthly cashflow reports should be checked to monitor the position throughout the year.

Related Fact Sheets

Shareholder Salaries PAYE or Non PAYE
Wages Provisional Tax