

DIRECTORS CURRENT ACCOUNT

The directors current account (DCA) (also known as simply directors account) is a notional balance between a company and its directors. It is not a real bank account, and is not represented by real monies. It records:

- Monies drawn by the director, on account of salary, dividends, expenses, etc (if not attributed to salary/dividend at the time of drawing)
- Other drawings by the director – eg personal bills paid by the company.
- Net amounts of salary and dividend due.
- Expense re-imburements due

Normally a directors account must be kept in credit – that’s to say that amounts brought forward, plus net salary and dividend, plus expense re-imburements must be more than the amounts drawn. This balance can normally be achieved by adjusting the year end dividend level. When the directors account is in credit, it is a credit balance on the accounts, and shows as a creditor – that’s to say an amount owed by the company to the director.

However dividends cannot exceed retained profit, and if there is insufficient profit to declare a dividend to cover the directors account then the directors account will be “overdrawn” that’s to say more will have been taken out than you are entitled to take out. In such cases the balance is a debtor in the company accounts, that’s to say an amount owed to the company by the director.

An overdrawn directors account has a number of connotations. First, it is illegal under the Companies Act – in reality so long as the company does not become insolvent and cease to trade there will be no comeback from this as, unless the company is insolvent, the only people who are wronged by the overdrawn directors account are the shareholders, i.e. the directors in another guise. Secondly, and more seriously, a overdrawn directors account is subject to a 25% Corporation Tax surcharge, referred to as S419. S419 is a unusual tax liability in so far as it is a temporary liability, and the amount is repaid when the directors loan account is written off or repaid – think of it as a security deposit to HMRC guaranteeing that the overdrawn balance will be corrected. Finally, there is a benefit in kind charge on the notional interest forgone on the loan – and this is subject to personal tax at 20%, 40% or even 50% as applicable, plus Employers NI at 12.8%.

Therefore overdrawn directors accounts are best avoided. For a PSC this is quite simple; so long as all tax liabilities are provided for in a bank account in the company name as they build up then a overdrawn directors account is unlikely to arise. By contrast if tax is not provided as money is earned then at the year end there is a strong chance that there will not be enough assets in the company, leaving the directors account overdrawn.

See the next page for a practical example of the contents of a directors account, and how cash physically drawn from the company links to amounts declared as dividend and salary and to expense re-imburements.

© Garbetts – updated 12 May 2010 – guidance for illustration only, please seek advice before taking any course of action if you are unsure.

DIRECTORS CURRENT ACCOUNT - continued

A practical example of a directors account (see commentary on previous page).

MODEL 310303 MODEL PSC LIMITED
Garbetts Ltd., Fareham. Serial No.40721
(Compac 04/02/03 18:19)

NOMINAL LEDGER

Date	VAT	Dr	Cr Narrative
610 Directors current account			
310302			20000.00 Bal B/F
			£-20000.00 Opening Balances 1
310303		1500.00	drawn from bank 6 April 2002
310303		1500.00	drawn from bank 6 May 2002
310303		2586.56	personal credit card paid
310303		1500.00	drawn from bank 6 June 2002
310303		1500.00	drawn from bank 6 July 2002
310303		1500.00	drawn from bank 6 August 2002
310303		1500.00	drawn from bank 6 September 2002
310303		3256.01	personal tax bill
310303		1500.00	drawn from bank 6 October 2002
310303		1500.00	drawn from bank 6 November 2002
310303		1500.00	drawn from bank 6 December 2002
310303		1500.00	drawn from bank 6 January 2003
310303		15000.00	drawn from bank 10 January 2003
310303		1500.00	drawn from bank 6 February 2003
310303		1500.00	drawn from bank 6 March 2003
			£38841.57 Bank Payments 1 cash book postings
310303			562.23 expenses and mileage Apr-Jun 02
310303			5693.89 expenses and mileage Jul-Sep 02
310303			1569.56 expenses and mileage Oct-Dec 02
310303			2569.12 expenses and mileage Jan-Mar 03
			£-10394.80 Journals 1 expenses
310303			5289.69 net salary for year
310303			15000.00 interim dividend for year
310303			25000.00 final dividend for year
			£-45289.69 Journals 2
		36842.92	Bal c/d (PY £-20000.00)
		£ 75684.49	£ 75684.49 610 Directors current account
			36842.92 Bal b/d

Opening balance	Amounts drawn in year	Salary and dividend	Expenses re-imbursed	Balance carried forward
-----------------	-----------------------	---------------------	----------------------	-------------------------