



**Chartered  
Governance  
Institute of  
Southern Africa**



**PPG**

Professional  
Practice Group

# **PPG MANUAL**

**FEBRUARY 2022**

## *DISCLAIMER*

*Whilst every effort has been made to maintain accuracy in these notes, no part of the legislation has been reproduced other than in summary form where reference to the relevant legislation has been considered necessary. These notes are intended to draw attention to the requirements of the legislation. Neither the CGISA nor the Professional Practice Group thereof will accept any liability for any action which is based on these notes.*

*The user should always refer to the relevant legislation.*

The Chartered Governance Institute of Southern Africa

Riviera Park (Block C) 6-10 Riviera Road Killarney 2193

First Published 2013

Revised and updated in line with changing legislation February 2022

Copyright © The Chartered Governance Institute of Southern Africa 2022

All rights reserved. No part of this publication may be reproduced, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission, in writing, from the publisher.

**PPG MANUAL  
TABLE OF CONTENTS**

**A. SECTION A – INTRODUCTION AND CODE OF ETHICS**

**A.1 Forewords**

- A.1.1 From the Chairperson (2022)
- A.1.2 From the Chairperson (2013)
- A.1.3 From the Chairperson (2011)
- A.1.4 From the CEO (2022)
- A.1.5 From the CEO (2013)
- A.1.6 From the Editor (2013)

**A.2 Code of Ethics**

- A.2.1 Definition
- A.2.2 Applicable to all members
- A.2.3 For practitioners
- A.2.4 Code of Practice in Advertising

**A.3 Terms of reference of the Professional Practice Group**

- A.3.1 Preamble
- A.3.2 Definitions
- A.3.3 Committee
- A.3.4 Procedures
- A.3.5 Annual Meeting
- A.3.6 Special Meetings
- A.3.7 Finance
- A.3.8 Statutory Records
- A.3.9 Amendments

**A.4 Definition of a Member in Practice and not in Practice**

- A.4.1 Accounting Services
- A.4.2 General Services
- A.4.3 Member Not In Practice

## **B. SECTION B – CLOSE CORPORATIONS - SECRETARIAL MATTERS**

### **B.1 Reservation of Name**

- B.1.1 Introduction
- B.1.2 Overview of form COR9.1
- B.1.3 Choice of Proposed Names

### **B.2 Completion and Lodgement of the Amended Founding Statement**

- B.2.1 Introduction
- B.2.2 Form CK2

### **B.3 Completion and Lodgement of the Amended Founding Statement in respect of Accounting Officer and Address**

- B.3.1 Introduction
- B.3.2 Form CK2A

### **B.4 Deregistration of a Close Corporation**

- B.4.1 Introduction
- B.4.2 Deregistration on application by members
- B.4.3 Deregistration by Commissioner
- B.4.4 Procedure
- B.4.5 Effect of a deregistration
- B.4.6 Restoration of a deregistered Close Corporation
- B.4.7 Liquidations and Deregistration of Close Corporations

### **B.5 Deceased Members of a Close Corporation**

### **B.6 Insolvent Members of a Close Corporation**

### **B.7 Public Officer and Representative Taxpayer**

- B.7.1 Introduction
- B.7.2 Appointment
- B.7.3 Address for service of notices
- B.7.4 Liability of representative taxpayer

## **C. SECTION C – COMPANIES – SECRETARIAL MATTERS**

### **C.1 The New Companies Act**

### **C.2 Incorporation of Companies**

### **C.3 Administrative Provisions**

## **C.4 Officers**

- C.4.1. Company Secretary
- C.4.2 External Auditor

## **C.5 Committees**

- C.5.1 Audit Committee
- C.5.2 Social and Ethics Committee

## **C.6 Conversion of Close Corporations into Companies**

- C.6.1 Step One
- C.6.2 Step Two
- C.6.3 The effect of conversion on the legal status of the entity
- C.6.4 Practical Considerations
- C.6.5 Public Officer and representative taxpayer
- C.6.6 Appointment
- C.6.7 Address for service of notices
- C.6.8 Liability of representative taxpayer
- C.6.9 Deregistration of a private company
- C.6.10 Annual Returns

## **D. SECTION D – ACCOUNTING FOR CLOSE CORPORATIONS**

### **D.1 Appointment of Accounting Officer**

- D.1.1 Engagement Letters
- D.1.2 Where client requests only written consent to act as Accounting Officer

### **D.2 Appointment of Accounting Officer to an existing Close Corporation**

- D.2.1 Circumstances concerning the previous Accounting Officer
- D.2.2 Appointment procedures

### **D.3 Contravention of the Act**

- D.3.1 Threats to Limited Liability of the Corporation
- D.3.2 Personal Liability of Members

### **D.4 Duties of the Accounting Officer**

- D.4.1 Duties of Accounting Officer toward the Close Corporation
- D.4.2 Duties of Accounting Officer toward the Commissioner

### **D.5 Preparation of Accounting Records**

- D.5.1 Implications of the Act on maintenance of accounting records by the Accounting Officer

## **D.6 Working Papers**

- D.6.1 General Notes
- D.6.2 Benefits of Maintaining Effective Work Papers
- D.6.3 Typical Contents of the Working Paper File

## **D.7 Resignation and Removal of Accounting Officer**

- D.7.1 General
- D.7.2 Resignation of Accounting Officer
- D.7.3 Removal from office of Accounting Officer
- D.7.4 Notification of the Commissioner

## **D.8 Examples of Annual Financial Statements**

## **D.9 Sample letters from and to the Accounting Officer**

- D.9.1 Consent to Appointment
- D.9.2 Professional Courtesy
- D.9.3 Response – Professional Courtesy
- D.9.4 Acceptance of Appointment (To Original Accounting Officer)
- D.9.5 Terms of Appointment of Accounting Officer
- D.9.6 Representation to Accounting Officer
- D.9.7 Resignation
- D.9.8 Resignation
- D.9.9 Removal from Office - Notification to Individual Members
- D.9.10 Removal from Office - Notification to CIPC

## **D.10 Independent Review**

## **E. SECTION E – ACCOUNTS OF A SOLE TRADER AND OF A PARTNERSHIP**

### **E.1 Introduction**

### **E.2 Sole Trader**

- E.2.1 Specimen Annual Financial Statements

## **F. SECTION F – ACCOUNTING FOR OTHER FORMAL AND INFORMAL BUSINESS STRUCTURES**

### **F.1 Accounting and Reporting of Bodies Corporate**

- F.1.1 Introduction
- F.1.2 Roles of People involved with a Sectional Title Scheme
- F.1.3 Specimen of Annual Financial Statements to be present at The Annual General Meeting
- F.1.4 Option to Dispense with Audit

F.1.5 Share Block Schemes

## **F.2 Accounting and Reporting on Trusts**

F.2.1 Introduction

F.2.2 Personal Service Trust

F.2.3 Financial Statements to be prepared at the end of the Financial Year

## **F.3 Accounting and Reporting to Clubs and Institutions**

F.3.1 Receipts and Payments Statement

F.3.2 Financial Statements to be prepared at the end of the Financial Year

F.3.3 Specimen of Financial Statements to be presented to the Annual General Meeting

## **G. SECTION G – MANAGEMENT CONSULTING**

### **G.1 Starting and Managing a Small Business**

G.1.1 Introduction

G.1.2 Registration Requirements

### **G.2 Developing a Business Plan**

G.2.1 Controlling the Company

G.2.2 Safeguarding the company's assets

G.2.3 Securing the future of the company through organised planning and management tools

### **G.3 Basic Budgeting Techniques**

G.3.1 Introduction

G.3.2 Types of budget

G.3.3 Procedure

G.3.4 The time span

G.3.5 The cash budget

G.3.6 The budget fixed

G.3.7 Conclusion

## **H. SECTION H – PREPARING FINANCIAL STATEMENTS FOR COMPANIES**

### **H.1 Overview of Changes to The Companies Act 2008**

### **H.2 Public Interest Score (PIS)**

H2.1 Explanation of Public Interest Score (PIS)

H2.2 How to calculate Public Interest Score (PIS)

H2.3 Effect of Public Interest Score (PIS)

H2.4 Diagram to determine scope of work.

**H.3 Extract of IFRS 4410 (Revised) pertaining to Engagement Letters.**

**H.4 Example Engagement letter to a Company, for non-audit preparation of Financial Statements.**

**Y. SECTION Y – CALCULATION OF PROFESSIONAL SERVICES FEES**

Y.1 Guideline for the calculation of fees

Y.2 Time records

Y.3 Rates

Y.4 Salary and related costs

Y.5 Percentage mark-up

Y.6 Chargeable hours

**Z. SECTION Z - APPENDICES**

Z.1 Contact Information – Useful Member Contacts

Z.2 Contact Information – Small Business Development

Z.3 CIPC Company Forms

Z.4 Company Forms

Z.5 Close Corporation Forms and Fees



**PPG MANUAL  
CONTENTS**

**SECTION A: INTRODUCTION AND CODE OF ETHICS**

- A. SECTION A - INTRODUCTION AND CODE OF ETHICS**
- A.1 Forewords**
- A.2 Code of Ethics**
- A.3 Terms of reference of the Professional Practice Group**
- A.4 Definition of a Member in Practice and not in Practice**

## **A. Section A - Introduction and Code of Ethics**

### **A.1 FOREWORDS**

#### **A.1.1. From the Chairperson (2022)**

If you have access to this manual, it means that you are almost certainly a member of the Professional Practice Group (PPG), of the Chartered Governance Institute of Southern Africa. You have studied, written and passed the Institute's exams, been admitted into the Institute and honoured with your membership certificate, and furthermore, been admitted to the PPG by having your membership number added to the register of members in Public Practice. You regularly update your professional knowledge base by way of regular continuing professional development (CPD).

This PPG Manual is a working tool for all of our members who are in public practice. It is a working document and is not meant to be an exhaustive compendium which contains all of the answers which you may seek. It is however a very useful reference document for use in your practice. It contains suggested examples and should be adjusted to suit the requirements of the member in practice. It contains guidelines and is not prescriptive. Members should make reference to the Constitution, Charter and Bye laws and Code of Professional Conduct of the Institute, as well as governing legislation currently in effect, e.g. the Companies Act, and the Taxation Laws amendment Act.

My primary reason to update this PPG manual, was to include as many of the changes as I could that have taken place since the PPG manual was issued in 2013.

Various government Institutions are regularly updating their online presence. CIPC for example have many very helpful "how to" videos on how to perform a myriad of different company secretarial functions online, in a fraction of the time it took, compared to when this PPG manual was first issued decades ago. The days of yellow forms and blue forms (in triplicate) are long gone.

The SARS website is also a fountain of knowledge, on almost all facets of taxation, whether personal or business. One merely has to search. I urge our members to embrace technology.

I truly hope that this major update will prove to be a useful tool to all our PPG members.

Nicolas Michael Andrew Stafford Benson  
FCG (Acc)  
February 2022

### **A.1.2. From the Chairperson (2013)**

The PPG Manual is a useful tool useful for every member, young and old, new and experienced.

It provides our members with a reference guide and knowledge experience that can be used in many areas of professional practice. With the unfortunate slow service experienced by many of the government institutions these days, it enables members to understand the processes, forms and requirements for many statutory bodies.

As with the nature of our industry, this PPG manual will continually require updates whenever rules may change and forms may evolve. Fortunately the technological environment is also ever changing and thus will allow us as an Institute to provide you with downloadable version updates and refreshers.

Many hours of hard work have gone into this updated manual and thanks to all those who contributed hours of knowledge, time and passion for this to have come to fruition.

May it serve as your bible in running your business and providing professional and efficient service to your clients.

Karyn Southgate  
FCG  
May 2013

### **A.1.3. From the Chairperson (2011)**

This, the PPG Manual, is our manual, it is a living document, which must grow and change with the times. It contains suggested examples and should be adjusted to suit the requirements of the member in practice. It contains guidelines and is not prescriptive. Members should make reference to the Constitution, Charter and Bye laws and Code of Professional Conduct of the Institute, as well as present governing legislation, e.g. the Companies Act.

The upgrade of this PPG Manual is required due to the increasing number of members entering into Professional Practice and the need to support those members. For many years the maintenance of this manual was the task of Robert Scott. But sadly after his death it has not found the home it required, nor the person with sufficient knowledge and dedication. Our grateful thanks go to all those who assisted with this manual.

It is planned to incorporate amendments and updates as they are required. Members of the profession are requested to submit their contributions towards future changes and improvements to [membership@chartgov.co.za](mailto:membership@chartgov.co.za).

Yvonne Jefferies,  
FCG  
May 2013

#### **A.1.4. From the CEO (2022)**

We are delighted to be publishing an updated version of the PPG Manual. There have been major changes in the accounting, tax and company secretarial landscapes since our previous edition in May 2013. PPG members are an important part of our Institute. Many of them practise as tax practitioners and provide a valuable service to the public.

Special thanks must go to Nic Benson, the PPG Committee chairperson, who did most of the updating himself. I would also like to thank the following PPG members who assisted with proofreading:

- Lorna Zurlinden
- Barbara Reid
- Ansuya Govender
- Yvonne Jeffries

Lastly I would like to thank Bongiwe Sibanda, Membership Coordinator, who tidied up the document.

Stephen Sadie

(MBA, M. Ed)

February 2022

### **A.1.5. From the CEO (2013)**

PPG members have always been a critical component of the membership in CSSA. Most PPG members work from home. They do not have all the back up and services that go with being part of a corporate. If something needs to be done, they often have to do it themselves. They don't have legal departments, IT departments, and marketing departments, etc to draw on. They often need to become experts in these areas themselves. That is why, it is all the more important, that CSSA supports and nurtures our PPG members.

SARS has recognised CSSA as a controlling body for tax practitioners. While this is a feather in our cap, it also means that our members who wish to practise as tax practitioners will need to demonstrate that their knowledge and skills are completely up-to-date.

PPG members need to consult the CIPC website regularly for changes in procedures. CIPC issues practice notes and other notices from time to time, which PPG members need to take into account.

The sections of the PPG Manual are stand-alone sections. This means that if a section needs to be rewritten, this can be done without waiting for the whole PPG Manual to be revised.

Although there has been a long delay in updating the PPG Manual, we believe that the current version will go a long way towards filling the gap.

Our thanks must go to the following people, who all contributed to the production of the PPG Manual:

- Jean Caddy, past president (2006), for contributing to section B
- Pat Mahony, past president (1997), for writing section C and editing the whole PPG Manual
- Prof Hentie van Wyk, Professor in Accounting at the University of the Free State, for writing sections D – G
- Brenda Foster for typing up the many changes
- Yvonne Jefferies and Vaughan Russell for their commitment to updating the PPG Manual.
- Karyn Southgate, chairman and the whole PPG committee, which oversaw the process of rewriting the PPG Manual.

Please do provide us with feedback on the PPG Manual, particularly on constructive suggestions for improving the PPG Manual. Please send your comments to: [membership@chartgov.co.za](mailto:membership@chartgov.co.za).

Stephen Sadie (MBA, M. Ed)  
May 2013

### **A.1.6. From the Editor (2013)**

Members of Chartered Governance Institute of Southern Africa are skilled professionals, many of whom use their skills in diverse fields such as accountancy, taxation, administration, corporate secretarial services and general administration.

Whilst many chartered secretaries and chartered governance professionals are gainfully employed in commerce and industry there are others who have chosen to establish their own professional practices. For these practitioners the Institute has set up a Professional Practice Group (PPG) and has a number of support services on which they can rely. The PPG Manual is one such service.

It has been found that the majority of PPG members are active in numerative areas such as accountancy and taxation services. For this reason, the PPG Manual focuses on providing assistance and guidance in these fields. However, other areas are covered, but not to the same depth.

The reason for this is that there are other Institute publications available such as the textbooks that have been produced as study material for subjects such as Applied Governance and Company Secretarial Practice, which are part of the high-level qualifying board examinations of Chartered Governance Institute of Southern Africa. It is therefore, encouraged, that persons engaged in these fields buy these useful books. Another especially useful publication produced by Juta, and which is well known as the best work available and is endorsed by the Institute as its official manual, is South African Corporate Business Administration. The latter is available in the traditional hard format and electronically for those who prefer the latter.

Finally, it must be acknowledged that there are many ways of doing things and that this does not mean that some are right, and others are wrong. Systems vary from organisation to organisation and their suitability depends on what is best for their circumstances. Accordingly, the proposals that have been included in this manual must be regarded as such – and not the ONLY way in which to tackle various jobs.

From a personal perspective, I wish to add a few simple words: PPG members are people who have been equipped through a rigorous study programme and experience to have rewarding careers. Do not work hard – work smart! You have the tools to do this, and the results are worth it.

Pat Mahony  
FCG  
Past President, Chartered Secretaries Southern Africa  
May 2013

## **A.2. Code of Ethics**

### **A.2.1. Definition**

<b>TERM</b>	<b>DEFINITION</b>
Institute	means The Chartered Governance Institute of Southern Africa
Board	means the Board of Directors of Chartered Governance Institute of Southern Africa.
Firm	means any business in which the participants are members
Member	means any person who is named and in possession of one or more of the following certificates issued by the Institute, which is a Certificate of-Fellowship - FCG Associate - ACG and are any members of the Institute in good standing who are eligible to receive a Practising Certificate
Practitioner	means a member who is so named and in possession of a current practising certificate issued by the Institute.
Professional Practice	means a member who is so named and in possession of a current practising certificate issued by the Institute.

#### **NOTES:**

1. In this code, words implying the singular shall include the plural, and words denoting the masculine gender shall be deemed to include the other genders and *vice versa*.
2. Whilst a Graduate is not a member of the Institute in terms of its Charter and Bye-laws he shall be bound by the provisions of this Code as if he were a member.

### **A.2.2. Applicable To All Members**

This code demonstrates the standard of professional conduct expected of members.

#### **General Fundamental Principles**

##### **A.2.2.1**

The ethics described in this code are issued by the Board for guidance of members and to assist members to conduct themselves in a manner which the Board considers appropriate to the profession in general and to Chartered Secretaries in particular. However, as misconduct cannot be defined with exactitude for all circumstances but will need to be determined in the light of the circumstances of each individual case, it follows that the Board cannot promulgate mandatory tenets, the breach of which in each case can necessarily be classified misconduct.

##### **A.2.2.2.**

This code is issued in the context of the authority of the Board to facilitate the enforcement of ethical standards through its disciplinary procedures.

Failure to observe the provisions of the Code does not (as indicated above) *ipso facto*

constitute misconduct but does mean that the member may be at risk in having to justify his actions in answer to a complaint.

#### **A.2.2.3**

The Memorandum of Incorporation of the Institute requires the observance of the rules of conduct as a condition of membership and render a member liable to disciplinary action if found guilty of misconduct, which includes, but is not confined to, any act or default likely to bring discredit to the member, the Institute or the profession. Nevertheless, the Board considers it desirable in particular areas to be more explicit.

#### **A.2.2.4**

Members are required to uphold the Institute's Charter and comply with its Bye-laws.

#### **A.2.2.5**

Members are required to exercise integrity, honesty, diligence, and due care in carrying out their duties and responsibilities. They shall conduct themselves with courtesy and consideration towards all with whom they come into contact in the course of their professional work.

#### **A.2.2.6**

Members shall always be cognizant of their responsibilities as professional persons towards the wider community. They shall follow the guidance of this Code and in circumstances not provided for, should conduct themselves in a manner consistent with the good reputation of the profession and the Institute.

#### **A.2.2.7**

Members shall always safeguard the interests of their employers, colleagues and clients provided they shall not knowingly be a party to any illegal or unethical activity.

#### **A.2.2.8**

Members shall not enter any agreement or undertake any activity which may conflict with the legitimate interests of their employer or client or which would prejudice the performance of their professional duties.

#### **A.2.2.9**

Members shall ensure the currency of their knowledge, skills, and technical competence in relation to their professional activities.

#### **A.2.2.10**

Members shall refrain from conduct or action which detracts from the reputation of the Institute.

#### **A.2.2.11**

In accepting or continuing a professional assignment a member should always have regard to any factors which might reflect adversely upon his integrity and objectivity in



relation to that assignment.

## **A.2.3 For Practitioners**

### **A.2.3.1 Professional Independence**

#### **A.2.3.1.1**

Professional independence is a concept fundamental to a member in professional practice. It is an attitude of mind characterised by integrity and an objective approach to professional work.

#### **A.2.3.1.2.**

A member in professional practice shall be, and be seen to be, free in each professional assignment he undertakes of any interest which might detract from objectivity. The fact this is self-evident in the exercise of the reporting function must not obscure its relevance in respect of other professional work.

#### **A.2.3.1.3.**

It is the duty of the practitioner to present or report on information objectively. That duty is the essence of professionalism and is appropriate to all members in professional practice.

#### **A.2.3.1.4.**

It is the responsibility of practising members to use their best endeavours to ensure that they follow the guidance herein given in their practices.

#### **A.2.3.1.5.**

Personal relationships can affect objectivity. There is a particular need, therefore, for a practice to ensure that its objectivity approach to any assignment is not endangered because of any personal relationship. By way of example, problems may arise where the same partner or senior staff member works for a number of years on the same assignment or where anyone in the practice has a mutual business interest with an officer or employee of a client or has an interest in a joint venture with a client. Such problems can also exist in cases of close friendship or relationship by blood or marriage or where work is done for a company dominated by one individual.

#### **A.2.3.1.6.**

Where a financial involvement with a client may affect objectivity, the member shall seriously consider his position. Such involvement can arise in a number of ways, of which a shareholding in a company upon which the practice is retained to report is a typical example.

#### **A.2.3.1.7.**

Acceptance of goods or services from a client may be a threat to independence. These should not be accepted by a partner, his spouse or minor child or by the staff of the practice save on terms no more favourable than those available to the generality of the employees of the client. Acceptance of undue hospitality poses a similar threat.

#### **A.2.3.1.8.**

Where advice given to a client is such that, if acted upon, it will result in commission earnings by the practice or anyone in it, cautionary steps shall be taken that the advice is in fact in the best interests of the client. The client shall be informed, in writing, of both the fact that commission will be received and, as soon as practicable, of the amount and the terms of such commission.

#### **A.2.3.1.9.**

Whenever a practice is asked to accept an appointment, consideration shall be given to whether acceptance might give rise to a situation in which independence may be compromised, whether by a prospective conflict of interest or otherwise. All reasonable steps shall be taken to establish that acceptance is not likely to threaten independence.

#### **A.2.3.2. Confidentiality**

##### **A.2.3.2.1.**

Information acquired in the course of professional work shall not be disclosed except where consent has been obtained from the client or where there is a public duty or where there is a legal or professional right, obligation or duty to disclose.

##### **A.2.3.2.2.**

A member acquiring information in the course of professional work shall neither use nor appear to use that information for his personal advantage or for the advantage for a third party.

#### **A.2.3.3. Obtaining Professional Work**

##### **A.2.3.3.1**

A member shall not obtain or seek work for his or another member's practice in an unprofessional manner.

##### **A.2.3.3.2**

A member may seek publicity for his services and achievements and may advertise his services, but in so doing shall have regard to the standards for the time being set by the Institute. Those standards currently applicable are contained in [A.2.4 Code of Practice in Advertising](#) below.

##### **A.2.3.3.3.**

In addition to meeting the requirements of the above standards, in particular as to legality, decency, honesty and truthfulness, a member shall ensure that his promotional material is in good taste both as to content and presentation and that it does not belittle the services offered by others, whether members or not, either by claiming superiority for the services of a particular member or otherwise.

#### **A.2.3.3.4.**

Whilst a practitioner may include in advertisements a list of the services available from his firm, he shall abide by the requirements of section [A.2.3.4. Practice names and descriptions](#) of this part in relation to any words of description applied to the firm.

#### **A.2.3.3.5.**

In conformity with the obligation (contained in clause [A.2.3.6. Fees](#) (A.2.3.6.2) below not to mislead clients as to the precise range of services that a quoted fee is intended to cover, practitioners shall avoid making fee comparisons or quoting fees in advertisements but may offer a free consultation at which levels of fees will be discussed.

#### **A.2.3.3.6.**

A practitioner may not make or instigate an unsolicited approach to a non-client for the purpose of obtaining professional work by making an uninvited visit or by telephoning either to solicit business or to make an appointment to visit.

#### **A.2.3.3.7.**

Practitioners may use direct mailing methods to promote their practices among non-clients. This includes the mailing of letters to a particular non-client or batches of letters to non-clients and the mailing of other technical or promotional material, or by such other means as is not contrary to the requirements of [A.2.3.3.6](#) above, but such distribution shall not be followed up by telephone or visit save at the specific request of the recipient, nor in such other manner as to amount to harassment.

#### **A.2.3.3.8.**

Material distributed as provided for in [A.2.3.3.7](#) above is subject to the same constraints as are laid down in respect of publicity and advertising referred to in [A.2.3.3.2](#) above.

#### **A.2.3.3.9.**

A practising member shall not give or offer any commission, fee, or reward to a third party, not being either his employee or another practitioner, in return for the introduction of a client, but may pay for normal marketing services.

#### **A.2.3.3.10.**

A practitioner whose promotional activities are found not to conform to the guidelines set out in the above paragraphs will be subject to disciplinary enquiry.

#### **A.2.3.3.11.**

For the purposes of this clause promotional activities performed in the name of a firm shall be construed as promotional activities carried out by the individual members of that firm, whether carried out personally or through agents.

#### **A.2.3.3.12.**

A practitioner shall not hold himself out as carrying on business of a kind which is normally conducted by a practitioner, for and on behalf of his employer unless his employer is permitted to describe himself/itself as "Chartered Secretaries" under the

bye-laws.

#### **A.2.3.4. Practice names and descriptions**

##### **A.2.3.4.1.**

It is recommended that a practitioner shall use his designated letters at all times, and he may describe himself personally as a Chartered Secretary and/or Chartered Governance Professional.

##### **A.2.3.4.2.**

A practicing firm's name and operations should be consistent with the dignity of the profession.

##### **A.2.3.4.3.**

A practicing firm's name should not be misleading as, for example, by leading to confusion with that of another firm. It is the custom of the profession for members of the firm to practise under a firm's name based upon names of past or present partners in the firm itself or in a firm with which it has merged or amalgamated, but this is not obligatory.

##### **A.2.3.4.4.**

Whilst there is no objection to a firm entitled to the description "Chartered Secretaries and Administrators" so describing itself and, in addition, including on its notepaper a list of services it particularly wishes to offer, it should not incorporate any of that list of services into the general description of the firm (e.g. "Chartered Secretaries and Taxation Advisers"). The latter description would erroneously imply that the service(s) so specified are not of themselves a part of the normal range of services that Chartered Secretaries provide.

##### **A.2.3.4.5.**

Where a firm does not use the description "Chartered Secretaries" it is entitled to adopt a description indicating a specialisation in any area or areas of work.

##### **A.2.3.4.6.**

If any person named on the letterhead as a member of a firm is not a member of the Institute the firm may not describe itself on its letterhead or elsewhere as "Chartered Secretaries".

#### **A.2.3.5. Professional appointments**

##### **A.2.3.5.1.**

It is natural that a member in professional practice will endeavour to expand his practice, but in so doing he should not seek to displace an incumbent in a manner which would reflect negatively on the profession or the Institute.

##### **A.2.3.5.2.**

A member invited to undertake professional work additional to that already being

conducted by another practitioner, who will continue with his existing duties, should, as a matter of professional courtesy, notify the other practitioner of the work he is undertaking. This notification need not be given if the client advances a valid reason against it. The member undertaking the additional work has the right to expect the continuing practitioner's full co-operation in carrying out his assignment and *vice versa*.

#### **A.2.3.5.3.**

A client might sometimes request services requiring highly specialised knowledge. If a practitioner lacks the expertise necessary to render such services, he should call upon a fellow practitioner for assistance or refer the entire engagement to an appropriately qualified person. Such assistance or referral brings to bear on the client's needs both the referring practitioner's knowledge of the client's affairs and the technical expertise of the specialist brought into the engagement. All are served well, if both serve the client best in their own area of specialism.

#### **A.2.3.5.4.**

The wishes of the client must be paramount in the choice of his professional advisers, whether specific skills are involved or not. Accordingly, a practitioner shall not attempt to restrict in any way his client's freedom of choice in obtaining specialised advice and, when appropriate, should encourage him to do so.

#### **A.2.3.5.5.**

Clients have an indisputable right to choose their professional advisers and to change to others should they so desire.

#### **A.2.3.5.6.**

Whilst it is essential that the legitimate interests of clients are protected, it is also important that a practitioner who is asked to replace an incumbent has the opportunity to ascertain whether there are any professional or other reasons why he should not accept the appointment. He cannot effectively do so without direct communication with the incumbent. The practitioner should, therefore, not accept the appointment without first communicating, if possible, in writing with the incumbent to enquire whether there are any reasons, professional or otherwise, why the practitioner should not accept the appointment. This applies whether the incumbent is a member of the Institute or not.

#### **A.2.3.5.7.**

Communication enables the practitioner to ascertain whether the circumstances in which a change in appointment is proposed are such that he can properly accept the appointment and whether he would wish to do so.

In addition, such communication helps to preserve the harmonious relationships which should exist between practitioners on whom clients rely for professional advice and assistance.

#### **A.2.3.5.8.**

Communication between parties serves –

- to protect a member from accepting an appointment in circumstances of which he is not fully aware;

- to protect the minority proprietors of a business who might not be fully informed of the circumstances surrounding the proposed change;
- to protect the interests of the incumbent where the proposed change arises from, or is an attempt, to interfere with the conscientious exercise by him of his duties as an independent professional.

#### **A.2.3.5.9.**

Before accepting an appointment involving recurring professional work hitherto conducted by an incumbent the member should:

- ascertain whether the prospective client has informed the incumbent of the proposed change and has given him permission, preferably in writing, to discuss the client's affairs fully and freely so as to enable the practitioner to decide whether he should accept the appointment;
- when satisfied with the reply received from the prospective client, request his permission to communicate with the incumbent(s). If such permission is refused he should, in the absence of exceptional circumstances of which he is fully aware, and unless he can satisfy himself as to the necessary facts by other means, decline the appointment;
- on receipt of permission, ask the incumbent, if possible in writing, to inform him of any matters of which he should be aware before deciding whether or not to accept the appointment and, if there are any such matters, to provide him with all the details necessary to enable him to come to a decision;
- wherever possible obtain evidence of the written resignation of the incumbent.

#### **A.2.3.5.10.**

The incumbent, on receipt of the communication referred to above, shall forthwith:

- reply, if possible, in writing, advising whether there are any reasons why the practitioner should not accept the appointment and;
- if there are any such reasons or other matter which should be disclosed, ensure that he has the permission of the client to give details of this information to the member. If permission is not granted the incumbent should report that fact to the practitioner;
- on receipt of permission from the client, disclose all information needed by the practitioner to enable him to decide whether or not to accept the appointment and discuss freely with the practitioner all matters relevant to the appointment of which the latter should be aware.

#### **A.2.3.5.11.**

If the practitioner does not receive, within a reasonable time, a reply to his communication to the incumbent and he has no reason to believe that there are any exceptional circumstances surrounding the proposed change, he should endeavour to communicate with the incumbent by some other means. If he is unable to obtain a satisfactory outcome in this way, he should send a further registered letter, stating that he assumes there are no professional or other reasons why he should not accept the

appointment and that he intends to do so.

**A.2.3.5.12.**

The fact that there may be fees owing to the incumbent is not a reason for the practitioner not to accept the appointment

**A.2.3.5.13.**

The incumbent should transfer all books and papers which are the property of the client, which are in, or may come into, his possession, to the newly appointed practitioner promptly after the change in appointment has been affected unless he has a lien over any such books and papers for the payment of charges outstanding. He should in either case advise the client accordingly.

**A.2.3.5.14.**

A practitioner may act alone or in association with members of other professional bodies to provide professional services usually undertaken by a practitioner so long as the practitioner or any of his associates do not do anything which is or may be in breach or contravention of any legal, ethical or other requirement governing members of such professional bodies.

**A.2.3.6. Fees**

**A.2.3.6.1.**

A practitioner is entitled to charge for his services such fees as he may consider appropriate in connection with the work he undertakes.

**A.2.3.6.2.**

The fact that one practitioner may charge a lower fee than another for undertaking the same or similar work is not improper provided care is taken to ensure that the client is not misled:

- as to the precise range of services that a quoted fee is intended to cover (in which connection that practitioner should provide the client with an engagement letter),
- as to the likely level of future fees for any work undertaken for the client.

**A.2.3.6.3.**

If, in the course of an investigation into allegations of unsatisfactory work on the part of a practitioner, there is evidence of the work having been obtained or retained through quoting a fee that is not economic in terms of the time needed and quality of staff necessary to perform that work to a satisfactory professional standard, that factor is likely to be taken into account in considering the member's conduct having regard to the obligations placed upon a member under [A.2.2.1 General Fundamental Principles](#)( A.2.2.11) above.

**A.2.3.6.4.**

Fees should not be charged on a percentage or similar basis, save where that course is authorised by statute or is generally accepted practice for certain specialist work; nor shall instructions be accepted on a contingency fee basis save in circumstances set out in sub-clause A.2.3.6.5 below.

#### **A.2.3.6.5.**

In certain limited circumstances fees cannot realistically be charged save on a contingency fee basis; to require otherwise, would be to deprive potential clients of professional assistance, the capacity of the clients to pay being dependent upon the success or failure of the venture. Examples are matters such as advising on a management buy-out or the raising of venture capital.

Where any work is subject to a contingency fee, the capacity in which a practitioner has worked, and the basis of his remuneration shall be made clear in any document on which a third party may rely.

#### **A.2.3.6.6.**

The attention of practitioners is directed to the provisions of [A.2.4 Code of Practice in Advertising](#) below which contains details of guidelines as approved and issued by the Board and relating to members advertising their services.

### **A.2.3.7 Mixed and Multidiscipline Practices**

#### **A.2.3.7.1.**

If a practitioner acts in association with non-members in the provision to the public of professional services, he thereby accepts responsibility to the Institute for ensuring that the association is conducted in accordance with the ethical and other requirements of the Institute.

#### **A.2.3.7.2.**

A practitioner may act in association with members of other professional bodies to provide professional services, so long as the practitioner and his association do nothing which is in breach of any legal, ethical, or other requirements governing members of any of the relevant professional bodies.

#### **A.2.3.7.3.**

A practitioner who is also a member of another professional body shall not, in providing services usually undertaken by a practitioner, do anything in breach of any legal, ethical or other requirement governing members of that other professional body.

### **A.2.3.8. Clients' Monies**

A practitioner is strictly accountable for all clients' monies received by him and these shall be deposited without delay into a separate bank account. Such moneys shall be kept from all other monies in his hands and be applied only for the purposes of the client. They shall be held or disbursed by the practice in accordance with the instructions of the person from whom or on whose behalf they are received.



#### **A.2.3.9. Agencies**

A practitioner contemplating acceptance of an appointment as agent of a building society, insurance company or other organisation which invites the public to place funds in its hands by way of deposit, investment or otherwise shall satisfy himself that such acceptance is not made inappropriate by reason of:

- the nature of the services he is to provide as agent;
- the manner in which those services may be brought to the attention of the public;
- the manner in which he or his firm may be publicised; and
- take all reasonable steps to assure himself that the undertaking he may represent is properly conducted and financially sound.

##### **A.2.3.9.1.**

Practitioners acting as agents shall have in mind the principles set out in clause [A.2.3.3. Obtaining Professional Work](#) (A2.3.3.1) above, that they must neither obtain nor seek professional work in an unprofessional manner. It follows that a practitioner should not use any agency in such a way as improperly to attract work to his practice

##### **A.2.3.9.2.**

A practitioner appointed as agent may permit the name, address, and description of his firm to appear in any literature or advertisement published by the undertaking. In the case of an advertisement or circular describing the facilities available through the agency, the practitioner's details should appear without undue prominence in relation to the rest of the wording.

##### **A.2.3.9.3.**

The attention of practitioners is drawn to clause [A.2.3 For Practitioners](#) (A2.3.1.8) above regarding the disclosure to clients of commissions received by the practitioner in connection with the client's affairs.

#### **A.2.4 Code of Practice in Advertising**

After taking cognizance of the more liberal trend in opinion of other professions toward advertising the Board now agrees that the following code of Practice on Advertising shall be accepted.

##### **A.2.4.1.**

The Institute as a matter of policy will not normally require its Disciplinary committee to consider investigation into, and possible application of sanctions against a member in respect of advertisements for business of a nature ordinarily undertaken by a Chartered Secretary in professional practice, whether the advertisement is published by :-

- a member on his own account;

- a firm of which a member is a partner;
- a company or close corporation in which a member has a controlling interest.

**PROVIDED THAT:**

No advertisement, circular or other form of publicity used may claim for the individual, or his firm or his company, superiority in any respect over any or all other persons either as individuals or practices.

Such publicity must be factual and may not contain any inaccuracies.

While advertisements, circulars and other publicity may make clear the intention of the member or his firm to seek custom, they should not be of a character that could reasonably be regarded in the opinion of Board as likely to bring the profession or the Institute into dispute.

Such advertisements may not only draw attention to the existence of the practice but may describe the nature of the practice with allusions to particular classes of clients to whom services are offered or of particular kinds of service to be offered, provided that services in a specific professional capacity may only be advertised by a member who has had at least 5 years relevant experience in that specific professional discipline.

In order to prevent the escalation of competitive advertising any advertisement placed in directories or national or local press shall be in the type face or format which is most commonly found in the publication concerned.

**A.2.4.2.**

Articles, letters or other contributions to journals or newspapers may contain the writer's name, and designatory letters should especially be used if the subject matter is reputable and relevant to the profession of the Chartered Secretary.

**A.2.4.3.**

Similarly, a member appearing on a radio or television programme or speaking at a course or conference should encourage his professional designation to be used especially if the subject is relevant to the profession of the Chartered Secretary.

**A.2.4.4.**

It is expected that members will exercise discretion and good taste in the preparation and use of all publicity material.

**A.2.4.5.**

No member may, in any contribution to journals, newspapers or in any appearance or interview on radio or television, claim to speak on behalf of the Institute unless prior and specific authority has been given on each occasion, provided that this should not apply to the President or Chief Executive of the Institute or their authorised representatives.

**A.2.4.6.**

Board reserves the right at its discretion to take appropriate steps, including the

termination of membership, against any member contravening the code of practice.

### **A.3. Terms of reference of the Professional Practice Group**

#### **A.3.1 Preamble**

The objectives of the Professional Practice Group are to promote and develop the role, recognition and authority of its members within the confines of the requirements of the Institute, in respect of Secretarial Practice, Accounting, Business Management, Consultancy and Administration of Companies and other bodies.

To encourage practising members to conduct themselves in such a manner and with such professional efficiency as to create a public awareness of, and demand for, the professional services from practising members.

#### **A.3.2. Definitions**

<b>TERM</b>	<b>DEFINITION</b>
Institute	means The Chartered Governance Institute of Southern Africa
Board	means the Board of Directors of Chartered Governance Institute of Southern Africa.
Firm	means any business in which the participants are members
Members	means any person who is named and in possession of one or more of the following certificates issued by the Institute, which is a Certificate of-Fellowship - FCG Associate - ACG and  are any members of the Institute in good standing who are eligible to receive a Practising Certificate
Practitioner	means a member who is so named and in possession of a current practising certificate issued by the Institute.
Professional Practice	means a member who is so named and in possession of a current practising certificate issued by the Institute.
PPG	Members of the Institute voted and appointed to serve in the Professional Practice Group

Words imputing the singular number only shall include the plural, and *vice versa*, unless clearly restricted by the context and words implying the masculine gender shall also include the feminine unless it shall definitely appear from the context that one sex only is intended.

#### **A.3.3. Committee**

##### **A.3.3.1.**

The management of the PPG shall vest in a committee of not less than four and not more than fifteen members.

##### **A.3.3.2.**

Prior to the end of January in each year, the Secretary of PPG shall call for nominations for the committee.

##### **A.3.3.3.**

Should the nominations received be equal to or less than fifteen, these nominations shall be submitted to the Nominations Committee of the Institute for approval of appointment to the Committee.

**A.3.3.4.**

Should more than fifteen nominations be received, a ballot shall be conducted amongst the members of the PPG to elect fifteen nominees.

**A.3.3.5.**

The President and the Chief Executive Officer of the Institute, for the time being, shall be ex officio members of the Committee.

**A.3.3.6.**

The Chairman of the PPG shall be appointed annually by the Board and shall be additional to the fifteen members appointed in terms of Rules [A.3.3.3](#) and [A.3.3.4](#) above.

**A.3.3.7.**

The Committee shall, each year, elect from amongst its members, a Deputy Chairman, a Secretary and a Treasurer.

**A.3.3.8.**

One third of the members of the Committee or the nearest number thereto, not exceeding one third, shall automatically retire in rotation each year, but shall be eligible for re-election without nomination. Notice of all nominations of candidates for the committee shall be in writing, signed by the proposer, seconder and the nominee.

Nominations shall be delivered to the Secretary of the Committee by a date set by the Committee which shall allow all members the opportunity to receive adequate notice that a ballot is to be held, if this is the case. The Committee so nominated shall be subject to the approval of the Nominations Committee and confirmation by Board.

**A.3.3.9.**

A member of the committee shall vacate his office if:-

- he ceases to be a member of the Group;
- he resigns from the Committee;
- he is absent from four consecutive meetings of the Committee without consent;
- This rule shall not apply to ex-officio members of the Committee.
- he is excluded from being a member of the Institute in terms of the Institute's Articles or Rules applicable from time to time.

**A.3.3.10.**

The day-to-day management of the affairs of the PPG shall be vested in an Executive Committee comprising the Chairman, Deputy Chairman, Secretary, Treasurer and any other member of the Committee co-opted by the Executive Committee.

**A.3.3.11.**

The Committee shall have power to form sub-committees which may include persons who are not members of the Committee or PPG, provided that the Chairman of any such sub-committee shall be a member of the PPG Committee.

### **A.3.4 Procedures**

#### **A.3.4.1.**

The Committee shall hold a minimum of four meetings in each calendar year. Seven days' notice shall be given of such meetings except that, with the agreement of all members of the Committee, such notice may be less than seven days or may be dispensed with altogether.

#### **A.3.4.2.**

A quorum shall consist of two members who shall be present for the duration of the meeting.

#### **A.3.4.3.**

The Chairperson shall preside at Committee meetings. If the Chairperson is not present then the Deputy Chairperson shall take the proceedings. Should neither the Chairperson nor the Deputy Chairperson be present after fifteen minutes from the time the meeting was due to start, then the members present shall elect a Chairperson from amongst their number.

#### **A.3.4.4.**

Decisions requiring a vote shall be decided by a majority of the votes of those members present. Each member present shall have one vote. In the event of an equal number of votes being cast for and against a motion, then the Chairperson shall have a casting vote.

#### **A.3.4.5.**

The Committee shall have the power to co-opt to fill any casual vacancy. The member co-opted shall serve until the next Annual Meeting, when he shall be eligible for election without nomination. Co-opted members must be approved by the Executive Committee of the Institute.

### **A.3.5 Annual Meeting**

#### **A.3.5.1.**

An Annual Meeting shall be held before the end of March in each calendar year.

#### **A.3.5.2.**

Notice of the meeting shall be served on or posted to each member at his last known address giving at least fourteen clear days' notice of the meeting. Non-receipt of a notice by a member shall not invalidate the proceedings at which a quorum is present.

#### **A.3.5.3.**

The business of the Annual Meeting shall be:-

- to receive the Chairman's report;
- to receive and approve the Annual Financial Statements;

- to announce the names of the committee for the ensuing year, subject to Board's approval
- to consider any other matter of which due notice has been given.

#### **A.3.5.4.**

The quorum at an Annual Meeting shall be five members of the PPG in good standing and personally present.

### **A.3.6 Special Meetings**

#### **A.3.6.1.**

A special meeting may be called:-

- by a resolution of the Committee;
- at the request of the Chairman;
- on the written request of at least five members of the PPG in good standing;
- by order of the Executive Committee of the Institute.

#### **A.3.6.2.**

The secretary must call a meeting within twenty-one days of receipt of any request as set out above.

#### **A.3.6.3.**

Notice of any Special Meeting shall be the same as that for an Annual Meeting as set out in Rule A.3.5.2. above. The written notice shall specify the reason for the calling of the meeting.

#### **A.3.6.4.**

Five members of the Group, in good standing and personally present shall constitute a quorum.

### **A.3.7 Finance**

#### **A.3.7.1.**

The committee shall be empowered to generate funds for the PPG by fixing annual subscriptions for membership of the PPG each year. Any other legal means of raising finance may also be used. All moneys held shall be in an account with a recognised bank and shall be held in trust for the Institute.



**A.3.7.2.**

Any account or accounts shall be operated under the signature of the Chairman or Deputy-Chairman and one other member of the Executive Committee of the PPG.

**A.3.7.3.**

The financial year end shall be 31 December.

**A.3.7.4.**

Adequate records shall be kept by the Treasurer to reflect all transactions, assets and liabilities and shall be subject to audit as determined by the Chief Executive of the Institute from time to time. The Annual Financial Statements shall be signed by the Chairman and Treasurer.

**A.3.7.5.**

The Committee shall have authority to make any payments it considers necessary, provided that it shall not make payments which are specifically excluded in terms of Article 36 of the Institute's Memorandum of Incorporation.

**A.3.8 Statutory Records**

The secretary shall keep minutes of all meetings in a bound book. Copies of all minutes, notes and circulars shall be sent to the Chief Executive of the Institute. Publicity material and brochures shall be approved by him before being distributed.

**A.3.9 Amendments**

The PPG may, at a Special Meeting, duly convened, recommend that these Terms of Reference be amended from time to time. Any duly passed amendment or amendments shall be submitted through the Executive Committee of the Institute to the Board for approval. No such amendment or amendments shall be valid unless the full text and the implications of the amendment or amendments have been given to all members with the notice convening the meeting at which the amendment or amendments are to be submitted. Such amendment or amendments shall become effective on the date the Group receives notice of Board's approval.

## **A.4. DEFINITION OF A MEMBER IN PRACTICE AND NOT IN PRACTICE**

A member is regarded as being in practice where he or she offers any services to a person who is not their employer, and shall include -

### **A.4.1 Accounting Services** **Such services including advice and services in connection with –**

- financial and management accounting;
- bookkeeping and accounting records;
- all matters concerning direct and indirect taxation, and related compliance;
- budgets, forecasts, cash flows, and business plans;
- funding of businesses;
- accounting systems and management reporting;
- accounting officer for close corporations, and other bodies where the accounting officer function is statutorily recognized;
- payroll services
- taxation services (only if registered as a tax practitioner with SARS and CGISA)

### **A.4.2 General Services** **General services are concerned with –**

- law;
- marketing and/or sales;
- risk management and/or insurance services;
- project management;
- production research and development;
- human resources;
- training;
- any non-financial consultancy;
- trust administration;
- estate administration (deceased or insolvent);
- registration of close corporations;
- company secretarial matters;
- business start-up advisory and/or administrative services

**Note:** Members who advertise (by any medium) or publicise their availability for services will be deemed to be in practice.

### **A.4.3 Member Not In Practice** **A member shall not be regarded as being in practice in the following circumstances –**

- Sub-contracting services to accountants or other professional firms where such firm invoices directly for such services;
- Services under a contract through an agency supplying services where such agency is invoiced directly for such services;
- Services provided under a contract of employment or service;
- Services to clubs, societies, charities or similar organisations which are not remunerated, except on an honorarium basis;

- Services directly rendered to CGISA or any of its associated institutes;
- Acting as accounting officer for a sectional title complex in which he or she is resident;
- Acting as accounting officer to a close corporation, which also employs him or her under a contract of employment.

**PPG MANUAL**

**CONTENTS**

**SECTION B: CLOSE CORPORATIONS – SECRETARIAL MATTERS**

- B. SECTION B - CLOSE CORPORATIONS - SECRETARIAL MATTERS**
- B.1. Reservation of Name**
- B.2. Completion and Lodgement of the Amended Founding Statement**
- B.3. Completion and Lodgement of the Amended Founding Statement in respect of Accounting Officer and Address**
- B.4. Deregistration of a Close Corporation**
- B.5. Deceased Members of a Close Corporation**
- B.6. Insolvent Members of a Close Corporation**
- B.7. Public Officer and Representative Taxpayer**

## B. Section B - Close Corporations - Secretarial Matters

### B.1. *Reservation of Name*

#### B.1.1. Introduction

Note that new CCs can no longer be incorporated and that the approval therefore relates to a change of name of an existing CC.

#### B.1.2. Overview of form COR9.1

The most suitable place to find the layout of form COR9.1 is the CIPC website the address of which is [www.cipc.co.za](http://www.cipc.co.za). The advantage of this source is that the form can be completed on the computer and submitted electronically. Before an amended founding statement may be lodged the Name, the translated Name or the Shortened form of Name must have been approved. Otherwise expressed, simultaneous processing of COR9.1 and CK2 will not be entertained. Form COR9.1, as with other CK forms, must be completed online submission to the Commissioner and the original must bear the customer's (agent's) access code so that the fee for lodging it can be charged to the customer's account. It is highly advisable that as many as four alternative proposed names are selected on each COR9.1. Should only one name be selected and, should this be rejected, another submission of the COR9.1 must be made resulting in a further charge being made to the customer's account.

On-line name reservations are now the most efficient and cost-effective way of submitting through the CIPC website for any company type. CIPC are trying to move all transactions onto the online platform and do away with manual processing wherever possible. Online transaction processing time is substantially faster and processing costs are about 40% cheaper than manual submissions.

**In order to reserve a name, follow these steps:**

- Click on "[On-line transacting](#)" and then on [Name reservations](#) listed under E-Services;
- Login using your Customer Code and Password;
- Click on "Name Reservations";
- Click on "Proposed Name";
- Capture between one and four names in order of preference. Ensure that you capture the names accurately. If you make a mistake you will need to apply for a name change at a later stage.
- Click on "Submit Proposed Name".
- A screen will display, indicating if the exact name test was successful or not. If the test for one of the proposed names was not successful, it will be indicated with a cross. Click on Back and propose another name if you want to add another name. Click on **Lodge Name Reservation**.
- The next screen will indicate that the proposed name(s) has been reserved, and provide you with a reservation number. Click on either **Back to Name Reservations** or on **Home**.
- You will receive an SMS and email confirmation of the name reservation with the reference number of the reservation.

Service turnaround time: 5 working days from the date of receipt, provided that all the requirements are met.

**FEES: (as at September 2020)**

Proposed name: R50

Name extension: R30

Name Transfer: R75

**B.1.2.1. Completing the Form COR9.1**

The form if not completed on the computer is to be completed in type or black, permanent ink. Where it is handwritten, CAPITAL letters must be used.

Translated or shortened form of Name

Translated as well as shortened form of names are no longer registered in terms of the new Companies Act, however entities that already have Translated names and or a shortened form of a name will continue to have the same.

**B.1.2.2. Tips regarding Proposed Names**

Before examining the guidelines and principals regarding the approval of names as contained in Practice Note No. 2 of the Commissioner, the following tips may prove useful:

Please note that symbols are deferred or yet to be allowed in names ie. %, @, +, &

In general, it is not prudent for members to trade under a name different from the registered name

A business with a registered name may prevent the use of its name by others, whilst a business trading under another name will not only have no such protection, but may itself lose its rights to that other business should the latter successfully register the name.

A close corporation may however, trade as more than one business, provided that the main activity of each such business falls within the definition of the principal business as indicated on the COR9.1 forms.

Members ought to be encouraged to physically write down the proposed names in order of preference and to sign this. Should spelling mistakes occur (especially with foreign words) or other queries arise, responsibility will remain with the members.

The need for the proposed name to reflect the business activity goes beyond the requirements of the Commissioner. Proposed names acceptable to the Commissioner may be quite inappropriate for the business because they are too vague to be of value in promoting the business. A small U.S. firm specialising in the supply of custom designed software named itself Computer Solutions but, after a full year of trading, called in consultants to determine why its advertising was not working and why inquiry levels were so low?

They established that 70% of new enquiries were from businesses seeking computer hardware, an area in which Computer Solutions had no interest or expertise.

Keep names as short as possible. Long names are a problem for all who use them. The name is abbreviated by clients and the staff members alike and eventually it becomes necessary to change the name to a more practical alternative. Full stops in the name where initials are used is not a good idea i.e. write CGI rather than C.G.I

Names acceptable to the Commissioner and registered for use by a close corporation may already have been issued, or may at some future time be issued to another party as a registered trademark. At this point there is no liaison between the Commissioner of CIPC and the Registrar of Trademarks.

Try to use a different word for the first word of each name preference. If the first word is unacceptable for any of the reasons listed above, then all such names will be unacceptable where the same word has been used. This is time wasting, expensive and embarrassing.

### **B.1.3. Choice of Proposed Names**

#### **B.1.3.1. General Principles**

The Commissioner must approve a name before it may be used for a close corporation. Any name may be selected, provided it does not encroach upon the rights of any person or existing concern or is a name which, in the opinion of the Registrar, is undesirable.

The guideline as to what is considered undesirable is contained in Practice Note No. 2 but additional notes have been included where relevant, based on known past practice of the Commissioner.

#### **B.1.3.2. Specific Restrictions by the CIPC**

##### **B.1.3.2.1. *Identical or Very Similar Names***

These will not be allowed unless there is a direct relationship with the already registered close corporation or company, such as a holding or subsidiary relationship or other identifiable association acceptable to the Commissioner. In these circumstances, registration will be permitted provided that there is some form of distinguishable factor acceptable to the Commissioner. The year of formation of the CC is acceptable e.g. XYZ (1993) CC, provided that the actual year of incorporation is proposed. Geographic separation is acceptable e.g. XYZ (Pretoria) CC provided that the CC is based in, or operates in, that city.

##### **B.1.3.2.2. *Name differs from Main Business***

Part or all of Name differs from the Main Business on the grounds of it being misleading.

##### **B.1.3.2.3. *Comparative Names or Synonyms***

Words which are synonyms of registered names are not acceptable. The words "transport", "deliveries" and "carriers" and their Afrikaans equivalents are regarded as synonyms of each other, as are the words "property" and "investments".

##### **B.1.3.2.4.**

Where either word is proposed, the word must be qualified with the type of investment e.g. financial investment. Additionally, the description of the main business must support the name and must also clearly indicate whether the corporation will make investments for its

own account (as principal) or as an agent (on behalf of clients).

#### **B.1.3.2.5. *Pronunciation***

Regardless of spelling, a proposed name cannot be registered if it sounds like an already existing name e.g. Mincorp CC and Min Kor CC.

#### **B.1.3.3. Surnames, First Names and Nicknames**

These are acceptable only if they reflect the name of a member who holds a majority interest in the CC. This fact should be included, with proof if this considered necessary, in part C of form CK7 to eliminate the possibility of a query by the Commissioner. Surnames alone are unlikely to be acceptable without a description of the activities of the corporation having been included in the name, especially where other corporations have been registered bearing the same surname. i.e Benson Financial Services, as against Benson Electricians.

##### **B.1.3.3.1. *One Word Names***

A name consisting of a simple generic word, e.g. Balloons CC, will not be granted. Such name would be attractive to the corporation itself since it would exclude all other names which included the generic word. This is precisely why it would not be acceptable.

##### **B.1.3.3.2. *“Two or More” Word Names***

The descriptive part of the name, that is the second and subsequent words, should reflect the main business of the corporation. If it conflicts, it will be rejected. If it neither conflicts nor supports, the Commissioner will probably request clarification. Words such as "Enterprise", "Services", "Interests" will invariably lead to requests for clarification.

##### **B.1.3.3.3. *Abbreviations***

Abbreviations or letters used before a proposed name to improve the chances of acceptance are increasingly difficult to secure because so many have already been registered. The need for as many as four letters prevails today to secure a reasonable chance of success and even then, there is the possibility of conflict with already existing registered names.

##### **B.1.3.3.4. *Words Implying the Corporation is a Company***

These include "Incorporated", "Holding" and "Association".

##### **B.1.3.3.5. *Words which Mislead***

These include:

"Trust" - where operating a trust is not the principal business of the corporation. "National" or "International" - where the corporation does not operate on this scale. Words or letters suggesting a professional qualification where this/these are not held by the members.

"Unlimited" - because this represents a contradiction where the term is applied to the liability of members and an untruth where it refers to the limit of financial resources "Group" - unless group structure is shown to exist.

Geographic location - if this misleads.

"University" - where it is not.

Reference to a stock exchange, where such is not in use.



#### **B.1.3.3.6. *Prohibited Words***

Words having a potential to cause annoyance, which are blasphemous, indecent or suggestive are not permitted.

Words suggesting the corporation performs work performed by an attorney e.g. Administration of Estates, Executors, work performed by a member of the Accounting Profession e.g. Chartered Accountant, CA, Auditor etc., work performed by a Surveyor or Land Surveyor are not permitted.

The words "Red Cross", any words suggesting government patronage, words implying association with the S A Armed Forces or reference to "Co-operatives", "Farmer's Co-operatives" or "Agricultural Co-operatives" are all unacceptable, as indeed are any words or combination of letters which have been published by statute as being unacceptable. With the introduction of the Companies Act 2008 other names which are offensive or derogatory (e.g. racial or ethnic hatred, gender critical) or which might incite public unrest or war have also been declared taboo.

#### **B.1.3.3.7. *Words subject to Approval***

In the case of the use of certain names, approval may be granted by the Commissioner subject to the approval of another Statutory Body.

The word "Standard" must be approved by the Minister of Trade and Industry.

"Bank" must be approved by the Registrar of Banks.

"Friendly Society", "Mutual Aid", "Insurance", "Assurance". "Provident Fund Scheme", "Units", "Unit Portfolio", "Unit Certificates", "Unit Trust", are all subject to approval by the Financial Services Board.

The words "Medical Scheme", "Medical Aid" or variations must be approved by the Registrar of Medical Schemes.

In general terms, approval will not be given by these bodies unless the use of the word categorically summarises the main objective of the business. For example, the Financial Services Board is unwilling to permit the use of any name incorporating the word "Insurance" by any insurance broker or underwriter, on the grounds that use of the word is appropriate only by Insurers themselves.

The method of gaining approval from the above bodies varies slightly. Generally, the process involves forwarding the COR9.1 (already approved by the Commissioner of CIPC) together with a fee to the statutory body concerned.

The body will respond in due course by letter, returning the COR9.1. The COR9.1, the letter of approval and any other documentation necessary for the registration of the CC is lodged with the Commissioner for incorporation. Where approval is not granted by the statutory body, the Commissioner will not waive the fee associated with the COR9.1 which was the subject of the failed application.

#### **B.1.3.3.8. *Objections to Names of Incorporated Corporations***

The Commissioner may, in terms of section 20 of the Companies Act and within one year of incorporation, direct the corporation to change its name, on the grounds of undesirability or, alternatively, that the name is calculated to cause damage to the applicant. In practice, this frequently translates as an objection by a previously incorporated body, that the name

incorrectly implies association with, or prejudice toward the objector.

Any such ruling by the Commissioner is subject to enforcement and penalties for noncompliance but such decisions are subject to appeal, within a period of one month after the Commissioner's decision, to the High Court which may elect to hear the entire matter from inception of application for incorporation.

Any resulting name change shall be without revenue expense to the corporation, that is to say, there will be no further COR9.1 fee in connection with a name change in terms of section 20(3).

Any interested person may make application to court, independently of the Commissioner, within two years of incorporation, which may lead to a directive to the corporation to change its name on one or more of the above mentioned grounds.

## **B.2. Completion and Lodgement of the Amended Founding Statement**

### **B.2.1. Introduction**

The amended founding statement is drawn up on a prescribed form (Form CK2). Form CK2 is completed and lodged with CIPC electronically. The changes reflected on the Form CK2 will be effective once the Commissioner has finalised processing thereof, after which an electronic copy will be returned to the person who submitted on behalf of the Close Corporation whilst a copy will be forwarded to SARS.

The amended founding statement is a public document and may be viewed at the office of the Commissioner of Close Corporations, or online via the CIPC portal or at the registered office address of the close corporation.

### **B.2.2. Form CK2 Amendments**

The electronic completion of the CK2 form is accessible online via your customer code.

To do the electronic part of the application, follow these steps:

Click on "[Online transacting](#)" and then on "[Member amendments \(CK2\)](#)".

1. Login, using your customer code and password and follow the prompts.
2. Click on Amend Close Corporation Members.
3. Enter the enterprise number and click on Validate.
4. The Enterprise Details and Current Member Details will be displayed.
5. Enter the First Listed Member's ID Number, tick the circle to confirm that the details as listed belong to the close corporation that you want to change the members for.
6. Indicate if you want to add a new member, or if there are no new members.
7. Complete the required fields relating to the new Member, and click on Save.
8. If you want to add another member, click on "Add Another New Member". Once all the new members have been added, click on Continue.
9. If you want to edit any details relating to the current member, click on Edit. Click on Continue.
10. Confirm any changes, and click on Lodge.
11. The tracking number of the transaction will be displayed. An email with CK2 documentation, as well as the requirements relating to supporting documents will be sent to the customer and to all members of the close corporation.
12. All members of the close corporation, as well as the customer who logged in with his/her customer code must sign the document.



The following supporting documents must be included in your e-mail:

- Certified identity copy of applicant
- Certified ID copies of all members and resigning members

- A written instrument signed by all members including the new members consenting to the changes - it can be in the form of minutes, agreement, resolution etc, certified as a true copy of the original.
- Certified copies of passports and in the case of refugees or asylum seekers – a certified copy of valid prescribed documentation.
- In the case of a deceased member, an executor's letter issued by the Master of the High Court, The CK2 document must be signed by the executor. A certified ID copy of the executor of the estate must also be attached.

Where the CC has more than one member, all members should provide certified ID copies, including the person who will be lodging on behalf of others.



E-mail the completed, signed and certified documents together with supporting information to [eServicesCK2@cipc.co.za](mailto:eServicesCK2@cipc.co.za)

#### **B.2.2.1. Completion of Form CK2**

##### **B.2.2.1.1. *Read the Notes first***

Before attempting to complete the CK2, it is imperative that the notes appearing on page 2 are read. These notes are reproduced on page 407 of the publication referred to in [B.3.2.1 Overview of Form CK2A](#) below.

##### **B.2.2.1.1.1. *General Comment***

Form CK2 must be completed in type or deep black permanent ink in triplicate. If the form is handwritten the information must be in capital letters. If it is downloaded from the CIPC website it can be completed on the computer screen and then printed. NOTE that the form is a PDF and must be opened using Adobe Fine Reader. However, since it cannot be saved to file with the details remaining, it must be printed directly from the computer screen. The form will be rejected if there is any alteration including the use of correction fluid which is one very important reason for completing it on the computer screen. But remember! Print a copy for your permanent file.

## **PART A OF FORM CK2**

### **B.2.2.1.2.            *Registration number of Close corporation***

The same registration number that appears on the original Founding Statement (Form CK1) must be reproduced on Form CK2.

### **B.2.2.1.3.            *Name of Close Corporation***

If the name of the Close Corporation is to remain the same then the full name must be reproduced on the form under Part A. Please note that any amendment, even the introduction of a hyphen, for example, will constitute a name change and will, therefore, require a Form COR9.1 to be completed before hand. It would be advisable to wait for confirmation of reservation of the new name before Form CK2 is completed. Note that the CK2 cannot be registered, in the case of a name change, if Form COR9.1 is not attached.

Please note that, if the name of the close corporation or the principal business of the close corporation includes any of the words 'insurance', 'assurance' or anything relating to the industry, the approval of the Financial Services Board must be obtained and the amount payable on application must be deposited into their bank before the consent will be given for the use of these words in the name or principal business.

### **B.2.2.1.4.            *Previous Name of Close Corporation***

If the close corporation is changing its name, after obtaining approval of the new name from the Commissioner on Form COR9.1, enter the old name next to the heading marked *previous name of corporation* under Part A. If the close corporation will not be adopting a new name then leave this line blank or mark it "not applicable".

### **B.2.2.1.5.            *Literal translation of Name of Close Corporation***

Translated as well as shortened form of names are no longer registered in terms of the new Companies Act, however entities that already have Translated names and or a shortened form of a name will continue to have the same.

### **B.2.2.1.6.            *Shortened Form of Name***

See above

**B.2.2.1.7.            *Description of Principal Business***

The principal Business of a close corporation may be broad as the Commissioner will accept more than one business activity. The description of the principal business must not conflict with the name of the corporation in any way. If any amendment is made, even a slight alteration to the wording of the principal business, the agent's code must be in an appropriate place on the original of the form so that the relevant fee for alteration to Part A of the form may be charged to that account.

If the principal business includes the word "investments" then it must be stated whether the investments will be undertaken as principal or as an agent.

**B.2.2.1.8.            *Date of end of Financial Year***

The financial year end must be given, if it is to remain the same, according to the latest Form CK2 or CK1 document. If the Close Corporation wishes to change its year end, the new year end must be inserted in the space provided next to the heading *date of financial year end*. The close corporation may not change its financial year end more than once in any financial year. The first financial year end of a Close Corporation must not be less than three and not more than fifteen months after the date of registration, thereafter every financial year end shall be not less than three months and not more than fifteen months after the end of the previous financial year end. Reference S27 Companies Act 71 2008

**B.2.2.1.9.            *Date of Original Incorporation***

This must be found at the bottom of Page 1 of CK1 and must be carried forward to any subsequent Form CK2 lodged with the Commissioner. This date never alters.

**B.2.2.1.10.          *Number of Members***

This relates to the number of persons reflected as members of the close corporation on pages 2 & 3 of the Form CK2 document. The number of members of a close corporation may never exceed ten and may only be natural persons. Please note that no fee will be payable should this number differ from any previously registered Form CK2 or Form CK1.

PRACTICE NOTE NO 1 OF 2006 CLOSE CORPORATIONS AMENDMENT ACT, 2005 (ACT NO. 25 OF 2005) The Close Corporations Amendment Act, 2005, amended the Close Corporations Act, 1984, with effect from 11 January 2006. These amendments provide for the introduction two important new principles, which will have an effect on the procedures to be followed for the registration of amended founding statements (Forms CK 2 and CK 2A). These principles are firstly that trusts inter vivos can now, under certain circumstances, become and be members of close corporations. The intention with this practice note is to provide guidelines to and to familiarise users of close corporations with the relevant procedural requirements to effect such membership of trustees of trusts inter vivos A. Requirements relating to trusts inter vivos and membership Section 29 (1A) of the Close Corporations Act, 1984, in its amended form, now provides:- "(1A) A natural or juristic person in the capacity of a trustee for a trust inter vivos may be a member of a corporation: Provided that – (a) no juristic person shall directly or indirectly be a beneficiary of that trust; (b) the member concerned shall, as between himself or herself and the corporation, personally have all the obligations and rights of a member; (c) the corporation shall not be obliged to observe or have any obligation in respect of any provision of or affecting the trust or any agreement between the trust and the member concerned of the corporation; and (d) if at any time the number of natural persons at that time entitled to receive any benefit from the trust shall, when added to the number of members of the

corporation at that time, exceed 10, the provisions of, and exemption under, this subsection shall cease to apply and shall not again become applicable notwithstanding any diminution in the number of members or beneficiaries.”. In order to enable proper implementation of the new membership provisions and to register founding statements and amended founding statements where the trustee/s of trust inter vivos will become a member/s, certain information regarding the trust concerned will have to be provided in addition to the relevant CK forms. To this end the following documents will be required to be lodged together with Form CK 1 or CK 2, as the case may be, with CIPRO: (1) A certified copy of the Letter of Authority issued to the trustee/s of the trust by the Master of the High Court; (2) In the case of multiple trustees, an originally signed special power of attorney by each of the trustees appointing one of them as the representative of the trustees for purposes of holding and dealing with the member’s interest in the close corporation concerned; (3) A letter by the trustee, or in the case of multiple trustees, the representative trustee referred to in paragraph (2) above, in which he or she furnishes – · the name, registration number and address of the trust; · the names of all the trustees of the trust; · the number of beneficiaries of the trust, current at date of the letter; and · particulars of all the beneficiaries named in the trust deed, irrespective whether capital, income or other type of beneficiaries. (4) A certified copy of the section/s in the trust deed defining and/or identifying the beneficiaries of the trust, whether capital, income or other type of beneficiaries. (5) If the trustee is a juristic person, a letter on the letterhead of the juristic person, nominating a natural person as its representative. An amended founding statement (Form CK 2) must be lodged whenever a change is made or occurs in respect of the particulars of – · the trustees; · the representative of the trustees; 3 · the representative of a juristic person which is a trustee; or · the beneficiaries.

#### **B.2.2.1.11.            *Aggregate Members' Contribution***

This relates to the total amount contributed by the members as reflected on Pages 2 and 3 of the Form CK2 document. A sum of all the contributions is made and the total is reflected under the heading marked *aggregate members' contribution*. Please note that there is no fee payable should this total differ from any previously registered Form CK2 or Form CK1.

### **PART B OF FORM CK2**

The information in Part B relates to the members of the close corporation. The details of all existing members as well as new members must be entered onto Pages 2 and 3 of Form CK2 and the names, ID numbers and signatures of resigning members must be entered onto Page 4 of form CK2. It is not necessary to lodge any page which is not used, e.g. if only Page 2 is used then Pages 3 and 4 need not be lodged. All pages must be numbered in the space provided for this at the bottom right hand corner.

The details of all existing members must also be checked and if there are alterations these must be incorporated into the new Form CK2.

The registration number and full name of the close corporation must be included at the top of pages 2, 3 and 4 depending on which pages are being submitted. Please note that in the case where a new name is being adopted, the name as it appears on the Form COR9.1 must also appear at the top of the page.

After reading the notes on the reverse side of Page 2 (or all the separate pages if downloaded from the website) the following must be completed:

#### **B.2.2.1.12.            *Surname***

Insert the surname (last name) of the member in the space marked 1(a). If the member's surname has changed since the registration of the latest Form CK2 or Form CK1 then the member's new name must be entered in this space and the reason for the change must be included at the bottom of the block relating to the member's details.

If the member is a juristic person (only a liquidator, curator, administrator, executor or trustee of a testamentary or inter vivos trust) the name and capacity of such person so nominated (as the liquidator, curator, administrator, executor or trustee) must be entered into the space provided and details of the trust or appointment letter of such liquidator, curator, administrator or executor must be provided. The registration number of the juristic person must also be supplied in the space marked 2 (ii).

**B.2.2.1.13. Full Names**

The full first names of the member must be provided in the space marked 1 (b).

**B.2.2.1.14. Identity Number**

The member's identity number must be provided in the space marked 1(1). If the member does not have an identity number then his birth-date and a passport number, together with his citizenship, must be supplied. A written statement explaining the reasons for the member not having an identity document must be attached to the form CK2.

**B.2.2.1.15. Percentage Interest**

The percentage interest of the member must be supplied in the space marked 3. The total percentage interest must equal 100. Therefore, in a case where there are three members and each has taken a one-third interest in the close corporation 1/3 must then be written in this space and not 33,3333% as this does not add up to exactly 100%.

**B.2.2.1.16. Member's Contribution**

The minimum contribution allowed is R1.00 and a fair monetary value must be given in the space marked 4. The sum total of the contributions from all the members must be equal to the amount given on page 1 under the heading marked *aggregate members contribution*.

It must be noted that, if members have not made their contributions to the close corporation within three months of its incorporation, they will be personally liable for the debts of the close corporation.



**B.2.2.1.17.            *Residential and Postal Addresses***

The residential and postal addresses of the members must be supplied in the spaces marked 5 and 6 respectively. Please note that postal codes must also be given because the form will be rejected if they are not supplied.

**B.2.2.1.18.            *Signature***

Each member must sign, in black ink, in the space marked 7. If the amendments must be effective from a given date then this date must appear in the space marked 8. If the member is a minor or is legally disabled, the parent or legal guardian must sign under his/her details in the space provided next to his/her signature and his/her capacity must be specified

If another person is signing on behalf of a member, an original copy of the power of attorney must be lodged with the Form CK2.

If a married person under the age of 18 signs the Form CK2, then documentary evidence must be supplied to prove the person is a major by way of the marriage agreement.

**B.2.2.1.19.            *Resignation of a Member***

The full name of the resigning member, as it appears on the most recent copy of Form CK2 or Form CK1 must be entered on Page 4 with his identity number. The resigning member must also sign next to his details. If another person is signing on behalf of the member then a power of attorney must also be attached.

An original letter of resignation signed by the resigning member, together with a certified ID of ALL members must be submitted with this resignation

**B.2.2.1.20.            *Final check before submission***

- If hand-written, have black ink and capital letters been used?
- Have three copies been prepared and is the information identical on each copy?
- Has each member signed Block 7 in black ink?
- Has the CIPC customer's (agent's) number, if applicable, been noted on page 1?
- Have correct page numbers been entered at the base of each page?
- Are all pages free from alterations or correction fluid?
- Has the COR9.1, if applicable, been attached?
- If any of the following are required, have they been attached to the forms:
  - Written statement(s) from members having no identity number;
  - Have power of attorney forms been prepared?
  - Documentary proof of married members under 18 years;
- Do you have a certified copy of all members ID's? This certification must be within the last three months.
- Do you have the required resignation letters?
- Do you have the required resolution appointing new members?
- Do you have the ID of the customer linked to CIPC?

Advise CIPC where to mail the documentation to if you do not want it to be returned to the registered office address. Please note that, in the case where the documents are to be collected, the Commissioner will return the CK2 documents to the registered office address if they are not collected within 14 days after it has been registered.

## **B.3. Completion and Lodgement of the Amended Founding Statement in respect of Accounting Officer & Address**

### **B.3.1. Introduction**

The amended Founding statement in respect of Accounting Officer & Address is drawn up on a prescribed form (Form CK2A). Form CK2A is completed and lodged with the Commissioner of CIPC in triplicate. The changes reflected on a Form CK2A will be effective once the Commissioner has affixed his stamp thereto, after which one copy will be returned to the members of the close corporation whilst the second copy will be forwarded to the South African Revenue Service. The third copy is retained by the Commissioner.

The amended Founding Statement is a public document and can be viewed either at the office of the Commissioner in Pretoria or at the registered office address of the close corporation.

### **B.3.2. Form CK2A**

#### **B.3.2.1 Overview of Form CK2A**

Its completion in triplicate is required for the registration of amendments to an existing close corporation. Form CK2A has standard print specifications, being printed on yellow A4 paper. The form consists of two parts i.e. Part 1 and Part 2. Part 1 relates to any changes in the name or address of the existing accounting officer, or the appointment of a new accounting officer. Part 2 relates to any changes to the registered office address and/or postal address.

There is no lodging fee for Form CK2A.

##### **B.3.2.1.1 Completion of Form CK2A**

###### ***Read the Notes First***

It is advisable to read the notes first.

##### **B.3.2.1.2 General Comment**

Form CK2A is completed in type or black permanent ink, in triplicate. Capital letters must be used when the form is hand-written. It is advisable to lodge original forms only, CIPC will however, accept an original and two clear copies provided the copies are originally signed. The form will be rejected if any alteration, including the use of correction fluid, is made. All details must be supplied even if they have not been changed.

With the availability of forms taken from the CIPC website and completed on the computer screen there should be no difficulty in providing originals of all copies. Please remember that these forms are in PDF and cannot be saved.

**B.3.2.1.1.           Registration number of Close Corporation**

The same registration number that appears on the original founding statement (Form CK1) or the most recently registered CK2 must be reproduced on the Form CK2A.

**B.3.2.1.2.           Name of Close Corporation**

If the name of the close corporation is to remain the same then the same full name as it appears on original Form CK1 or the most recently registered CK2 must be reproduced on the form. If the CK2A is being lodged together with Form CK2 which reflects a change of name then the new name as approved on Form CK7 must be inserted on the form.

**PART 1 of FORM: CK2A**

**B.3.2.1.3.           Name and postal address of accounting officer/new accounting officer**

Details of the existing accounting officer must be given under this heading. His full name and postal address as it appears on the most recently registered Form CK2A or Form CK1. The heading marked "*new accounting officer*" must be deleted in this case. If a new accounting officer is to be appointed, his name and postal address must be supplied and his written consent must be attached to Form CK2A. The heading marked "*accounting officer*" must be deleted in this case. In accordance with section 60(4) of the Close Corporations Act a firm, as defined in section 1 of the Public Accountants and Auditors Act, and any other firm may be appointed as an accounting officer of a close corporation, provided each partner in the latter firm is qualified to be so appointed. If the accounting officer is also a member of a close corporation then the written consent of all the members, including the accounting officer, must be attached to the Form CK2A.

**B.3.2.1.4.           Full name of recognised profession of accounting officer and membership/practice number**

The full name of the professional institute of which the accounting officer is a member as well as his/her membership number must be supplied. Where the accounting officer is a firm of chartered accountants, the practice number must be that of the firm given to them by their institute. Since all chartered secretaries are required to have a practising certificate this certificate number should be shown.

**B.3.2.1.5.           The accounting officer has changed his address**

The date of change of address (either future, past or present) must be supplied under the heading marked "*The accounting officer has with effect from*". The new postal address must be given under the heading marked *changed his address to*. If there has been no change in the accounting officer's address then this section must be crossed out.

**B.3.2.1.6.           The Accounting officer has, with effect from .....changed his name and will in future be known as.....**

The name of the accounting officer as it appears on form CK1 or the most recently registered Form CK2A must be inserted under the heading marked *The accounting officer*, the date on which the name will be or has been changed must be inserted under the heading marked *has with effect from*, the new name of the accounting officer must be inserted under the heading marked *changed its name and will in future be known as*.

**B.3.2.1.7.            *Signed by or on behalf of every member (in case of a new accounting officer)***

All the members must sign the Form CK2A in the case of a newly appointed accounting officer. An accounting officer may sign under any circumstances other than where he is being appointed. In the other cases where the accounting officer has changed his name or address, either all the members or the accounting officer may sign the Form CK2A. If a member is a minor or is legally disabled, the parent or legal guardian must sign on his behalf and specify in which capacity they are signing.

**PART 2 of FORM CK2A**

**B.3.2.1.8.            *Postal Address***

Either the existing postal address as it appears on Form CK1 or the most recently registered CK2A or the new postal address must be entered under the heading marked postal address.

**B.3.2.1.9.            *Address of registered office (not post office box)***

Either the existing registered address as it appears on Form CK1 or the most recently registered Form CK2A or the new registered office address must be entered under the heading marked *address of registered office (not post office box)*.

The registered office address must be a physical (street) address in South Africa.

**B.3.2.1.10.          *Date of Change***

This reflects the date on which the change has taken or will be taking place. If there is no change of address then this must be marked "not applicable".

**B.3.2.1.11.          *Signed by or on behalf of each member***

All the members must sign the form CK2A in the case of a newly appointed accounting officer. An accounting officer may sign in any circumstances other than in the case where he is being appointed.

In the case where only the registered office & postal addresses are being changed only the accounting officer's signature is required on the Form CK2A

In the case where a member is a minor or is legally disabled, his parent or his legal guardian must sign on his behalf and specify in which capacity they are signing.

**B.3.2.1.12.          *Date***

This will be the date upon which the members or the accounting officer sign the Form CK2A

**B.3.2.1.13.          *By the accounting officer who certifies as follows:***

This must be completed if the accounting officer has signed all the amendments to the close corporation on behalf of the members (except in the case where the accounting officer is being appointed). The date appearing in this section must be the date that the accounting officer signed the Form CK2A.

**B.3.2.1.14.          *Final check before submission***

- If hand-written, have black ink and capital letters been used?
- Have three copies been prepared and is the information on each copy identical? (Note: This will be facilitated if the form has been downloaded from the CIPC website and printed on the computer).
- Has every member signed the CK2A in the case of an appointment of a new accounting officer?
- Are all pages free of alterations and correcting fluid?
- If any of the following are required, have they been attached to the forms:
  - Letter of consent to act as accounting officer, in the case of a new appointment.
  - Have power of attorney forms been prepared.
  - Documentary proof of married members under 21 years.
  - ID of customer linked to CIPC.
  - ID of ALL members.

Advise the Commissioner of Close Corporations where to mail the documentation to if you do not want it returned to the registered office address. Please note that in the case where documents are to be collected, the Commissioner will return the Form CK2A documents to the registered office address if they're not collected within 14 days after it has been registered.

## **B.4. *Deregistration of a Close Corporation***

### **B.4.1. Introduction**

Either the members or the Commissioner can initiate proceedings to deregister a close corporation.

### **B.4.2. Deregistration on application by members**

If the members apply for deregistration they must notify the Commissioner in writing, that they wish to deregister the close corporation. Each of the members must also enclose a statement to the effect that the close corporation has ceased trading and holds no assets and liabilities.

A tax clearance certificate from SARS must accompany any request for de-registration.

### **B.4.3. Deregistration by Commissioner**

The Commissioner will initiate proceedings to deregister a close corporation if he believes that the close corporation has not been trading or if he is notified by the following:

- a letter from a member of the close corporation, stating that the close corporation is dormant;
- a letter from the accounting officer, stating that the close corporation is no longer trading;
- a letter from SARS, stating that the close corporation is dormant;
- a letter from a creditor of the close corporation, stating that the close corporation is dormant. Creditors sometimes use this means to collect outstanding moneys from the members in their personal capacity;
- should the close corporation fail to lodge its Annual Return within a period of six months from due date.

The CIPC will verify if annual returns from the CC are outstanding. If there is a default the CIPC will take this to be grounds to assume that the CC is in fact dormant and will trigger a response from that office to requests for deregistration.

The Commissioner will then notify the close corporation, by registered mail, that he intends to deregister the CC. The CC must then notify the Commissioner within sixty (60) days if it is still trading and, if they fail to do so, the Commissioner may proceed with deregistration.

Once the request for deregistration has been successfully filed, the CC will be placed in the administrative status of 'in deregistration process' by the CIPC and on completion of the process the CIPC records will be annotated 'final deregistration'. Once the CC is regarded as deregistered it cannot claim continued protection of its name and any other company or CC can legitimately lay claim to it.

If the grounds for deregistration application or process were that the CC had not filed its annual return nor paid the duty, and the CC then corrects the position by bringing all outstanding up to date and the deregistration process is aborted.

#### **B.4.4. Procedure**

Once application has been made to deregister the close corporation the Commissioner will, in writing, notify the Receiver of Revenue, The Commissioner of the Unemployment Insurance Fund and the Commissioner for Occupational and Industrial Diseases of the intention to deregister the close corporation. By this notification he simultaneously requests these bodies to raise any objections that they might have to deregistration of the close corporation. If there are no objections, the Commissioner will then publish a notice of deregistration in the Government Gazette. The date of deregistration will then be the date on which the notice was published.

The deregistration process can be expedited if the members making application, first obtain the approval of SARS, the Commissioner of the Unemployment Insurance Fund and the Commissioner for Occupational and Industrial Diseases to deregister the close corporation. These approvals may then be sent to the Commissioner, together with their statements and application to deregister the close corporation. The Commissioner will then proceed immediately with the publication of the notice of deregistration in the Government Gazette.

#### **B.4.5. Effect of a deregistration**

The name, translated name and shortened version of the name of the close corporation as well as any patents and trademarks linked to that name will cease to be protected.

If, after the deregistration of the close corporation, it is found that the close corporation still has liabilities, the members of the close corporation will be jointly and severally liable for the settlement of the debts. Any assets of the close corporation at the time of deregistration will become the property of the state.

#### **B.4.6. Restoration of a deregistered Close Corporation**

Companies deregistered normally or by non-payment of annual duties, can be restored.

The first step is to check whether or not the Close Corporation is in final deregistration, or in the deregistration process. If the CC has been deregistered for non-payment of annual duty, and is currently listed as in “deregistration process”, payment of the annual duties can be made, after which the CC will return to “in business”. If the company is in “final deregistration”, a formal process of restoration is required as follows:

- Complete a form CoR40.5
- Submit together with certified copies of the identity documents of all members and the person lodging the documents;
- In addition, if the CC own property, it will be necessary to do a deed search and advertise in a local newspaper with 21 clear days’ notice, plus written confirmation from the Department of Public Works and the Department of Treasury that they have no objection to the CC being restored.

#### **B.4.7. Liquidations and Deregistration of Close Corporations**

These are done in terms of the Companies Act 2008.

Liquidation of a business implies that the business has ceased or is unable to pay its debts,

and the entity can no longer trade as a juristic entity. Liquidation may come about as a result of a court order, by creditors or voluntary application by the members.

Deregistration of a CC implies that the entity loses its legal status, however, it can continue trading, and can be restored.

In both the above cases, members remain severally and jointly liable for any irregularities that may have occurred when they were still acting as such.

In the case of voluntary liquidation by members or creditors, form CoR40.1 must be completed, a statement of security being furnished or dispensed with, signed by all members, is submitted to the Master of the High Court, in terms of Section 80 of the Companies Act.

To apply for deregistration of a CC, a formal letter on the letterhead of the CC must be submitted to the Commissioner. The application may be made by any member, the accounting officer or an attorney, but court proceedings are not necessary. The letter must state that the CC is no longer trading, and has no assets or liabilities. The process takes from 3 to 6 months to complete.

The CIPC issued Practice Note 3 of 2012 stating that the requirements are as follows:

- For the liquidation of SOLVENT companies or CC's – submission of a form CoR40.1, a certified copy of the special resolution passed by the members to wind up, a form JM12 (security – if winding up is by the close corporation) accompanied by a certified copy of the ID of the director who signed the required documents.
- For liquidation of INSOLVENT companies or CCs – submission of a form CM26 (special resolution) accompanied by the notice which convened that meeting where the resolution was passed (plus CM25A if short notice was approved by members),
- Form JM12 (security – if winding up is by the close corporation) from the Master's Office before filing with the CIPC-even if there is no assets or liabilities then an exemption from security must be obtained from the Master.
- if liquidated by the members- alternatively form CM100(Statement of Company Affairs) if liquidated by the creditors, all of which to be accompanied by a certified copy of the ID of the director who signed the documents.

#### **B.4.8 Re-instatement of registration**

Once a company or CC has been noted by the CIPC as 'final deregistered' it may apply for re-instatement. That status will only be restored to 'In business' if all outstanding returns have been filed and fees paid. The CIPC treats re-instatements in one of two categories, namely –

- a normal reinstatement
- an annual return re-instatement

In either case the outcomes are of course identical, but the latter category is much simplified compared to the former. A step-by-step guide is available at the CIPC website ([www.cipc.co.za](http://www.cipc.co.za)) and can be done either manually or electronically.



## **B.5. Deceased Members of a Close Corporation**

The Act specifies that in the case of a deceased member, the executor of the estate must notify the close corporation within a period of 28 days whether he will be disposing of the deceased's interest. If this is the case then he must accordingly request the close corporation to lodge an amended founding statement (Form CK2) reflecting himself as *nominee officii* member. The Form CK2 will reflect the full name, identity number and address of the executor and the executor will then sign the Form CK2. A letter reflecting his appointment as executor must also be attached to the Form CK2 before it is lodged with the Commissioner of Close Corporations. If the deceased member was the sole member of the close corporation then the executor must lodge the Form CK2 himself.

In accordance with his duties, the executor must then ensure that the deceased's interest be transferred to a person who qualifies for membership and is entitled as a legatee, heir or under a redistribution agreement, if the remaining members of the close corporation consent to the transfer of the deceased's interest to such person. If the consent is not given within a period of 28 days the executor may sell the deceased's interest to:

- the close corporation if there is any member or members other than the deceased; or
- any other remaining member or members of the close corporation in proportion to the interests of those members or as they may otherwise agree upon; or
- any other person who qualifies for membership in terms of section 29 of the Act.

If the executor wants to sell the deceased's interest to another person, then he must notify the close corporation of the name and address of such person, the price, the time and the method of payment. The remaining members of the close corporation then have 28 days in which to confirm, in writing, to the executor their purchase of the whole or portion of the deceased's interest on the same conditions. If the remaining members do not purchase the entire portion of the deceased's interest, the sale of the entire remaining portion will be sold to such other persons and such sale will be final.

The above applies only where there is no association agreement to override the provisions of the Act.

## **B.6. Insolvent Members of a Close Corporation**

The Act specifies that, in the case of an insolvent member, the curator of the insolvent must notify the close corporation within 28 days whether he will be disposing of the insolvent's interest. If this is not the case, then he must accordingly request the close corporation to lodge an amended Founding Statement (Form CK2) reflecting himself as *nominee officii* member. The Form CK2 will reflect the full name, identity number and the address of the curator who will then sign the Form CK2. A letter, reflecting his appointment as curator must also be attached to the Form CK2 before it is lodged with the Commissioner of Close Corporations.

The curator may sell the insolvent's interest to:

- the close corporation, if there is any other member or members; or
- any other remaining member or members of the close corporation in proportion to the interests of those members or as they may otherwise agree upon; or
- to any other person who qualifies for membership in terms of section 29 of the Act.

If the curator wants to sell the insolvent's interest to another person, then he must notify the close corporation of the name and address of such person, the price, the time and method of payment. The remaining members of the CC then have 28 days in which to confirm, in writing, to the curator their purchase of the whole or portion of the insolvent's interest on the same conditions. If the remaining members do not purchase the entire or portion of the insolvent's interest, then the entire or remaining portion will be sold to such other person and such sale will be final.

In terms of section 29 (2 (c) ) of the Act a natural or juristic person, *nomine officii*, who, in the case of a member who is insolvent, deceased, mentally disordered or otherwise incapable or incompetent to manage his affairs, is a trustee of his insolvent estate or an administrator; executor or curator in respect of such member or is otherwise a person who is his duly appointed or authorized legal representative of an insolvent person and therefore the latter is not disqualified from being a member of the CC.

## **B.7. Public Officer and Representative Taxpayer**

### **B.7.1. Introduction**

Every company is required to appoint a person by means of whom the South African Revenue Service is able to correspond with the company.

A company is defined in section 3 of the Companies Act, as:

A company is—

- a) a subsidiary of another juristic person if that juristic person, one or more other subsidiaries of that juristic person, or one or more nominees of that juristic person or any of its subsidiaries, alone or in any combination—
  - (i) is or are directly or indirectly able to exercise, or control the exercise of, a majority of the general voting rights associated with issued securities of that company, whether pursuant to a shareholder agreement or otherwise;
  - or
  - (ii) has or have the right to appoint or elect, or control the appointment or election of, directors of that company who control a majority of the votes at a meeting of the board; or
- b) a wholly-owned subsidiary of another juristic person if all of the general voting rights associated with issued securities of the company are held or controlled, alone or in any combination, by persons contemplated in paragraph (a).

### **B.7.2. Appointment**

In terms of section 101 (1) The Act provides that every company carrying on business or having an office in the Republic (note that this will refer to a foreign company whether or not registered as such in terms of the Companies act as an External Company) and every unit portfolio constituting a company in terms of paragraph (d) of the definition of “company” in section 1, shall at all times be represented by an individual residing therein.

The person so appointed shall be approved by the Commissioner [of the South African Revenue Service (SARS)] and must be appointed by the company or by an agent or attorney who has authority to appoint such representative for purposes of the Act.

However, should a company be placed in either voluntary or compulsory liquidation then the duly appointed liquidator or liquidators are required to exercise all the functions and to assume the responsibilities of a Public Officer. Again, in the case of a unit portfolio referred to above, the Public Officer of the Management Company is required to be the Public Officer except that, in the event of a winding up of the Management Company, the trustee under the relevant unit trust scheme shall be the Public Officer.

The representative appointed as set out above shall be called the Public Officer and such officer is required to be appointed within a period of one month after the company begins to carry on business or acquires an office in the Republic.

If default is made in appointing a representative (Public Officer) then the commissioner [of SARS] may designate the managing director, director, secretary or other officer of the company for that purpose.

### **B.7.3. Address for service of notices**

Every company is required, within the same period set down for the appointment of the Public Officer, to appoint a place within the Republic for the service of notices and other documents under The Act. The place so appointed must be approved by the Commissioner. However, in the case of a unit portfolio the place appointed for the delivery of notices must be the address appointed by the management company for the delivery of notices or documents to itself or, should the trustee under the relevant unit trust scheme become the Public Officer, such place shall be the place appointed by the trustee and approved by the commissioner.

Every company must keep the post of Public Officer and the place for delivery of notices and documents in place at all times and the commissioner must be notified of any change to either of these within fourteen days of such change taking effect and every trustee must maintain the place at which notices and documents can be delivered in place at all times and notify the commissioner within fourteen days of any change taking effect.

Any company which defaults in the terms of these requirements and every person who acts within the Republic as agent or manager for such company shall incur a penalty for each day during which the default continues and the commissioner may recover such penalty by action in any competent court. Furthermore, every Public officer is answerable for all matters or things as are required to be done in terms of the act by a taxpayer and, in default, is liable to the penalties applicable to defaults by a taxpayer.

The absence or non-appointment of a Public Officer does not exonerate any company from the necessity of complying with the provisions of The Act.

### **B.7.4. Liability of representative taxpayer**

In terms of section 95 of the Act every representative taxpayer shall be liable to assessment on the income which he, in his representative capacity, has the receipt, management or any other control over the money of the taxpayer of which he is the representative and shall be subject to the same duties, responsibilities and liabilities as if the income was his but any assessment made upon him is deemed to be made upon him in his representative capacity and any abatement, deduction, exemption or right to set off any loss which could be claimed by the person represented shall be allowed in the assessment made upon the representative.

Except where the representative is the Public Officer of a company, any tax payable in respect of an assessment upon the representative shall be recoverable by that representative but this is limited to the assets belonging to the person represented and which may be in the possession of the representative or under his management, disposal or control.

Finally, any tax payable in respect of any assessment made upon the Public Officer of a company in that capacity is recoverable from the company of which he is the Public Officer.

**PPG MANUAL**

**CONTENTS**

**SECTION C - COMPANIES - SECRETARIAL MATTERS**

**C. SECTION C – COMPANIES – SECRETARIAL MATTERS**

**C.1. The New Companies Act**

**C.2. Incorporation of Companies**

**C.3. Administrative Provisions**

**C.4 Officers**

**C.5 Committees**

**C.6 Conversion of Close Corporations into Companies**

## **C. Section C - Companies - Secretarial Matters**

In South Africa the Companies Act 1973 was used for many years but reached the stage where it was no longer suitable for the business environment. In addition there were many petty offences which were regarded as non-value adding. The Act was long winded and contained 450 sections as well as being backed up by a host of administrative and promulgated regulations. Accordingly it was deemed necessary for this to be updated and made simpler to understand and to remove numerous sections, which carried penalties.

After a long process the Companies Act No 71 of 2008 was promulgated but its introduction was delayed for several years because of various technical and legal difficulties that needed to be sorted out. Chartered Governance Institute of Southern Africa CGISA indeed submitted various representations to the drafters of the legislation suggesting that refinements and corrections should be made. Nevertheless, the Act was left to be implemented on a date to be determined by government. Finally, on 1 May 2011 the new Companies Act came into effect.

As has been stated in the editor's foreword the Institute already has some publications available to practitioners who need to deal with the intricacies of company secretarial practice and there is no advantage in repeating these in this manual. Practitioners are therefore urged to obtain one or more of the publications mentioned in the foreword if they are actively engaged in these areas.

Accordingly for the purposes of the PPG Technical Manual the various changes which have come about in the new legislation will be discussed briefly so that those in professional practice have an understanding of what has changed and the areas where they need to become involved.

### **C.1 *The New Companies Act***

A feature of the new Companies Act is that it has been drafted in plain language and the number of sections has been reduced considerably from 450 to 225. Some of the rules contained in the Companies Act are retained but have been simplified, for example in relation to pre-incorporation contracts, and there are fewer statutory forms that are needed to incorporate a company. Unlike the earlier Act, which required full compliance there are a number of areas in the new Companies Act where companies are allowed to make certain amendments in their Memorandum of Incorporation to suit their own circumstances. In other words, there are alterable provisions in the Companies Act and companies can therefore create rules for governance which suit themselves.

The capital maintenance regime which was the foundation of our company law in South Africa for many years has been dropped in favour of the solvency and liquidity test. Also removed from the Companies Act are the provisions relating to judicial management and these have been superseded by the businesses rescue provisions.

Different types of companies are required to comply with different rules. For example, not all of the rules that are applicable to public companies are suitable for private companies. The legislature recognised this and made Companies Act cater for the smaller companies more suitable by requiring them to comply with less arduous responsibilities than large public companies especially when it comes to financial reporting and corporate governance. Nonetheless a small private company which is permitted in terms of the legislation to not have an annual audit can voluntarily choose to do so and if it suits them to report to their shareholders in greater detail then they are able to do so by choice and not because they are forced to do so by the law.

The Companies Act of 1973 provided for two types of companies, namely those with share capital and those without share capital. Companies with share capital could be either public or private and those without share capital could only be public companies. In addition, a public company had a minimum number of members (shareholders) whilst a private company needed to have a minimum of one shareholder with a maximum of 50 excluding employees. The new Companies Act also defines companies into two categories but these are different to those of the past. Companies can either be for-profit or not for profit. The new Companies Act also removes the minimum and maximum number of shareholder provisions and caters for a special type of company, namely a state-owned enterprise which would normally have two sets of legislation governing its operations - Acts of Parliament whereby they are established and then also the provisions of the Companies Act.

The Companies Act of 2008 also provides for alternative dispute resolution and has radical changes to the takeover provisions in that such fundamental transactions will now receive greater attention particularly with regard to the rights of minority shareholders and the rights of dissenting minority shareholders. There are new rules relating to mergers and acquisitions allowing two or more companies to merge into one entity providing that the consequence thereof will be the maintenance of solvency and liquidity and that the necessary approvals have been obtained.

## **C.2 *Incorporation of Companies***

As was mentioned earlier the process of incorporating companies has been simplified. Where previously companies required to choose a set of articles of association (often Table A or Table B), which were an adjunct to the Memorandum of Association, what is required now is that the company should have a single document which is known as its Memorandum of Incorporation. Existing companies are encouraged to convert their memorandum and articles of association into the new form and if they do so within three years of 1 May 2011 there will be no filing fee payable to the CIPC.

Previously the incorporation formalities commenced with the application to the Registrar of Companies for the reservation of the name. Companies can now continue to do this but may defer selection of a name until a later stage. In the interim the company registration number will be used as its identifier. The rules regarding choice of name have stayed much as they were - not to use names that are similar to established companies, not to imply state patronage, not to be offensive to public morals, etc – but there have been additions in that it is now possible to register names using symbols and foreign languages and that the name does not have to be aligned with the activities of the new company. Also the choice of name should not be offensive in the sense that it creates animosity amongst people such as derogatory gender or racial connotations and should not incite public unrest or acts of war.

The procedure to change the name of the company remains much the same: a special resolution will be passed by the shareholders of the company after which it needs to be registered with the CIPC in the form of an amendment to the company's Memorandum of Incorporation.

## **C.3. *Administrative Provisions***

Companies are still required to manage their affairs by passing resolutions at general meetings. Previously it was possible to dispense with the holding of the AGM provided that

the business of the AGM was concluded by written resolution but it is no longer possible to do this. However shareholders of the company may either attend meetings in person or by electronic means. This new provision is particularly useful when it comes to meetings of the board of directors.

In the past it was common practice for directors to pass resolutions by means of round robins, formally known as written resolutions. The Companies Act 1973 required that all directors needed to sign written resolutions for these to be valid and as effective as a resolution, which was taken at a meeting. The new Companies Act continues to allow written resolutions of directors, but the requirement now is that a majority of the directors is required to approve the resolution although all directors must be aware of the proposed resolution.

As in the past it was necessary for companies to submit details of their directors and officers to the regulator (CIPC) if there are any changes. Obviously with the introduction of the new legislation the form which is required to be submitted has been renumbered.

As far as meetings are concerned it was previously required that unless a special resolution was to be passed it was necessary to give 14 clear days notice for a general meeting and 21 days notice, as a minimum, for an AGM. The required notice period for a meeting at which a special resolution was to be passed was 21 clear days as a minimum. The new legislation has changed this and the requirement is that there be 10 business days notice for meetings of private companies and 15 business days notice for meetings of public companies regardless of the business to be conducted at these meetings. A business day is determined by working days Monday to Friday excluding any public holidays, which may fall into that week. It is important that the company keeps detailed records of notices and defines the record date on which notices were sent out. The record date is to determine the persons who were eligible to receive a notice.

Companies are still required to maintain minutes of their meetings. However, unlike the provisions of the previous Companies Act, which defined the form of a minute book very carefully, the new requirements are that minutes may be kept in writing or in an electronic format. This is obviously quite radical in the life of a company secretary and it is suggested that there is nothing wrong in continuing the practice of maintaining a hard format minute book.

The new requirement in regard to directors minutes is that these should be sequentially numbered (each resolution) and clearly dated. It is also stated in the new Companies Act that where a director has abstained from voting this fact should be recorded in the minutes. It is submitted that it is good practice to go beyond recording only those who are abstained but to include in the minutes as well the names of those who supported each resolution as well as those who voted against it.

Under the previous Companies Act, when resolutions were passed at general meetings an ordinary resolution required a majority (50% plus one) whilst for a special resolution to be passed the majority needed to be at least three fourths of those present at the meeting provided that at least one fourth of the total voting rights of the company were present at that meeting. It is still possible to pass ordinary and special resolutions but the new legislation provides the opportunity for companies to specify the majority required for each type of resolution in their Memorandum of Incorporation. The proviso is that whatever they specify must be the majority there needs to be at least a gap of 10% between the requirement for an ordinary resolution and that of a special resolution.

The quorum for all meetings regardless of the business to be transacted has now been changed to 25% of all voting shares. The provision regarding a quorum for directors meetings



has not been altered in that directors may choose whatever quorum suits them. This could be specified in the company's Memorandum of Incorporation but need not be.

An area which often resulted in legal proceedings in the past was where directors abused their positions in order to gain a personal advantage. In this regard, the new Companies Act has made it clear that directors are required to disclose any personal financial interests and that they are not permitted to use their positions as directors or information that came to them as a result of their appointment to the board to make a secret profit or a pecuniary advantage for themselves or someone else, which harms or is to the detriment of the company. This requirement is applauded.

## **C.4 Officers**

### **C.4.1. Company Secretary**

Although a private company will not generally need to appoint a company secretary they may do so as a matter of choice. However all public companies and state owned companies are obliged to appoint company secretaries and the duties of these offices are specified in the Act. These duties include but are not limited to the following:

- Providing the directors of the company with guidance.
- Recording minutes of shareholders and directors meetings.
- Making the directors aware of any relevant laws and drawing their attention to any failure to comply with these.
- Certifying in the annual financial statements of the company that the company has lodged with the CIPC all returns required of a public company in terms of the Act and that all such returns are true, up-to-date and correct.
- Ensuring that the company's annual financial statements are sent in accordance with the provisions of the Act to every person who is entitled to receive same.
- Submitting to the CIPC all documentation and forms that are required in terms of the annual transparency and accountability report (the integrated report).

### **C.4.2. External Auditor**

All public companies and state-owned enterprises are required to appoint an external auditor. A private company is not obliged to do so but can include this as a provision in its Memorandum of Incorporation. The same individual is not permitted to serve as the auditor or designated auditor of a company for more than five consecutive financial years. The rotation of auditors was a practice which had been followed by a number of the larger audit firms for some years before it became a requirement of law. Accordingly, if a person stops being the external auditor or designated auditor of the company after two or more consecutive years that person may not be reappointed as the auditor for at least five more financial years.

## **C.5 Committees**

The Companies Act 2008 has made provision for the compulsory appointment of certain committees namely:

### **C.5.1. Audit Committee**

All public companies and state-owned enterprises are required to appoint audit committees at each AGM. The membership of the audit committees from a governance point of view should be comprised of independent non-executive directors and the chairman of the board should not be a member of the audit committee although he or she might be invited to attend. The new Act details the duties of an audit committee one of which would be to determine who should be appointed as the external auditor and to agree upon a suitable fee for their services.

### **C.5.2. Social and Ethics Committee**

Companies that have a public interest score of 500 points or more are required to appoint a Social and Ethics committee. The administrative regulations to the Companies Act specify how the public interest score is computed and it is based on the company's turnover, the number of employees, the company's liabilities as well as the number of shareholders involved. The function of the Social and Ethics committee is to ensure that malpractice and anything of an unethical nature does not occur within the company. The membership of this committee comes from representatives appointed by the board of directors.

## **C.6. Conversion of Close Corporations into Companies**

When the new Companies Act was being drafted there was considerable thought given to the question of whether or not the Close Corporations Act 1984 should be repealed. This would have meant that existing close corporations would have been required to convert into companies or to liquidate. There was also a distinct threat on the livelihood of a number of persons who were employed as accounting officers of CCs. As a result of various representations the Close Corporation was retained.

However, the new Companies Act made administration very much more simple for small private companies and therefore there was less of a need for CCs. Accordingly from 1 May 2011 no further CC can be registered. Also it will no longer be possible for a company to convert into a CC from that date. The opportunity for a CC to convert to a company was retained.

Existing CCs will be allowed to continue to exist indefinitely. However they will be treated on a par with private companies and will be administered by the CIPC. Over time the Close Corporations Act will be brought into harmony with the legislation contained in the new Companies Act for private companies.

It is accepted that many of the members of the PPG are involved in roles as accounting officers of CCs or are working with small businesses in regard to their financial services. It is possible, however, that there will be a number of opportunities for PPG members to advise their clients on the process of converting a CC into a company.

This is a very detailed process and needs to be carefully managed to ensure that no mishaps occur.

The Close Corporation Act 69 of 1984 created a new form of business ownership, which was simple to incorporate and easy to administer. A Close Corporation is distinguished by the fact that they cannot be more than 10 natural persons as members and that these members between them have 100% of the entity. Members who had a share of a Close Corporation did not need to contribute cash or other resources but their interest could have arisen as a result of skills that they brought to the business.

It is evident that after a period of successful trading and having a desire to expand a stage could be reached where the existing members are not able to contribute any further resources into the CC. Nor would it be possible for them to accept a company as a trading partner by offering them a percentage of the membership. Accordingly the Close Corporation Act provided a mechanism whereby it was possible to convert a CC into a company seamlessly. The Companies Act 1973 had a reciprocal arrangement whereby a company could convert itself into a CC.

With the advent of the Companies Act 71 of 2008 a number of changes were brought about. One of these was to allow smaller businesses the freedom of not having to comply with strict financial reporting and auditing requirements and because this allowed for the formation of companies with characteristics very similar to those of close corporations to be formed, it in effect meant that there would be no further need for close corporations. The Companies Act 2008 provides for the indefinite continued existence of close corporations but also for the closing of that Act as an avenue for incorporation of new entities or for the conversion of companies into close corporations as from the effective date of that Act, namely 1 May 2011.

A provision exists in the Companies Act 2008 that CCs can apply to convert into a company and that the form CoR18.1 (the form that applies to the conversion) will not attract a filing fee if the conversion is done within 3 years of the effective date. One can infer that the legislature is wanting the Close Corporation to die out and is making the exercise free of cost as an inducement.

The Companies Act 1973 provided for the two types of companies namely those with share capital and those without share capital. Companies with share capital could be either public or private whereas those without share capital could only be public companies. That act also provided that public companies should have a minimum of seven shareholders and that private companies needed to have a minimum of one shareholder up to a maximum of 50 excluding employees. The Companies Act of 2008 has removed the requirements regarding minimum and maximum number of shareholders. In addition the Companies Act 2008 also provides for state-owned enterprises but since there is no logical reason for a CC to convert itself into a state owned enterprise this issue has not been covered in this chapter.

The Companies Act 2008 has furthermore created a distinction between companies that are for profit and those that operate not for gain. For the purposes of this chapter dealing with the conversion of the CC into a company we will focus on a company for profit with share capital.

It is very important when considering the conversion of a CC into a company to deal with the issue carefully. The process that should be followed is detailed below:

#### **C.6.1. Step One**

The commencement of the process of conversion lies in the members of the CC reaching agreement in principle to proceed along that route. However this

decision needs several other factors to be taken into account in order to proceed in a logical sequence.

The first and obvious decision that needs to be made is to determine the effective date of the conversion. This is important because it is necessary for financial statements to be drawn up as at that date and to be signed off by the accounting officer of the CC. Since the profits or losses of the CC are shared by its members in proportion to their interests in the enterprise they will obviously be a tax consideration in regard to the date on which the CC becomes a company which is a taxable entity in its own right. Likewise it is probable that the CC is registered as a vendor or for VAT purposes and one cannot deal with the returns to SARS in broken periods.

It is also necessary for the members of the CC to give some thought as to what type of company they wish to convert into - will it be a private company or a public company? It is necessary to make this decision because it will influence the preparation of the Memorandum of Incorporation of the company.

### **C.6.2. Step Two**

The first requirement is to obtain the signatures of a minimum of 75% of the members of the CC indicating their agreement to convert into a company. This will usually be done at a meeting of the members. Having obtained the minimum level of consent, it is however necessary that all of the existing members of the CC must become members (shareholders) in the company.

A person who is authorised to submit the documentation to the Companies and Intellectual Property Commission is then required to complete a form CoR 18.1. The contents of this document are as follows:

- The application for conversion of a CC into a company requires that there be several declarations, the first of which is that the corporation's members have consented to the application being made.
- It must be stated that at least 75% of the existing members of the CC have consented to the conversion and the written statement to this effect must be attached to the form CoR 18.1.
- Also attached to this form must be a list of the persons who have consented to become directors of the company. This list needs to be fully supported with copies of the identity documents of the people in question.
- The application must categorically confirm that the CC is not in the process of being liquidated nor subject to an application to be liquidated, nor engaged in business rescue proceedings and not subject to any approved plan or court order, which is comparable to a business rescue plan. The CC must furthermore not be engaged in any compromise or similar arrangement with any creditor and importantly, it must be stated that the company immediately after the conversion has been affected will satisfy the Solvency and Liquidity Test as set out in Section 4 of the Companies Act.

Additionally, in further support of the application to convert a CC into a company there should be attached to the form CoR18.1 a copy of its Memorandum of Incorporation and any other relevant evidence of the facts

declared to in the application. In this respect it is obvious that the financial statements and minutes of the meeting of the members of the CC, where it was decided to convert into a company would be the necessary additional documents.

Having said this, it is obvious that since it is necessary to submit the company's Memorandum of Incorporation together with the application to convert a close corporation into a company, that the members of the CC will need to give careful consideration as to their future business entity. The following are areas that they would need to consider:

- The name of the company. Whilst this is a necessary element of the Memorandum of Incorporation it is clear that in order to preserve the goodwill that has been built up whilst they have operated as a CC that the goodwill would be lost if there was a simultaneous change of name. Accordingly this is usually left as is.
- The type of company. In this regard it will be necessary to be clear as to exactly what is intended because the standard Memorandum of Incorporation documentation (form CoR 15) has a number of variations, which are suitable for either a private company or a public company.
- Since the Companies Act 2008 contains a number of alterable provisions, it is necessary to be clear as to which of these provisions are going to be made simpler and easier to administer by getting the appropriate Memorandum of Incorporation wording. For example, choosing to be a private company instead of a public company presents the opportunity for the shareholders to decide whether or not they wish to be audited annually.

Thus CIPC can either accept the application for conversion or request further information from the CC to verify that the requirements have been met. The Commission would do this on form CoR 18.2.

### **C.6.3. The effect of conversion on the legal status of the entity**

As soon as the close corporation has been converted into a company, in terms of schedule 2 of the Close Corporations Act, the Commission (CIPC) must:

- cancel the registration of that CC in terms of the Close Corporations Act 69 of 1984
- give notice in the Government Gazette of the conversion of a close corporation into a company; and
- enable the Commissioner of Deeds to effect the necessary changes resulting from the conversion and name changes;

In terms of the legal status of the entity it must be noted that;

- the juristic person that existed as a close corporation before the conversion continues to exist as a juristic person, but in the form of a company;
- all the assets and liabilities vest in the company;

- any legal proceedings instituted before the registration by or against the close corporation may be continued by or against the company;
- any enforcement measures that could have commenced against the close corporation for conduct occurring before the date of change may be brought against the company;
- the liability of a member of a close corporation for the corporation's debts that had arisen in terms of the Close Corporations Act and existed immediately before the date of registration survives the conversion and continues as if the conversion had not occurred.

#### **C.6.4. Practical considerations**

Having dealt with the legal requirements that are necessary in order to achieve the conversion of the CC into a company, there are a number of practical steps, which have to be taken. The following list is comprehensive and should cover the requirements for most:

- Shares in the new company need to be allotted to the members. In a CC members are not required to make a financial contribution in order to secure their member's interests so there is no capital account in the balance sheet of the CC that can be brought forward into the company. Accordingly the members of the CC need to apply for the number of shares they wish to hold and pay for these. Once payment has been received, the directors of the company are in a position to allot the shares and for share certificates to be issued.
- Bearing in mind that in a CC all the members held a certain percentage interest which added up to 100%, the position in the company need not necessarily be the same. Someone who held, say, 25% of the member's interest in the CC might be more comfortable in purchasing, say, 5% of the available shares. Similarly someone who had not made a financial contribution to the CC might be willing to purchase, say, 50% of the available shares.
- There are a number of statutory registrations that will need to be changed to reflect the new legal persona.

These are -

- the CIPC requires that members' interests must be converted to the exact value of shares
- the registration as an employer in terms of the Income Tax Act;
- the registration of the employer in terms of the Unemployment Insurance Act;
- the registration of the employer in terms of the Compensation for Occupational Injuries and Diseases Act;
- the registration of the former CC in terms of the VAT legislation;

- dealing with the registration authorities in regard to other documents of title e.g. motor vehicle registrations;
- effecting changes to certain contracts that may have been entered into by the CC e.g. rental of premises, hire of equipment, leases and so on;
- recording the change in other documents for example policies of assurance, short term insurance contracts;
- examining the rules of the pension or provident fund of the former CC to establish whether there needs to be a change reflecting the new status of the participating employer.
- Letters would also need to be addressed to employer associations and trade unions informing them of the change.
- Internal communications should not be overlooked as these are very important. Employees might feel unsettled in hearing about the change if the impact (or lack of it) is not properly explained to them or understood.
- There are a number of directories that will also need to be informed of the change, for example the telephone directory (especially if the conversion of the CC has been done simultaneously with the change of name).
- Day-to-day factors that should not be overlooked included the necessity to change accounting stationery (invoices, credit notes, monthly statements of account) as well as the letterheads and external communication media of the company.
- Should the company have a website it would be prudent to have this updated together with a short explanation as to the benefits of the new trading persona.
- As a CC there was no need to have an external auditor. However depending on the type of company that has been chosen in the conversion and the conditions as stipulated in the Memorandum of Association it may be necessary to negotiate with a qualified auditor to take on the role.
- It is possible that the CC whilst it was operating in that form did not pay too much attention to the recommended best practices as contained in the **third** King report on corporate governance in Southern Africa. However now as a company it might be that there is a need revisit this issue.
- Finally, do not forget that there is a requirement to register the company as a taxpayer in terms of the Income Tax Act. In doing this, it is also necessary to inform SARS of the financial year end of the company as well as to nominate a suitably qualified person (not the external auditor) to be appointed as the Public Officer of the company.

### **C.6.5 Public Officer and representative taxpayer**

#### **Introduction**

Every company is required to appoint a person by means of whom the SARS is able

to correspond with the company.

#### **C.6.6. Appointment**

In terms of section 101(1) The Act provides that every company carrying on business or having an office in the Republic (note that this will refer to a foreign company whether or not registered as such in terms of The Companies Act as an External Company) and every unit portfolio constituting a company in terms of paragraph (d) of the definition of “company” in section one, shall at all times be represented by an individual residing therein.

The person so appointed shall be approved by the Commissioner [of the South African Revenue Service (SARS)] and must be appointed by the company or by an agent or attorney who has authority to appoint such representative for purposes of The Act.

However, should a company be placed in either voluntary or compulsory liquidation then the duly appointed liquidator or liquidators are required to exercise all the functions and assume the responsibilities of a Public Officer. Again, in the case of a unit portfolio, referred to above, the public officer of the management company is required to be the public officer except that, in the event of a winding up of the management company, the trustee under the relevant unit trust scheme shall be the public officer.

The representative appointed as set out above shall be called the Public Officer and such officer is required to be appointed within a period of one month after the company begins to carry on business or acquires an office in the Republic.

If default is made in appointing a representative (Public Officer) then the Commissioner may designate the managing director, director, secretary or other officer of the company for that purpose.

#### **C.6.7 Address for service of notices**

Every company is required, within the same period set down for the appointment of the Public Officer to appoint a place within the Republic for the service of notices and other documents under The Act. The place so appointed requires to be approved by the Commissioner. However, in the case of a unit portfolio the place appointed for the delivery of notices or documents must be the address appointed by the management company for the delivery of notices or documents to itself or, should the trustee under the relevant unit trust scheme become the Public Officer, such place shall be the place appointed by the trustee and approved by the Commissioner.

Every company must appoint a Public Officer and the place for delivery of notices and documents in place at all times and the commissioner must be notified of any change to either of these within fourteen days of such change taking effect and every trustee must maintain the place at which notices and documents can be delivered in place at all times and notify the commissioner within fourteen days of any change taking effect.

Any company which defaults in terms of these requirements and every person who acts within the Republic as agent or manager for such company shall incur a penalty for each day during which such default continues and the Commissioner may recover such penalty by action in any competent court. Furthermore, every Public Officer is answerable for all matters or things as are required to be done in terms of the Act by a taxpayer and, in default, is liable to the penalties applicable to defaults by a taxpayer.



The absence or non-appointment of a Public Officer does not exonerate any company from the necessity of complying with the provisions of The Act.

#### **C.6.8. Liability of representative taxpayer**

In terms of section 95 of The Act every representative taxpayer shall be liable to assessment on the income which he, in his representative capacity, has the receipt, management or any other control over money of the taxpayer of which he is the representative and shall be subject to the same duties, responsibilities and liabilities as if the income was his but any assessment made upon him is deemed to be made upon him in his representative capacity and any abatement, deduction, exemption or right to set off any loss which could be claimed by the person represented shall be allowed in the assessment made upon the representative.

Except where the representative is the Public Officer of a company, any tax payable in respect of an assessment upon the representative shall be recoverable from that representative but this is limited to the assets belonging to the person represented and which may be in the possession of the representative or under his management, disposal or control.

Finally, any tax payable in respect of any assessment made upon the Public Officer of a company in that capacity is recoverable from the company of which he is the Public Officer.

#### **C.6.9. *De-registration of a Private Company***

##### **C6.9.1. Grounds and routine**

If the Commissioner has reasonable cause to believe that a company is not carrying on business or is not in operation, he shall, in accordance with The Act, send to the company by registered mail or alternative electronic methods of communication enquiring whether it is carrying on business or is in operation.

If the Commissioner does not within one month after sending the letter, receive any answer thereto or receives an answer to the effect that the company is not in operation, he may publish in the Gazette and send to the company registered mail or alternative electronic methods of communication that at the expiration of two months from the date of that notice the company will be deregistered, unless good cause is shown to the contrary.

At the expiration of the period mentioned or upon receipt from any company of a written statement signed by every director thereof to the effect that the company has ceased to carry on business and has no assets or liabilities the Commissioner may deregister the company concerned, and shall give notice to that effect in the Gazette and the date of the publication of such notice in the Gazette shall be deemed to be the date of deregistration. Provided that the liability, if any, of every director, officer and member of the company shall continue and may be enforced as if the company had not been deregistered.

When any company has been deregistered the books and papers of the company may be disposed of in such way as the Commissioner may direct. After five years from the deregistration of a company, no responsibility shall rest on any person to whom the custody of the books and papers has been committed, by reason of the same not being forthcoming

to a person claiming to be interested therein.

#### **C.6.9.2. Restoration**

The Court may on application by any interested person or the Commissioner, if it is satisfied that a company was at the time of its deregistration in operation, or that it is just that the registration of the company be restored, make an order that the said registration be restored accordingly, and thereupon the company shall be deemed to have continued in existence as if it had not been deregistered.

A letter or notice shall be addressed to the company at its registered office, its postal address and to the care of the directors or officers and the auditor of the company, or if there is no director, officer or auditor whose name and address is known to the Commissioner, be sent to each of the persons who signed the memorandum of the company, at the address mentioned in the memorandum.

#### **C.6.10 Annual Returns**

Each year Companies and Close Corporations are required to file an annual return within 30 business days from the anniversary of the date of incorporation. The purpose of this compliance is that CIPC is certain that the CC is still in business, and that the information lodged is up to date. No manual lodgement of annual returns is allowed and with effect from 1 April 2012 all companies and Close Corporations need to elect a person to be responsible for the submission of the returns, and a copy of the latest financial statements need to be submitted.

If not filed in time, penalties and interest will be levied.

In addition, the CIPC has initiated an automated restoration for customers lodging electronically. The Company or Close Corporation will be restored within 24 hours. Public companies and state owned companies are required to lodge their annual financial statements via a dedicated email address.

**PPG MANUAL  
CONTENTS**

**SECTION D - ACCOUNTING FOR CLOSE CORPORATIONS**

- D. SECTION D - ACCOUNTING FOR CLOSE CORPORATIONS**
- D.1. Appointment of Accounting Officer**
- D.2. Appointment of Accounting Officer to an existing Close Corporation**
- D.3. Contraventions of the Act**
- D.4. Duties of the Accounting Officer**
- D.5. Preparation of accounting records**
- D.6. Working Papers**
- D.7. Resignation and Removal of Accounting Officer**
- D.8. Examples of annual financial statements**
- D.9. Sample letters from and to the accounting officer**
- D.10. Independent Review**

## **D Section D- Accounting for Close Corporations**

### **D.1. *Appointment of Accounting Officer***

#### **D.1.1. Engagement Letters**

An engagement letter is a prerequisite to creating understanding between the accounting officer and the members of the CC as to the duties and responsibilities of the former. It not only clarifies what is expected of both parties in their mutual dealings, thus avoiding misunderstandings, but provides the perfect opportunity for the accounting officer to explain the scope of duties and responsibilities, the form of reports to be provided, and to clarify the conditions which apply to the appointment, including the method and timing of payment for services rendered, settlement terms and so on.

The layout, content and form of the letter may vary from one client to another. Generally, the accounting officer would not choose to issue an engagement letter annually, but would do so only if required by changing circumstance. This may be prompted by a significant change in the objectives of the business of the corporation, by a change in senior management or by a change in the duties to be performed by the accounting officer.

Sample engagement letters are shown in section D.9.

#### **D.1.2. Where client requests only written consent to act as Accounting Officer**

From time to time the member in practice is approached by members of a CC to act as accounting officer. This party is frequently one or more of the members themselves and their motivation is generally the saving of cost. In such circumstances, the accounting officer is requested to provide only the required written consent to appointment as envisaged in the Amended Founding Statement in respect of Accounting Officers and Addresses (CK2A). Some accounting officers are willing to meet this request, hopefully remembering to request that a copy of the relevant Amended Founding Statement be forwarded as soon as possible. Others may choose to decline the proposal on the basis that they offer only a full professional service.

## **D.2. *Appointment of Accounting Officer to an existing Close Corporation***

The points raised under section D.1 concerning the need for an engagement letter are equally applicable, but certain other factors need to be considered.

### **D.2.1. Circumstances concerning the previous Accounting Officer**

The accounting officer should ascertain whether the previous accounting officer resigned or was discharged. Documentary evidence should be sought. If discharged, the questions arise as to firstly, whether the decision was taken by the majority of members and secondly, where an association agreement exists, whether the accounting officer was discharged in terms of this agreement. If the answer to either question is no, then the appointment cannot be accepted since the original accounting officer remains the legitimate appointee.

### **D.2.2. Appointment procedures**

Appointment of the new accounting officer must be supported by all members, in that all members are required to signify their approval in terms of the requirements of Form CK2A. Similarly, the appointment must not contravene any association agreement that is in force.

The original Founding Statement (CK1) and any previously registered CK2 and CK2A forms should be made available by the members to the new accounting officer. If these are not immediately available, copies should be obtained from the members, and ideally these should be authenticated by reference to the Commissioner of the CIPC

Sections A.3.3.5.8 to A.3.3.5.11 of the Code of Ethics refer to the steps to be followed by the accounting officer in endeavouring to contact the previous accounting officer. The purpose of such a courtesy letter is to determine whether there is any professional reason why the new accounting officer should not accept the appointment. A sample letter of professional courtesy is shown in section D.9.

### **D.3. Contraventions of the Act**

All contraventions of the Close Corporations Act must be reported to the CC itself and a small number of these must be notified to CIPC by registered mail or alternative electronic methods of communication. Section 62 of the Act provides that where the accounting officer becomes aware that a provision of the Act has been contravened, regardless of the materiality of the contravention, it should be reported to the members.

Attention should be given to amendments to the Act as these are published, to ensure that possible additions to the list of contraventions are identified and the required action is taken.

#### **D.3.1. Threats to Limited Liability of the Corporation**

Perhaps the most serious of the contraventions are those which threaten the status of limited liability of the CC, that is, the members of the corporation may be held personally responsible for its debts. The important contraventions of the Act relating to limited liability are sections 23, 63(a) and 65.

Section 23 relates to the need for the CC's name to be clearly displayed at its registered office and for its publication on correspondence, orders, bills of exchange, invoices and receipts etc.

Section 63(a) states that a member who permits use of the name of a corporation without a registered abbreviation, such as "CC", is jointly and severally liable with the corporation in respect of its dealings with a third party, while that party is, as a result of such omission, unaware that he or she is dealing with a close corporation.

Section 65 states that the juristic persona of the corporation may be set aside by a court, where the corporation is guilty of gross abuse of its status.

#### **D.3.2. Personal Liability of Members**

Apart from the contravention listed in section D3.1 above the following common contraventions of the Act may also result in the incurring of personal liability on the part of the members:

Failure to register an amended founding statement (CK2) within 28 days of any change (s15);

Failure to retain founding statement (CK1 or CK2) at the registered office of the corporation (s16);

Failure of members to make a required contribution to the corporation (s24);

De-registration, whilst the corporation has outstanding liabilities (s26);

Permitting the number of members to exceed 10 for a period of 6 months (s29);

Payment of member's interest by a corporation in contravention of the solvency requirements (s39);

Financial assistance provided by the corporation for the purpose of acquiring an interest in the corporation, in contravention of the solvency requirement (s40);

Failure to indicate the names, including forenames and initials, of all members on every business letter bearing the corporation's name (s41);

Where members fail to act in terms of their fiduciary relationship with the corporation (s42);

Where members fail to act with reasonable care and diligence (s43);

Failure to obtain 75% consent of members in writing for a change in principal business, for disposal of the whole or substantial part of the business or disposal of all or a substantial part of the asset base of the corporation, for acquisition by or disposal of immovable fixed property other than as provided for by an association agreement (s46);

Permitting disqualified persons to take part in the management of the corporation (s47);

Failure to ensure solvency and liquidity requirements have been met before making a distribution to members (s51);

Failure to obtain written consent of all members before the granting of loans to certain members (s52);

Failure to maintain accounting records to the required standard (s56);

Failure to prepare financial statements within the identified time frame (s58);

Where the office of accounting officer is vacant for longer than 6 months (s63);

Where the business of the CC is carried on recklessly, with gross negligence or intent to defraud (s64).

## **D.4. Duties of the Accounting Officer**

The duties and associated responsibilities of an accounting officer are detailed in two source documents. These are the Close Corporations Act No.69 of 1984 as amended, and the Institute's Code of Ethics. It is the first and foremost duty of every accounting officer to ensure that updated versions of both documents are to hand and that their requirements are maintained.

### **D.4.1. Duties of Accounting Officer toward the Close Corporation**

#### **D.4.1.1. Reports to the Members**

Reports by the accounting officer may need to be made urgently, thus requiring written communication with all members, notwithstanding that this may not coincide with the completion of annual financial statements.

The more usual form of communication however, is the accounting officer's report to the members which comprises the introduction to the annual financial statements.

Members in practice generally utilise a standard report into which is incorporated a list of those contraventions of the Act which have been identified in the course of performing his or her duty. A sample of a basic report, together with sample paragraphs covering some of the common contraventions is included in section D.9.

Whilst it is not essential to maintain the precise wording of the sample report, it is usual for the report to refer to the terms and statute under which the accounting officer performs his duty, namely section 62 of the Close Corporations Act of 1984 and to identify those duties.

Duties commonly referenced in the report include the following:

##### **D.4.1.1.1.**

The status as to whether or not the financial statements are in agreement with the accounting records of the corporation.

##### **D.4.1.1.2.**

The status of the appropriateness of the accounting policies represented to the accounting officer as having been applied in the preparation of these statements

##### **D.4.1.1.3.**

Whether or not the financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small, Medium or Micro Enterprises (IFRS for SME's) as appropriate to the business.

Under regulations made under **South African** law promulgated in 2011, entities in **South Africa** are permitted to use either International **Financial Reporting Standards** (IFRS), the IFRS for SMEs, or **South African** Statements of Generally Accepted **Accounting Practice (SA GAAP)**, depending on an entity's 'public interest score



#### **D.4.1.1.4.**

Any contravention of any provision of the Act.

#### **D.4.1.1.5.**

Any situation in which the accounting officer is a member or employee of the corporation or where the accounting officer is a member of a firm of which any member or employee is a member or employee of the corporation.

Members in practice are specifically not permitted to express an opinion on the financial statements, to make any reference to fair presentation of the financial position or similar, and no reference may be made to an audit having been conducted.

### **D.4.2. Duties of Accounting Officer toward the Commissioner**

In terms of section 62(3) of the Act the accounting officer must report to the CIPC by registered mail, any of the following contraventions:

#### **D.4.2.1.**

Where he at any time knows or has reason to believe that the corporation is not carrying on business or is not in operation and has no intention of resuming operations in the foreseeable future.

#### **D.4.2.2.**

Where changes have been made which affect the Founding Statement, yet where such changes have not been registered.

#### **D.4.2.3.**

Where the financial statements indicate that the liabilities of the corporation exceed its assets, that is, the corporation is technically insolvent.

#### **D.4.2.4.**

Where the accounting officer has reason to believe that the corporation is factually insolvent, that is unable to pay its creditors, and where the financial statements incorrectly indicate that the corporations assets exceed its liabilities.

Samples of such reports are reproduced in section D.9

On receipt of the report, the Commissioner responds with an acknowledgement card confirming that the report has been appended to the corporation's file. The report is then available for public inspection and remains valid for the remainder of the current year. If the situation changes, the Act indicates in section 62(4) that the accounting officer may advise the Commissioner accordingly.

## **D.5. Preparation of accounting records**

In terms of section 56 of the Close Corporations Act, it is the duty of the members and not of the accounting officer to maintain the accounting records of the corporation. However, whilst this is not a normal duty of the accounting officer, the latter is frequently charged with this task. It is imperative that all duties to be performed by the accounting officer be committed to written agreement in the form of an engagement letter. A sample engagement letter is shown later in this section. Such an engagement letter should be drawn on the accounting officer's stationery, addressed either to the Close Corporation or, if not yet founded, in the first of the reserved names proposed on form CK7 and addressed to the members. A copy of the engagement letter is generally supplied to the members, enabling them to retain a copy, returning a signed copy to the accounting officer.

### **D.5.1. Implications of the Act on maintenance of accounting records by the Accounting Officer**

Also in terms of section 56 of the Close Corporations Act, accounting records are required to be summarised in such a form as to enable the accounting officer to report without reference to subsidiary accounting records and supporting vouchers. Accounting records must include details of assets, including the maintenance of a fixed asset register, liabilities, member contributions, loans to and from members, undrawn profits and revaluations. Furthermore, details of goods purchased and sold and inventory on hand must also be maintained.

Where the documents of prime entry have not been maintained sufficiently well so as to enable accounting records to be prepared by the accounting officer to a point where he or she can agree the financial statements to the accounting records, or where such records have not been summarised as indicated by section 58(2) of the Act, the accounting officer will have a duty to report accordingly.

### **D 5.2 Compilation Engagement VS Independent Review.**

#### **What is a compilation engagement?**

A **compilation engagement** is a type of **engagement** where a company engages an outside accountant to prepare and present financial statements. It is not designed to express an opinion or provide assurance regarding the information contained in the financial statement.

#### **Compilation of financial statements**

The International Auditing and Assurance Board (IAASB) released the International Standard on Related Services 4410 (ISRS 4410) (Revised) – Compilation Engagements which deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with the standard. ISRS 4410 (Revised) is effective for compilation engagement reports dated on or after 1 July 2013.

Although there is no South African legislative requirement to use a specific standard when compiling financial statements, it is expected that Chartered Secretaries apply the relevant pronouncements issued by the IAASB.

The International Federation of Accountants (IFAC), the global organization for the

accountancy profession, released the Guide to Compilation Engagements on 24 September 2015. The Guide aims to help professional accountants in practice, especially those operating in small- and medium-sized practices (SMPs), in conducting compilation engagements in compliance with ISRS4410 (Revised) The guide includes practical guidance on the application of the requirements of ISRS 4410 (Revised). This guidance addresses the nature of a compilation engagement, the engagement process (accepting, planning, performing and reporting), and includes examples on compilation engagement procedures and appendices with sample checklists, letters and reports.

### **What is an Independent Review?**

The objective of an independent review of financial statements is to enable a practitioner to state whether or not anything has to come to his attention that causes him to believe that the financial statements are not prepared in all material aspects, in accordance with an identified financial reporting framework and/or statutory requirements.

### **Who can perform a review engagement?**

The individual **performing a review engagement** must be a licensed practitioner. The practitioner is required to obtain evidence directly rather than rely on evidence provided by third parties.

### **Who can sign off independent reviews?**

In terms of the Companies Regulations "Accounting Officers" **can** conduct **independent reviews** for the following entities: Private companies and owner managed entities with a Public Interest Score (PIS) of less than 100 and below; and Voluntary **Independent Review** for Owner managed entities with PIS up to 349.

## **D.6. Working Papers**

### **D.6.1. General Notes**

Working papers comprise the recording of information and answers to questions that have been asked of the business and decisions that have been taken as a consequence of such answers.

The individual accounting officer must subjectively determine the amount of detail required to compile the working papers, but these should be sufficiently detailed to identify the work that has been undertaken.

The acid test as to whether sufficient information is being recorded is whether or not there is sufficient evidence to confirm the accounting officer has complied with his duties in terms of the Close Corporations Act. Also of concern is whether or not there is sufficient information to enable an accountant with no prior knowledge of the business, to produce a report based only on the financial statements and the working papers, in the certain knowledge that the requirements of the Act have been fulfilled.

The scope and contents of working papers may well vary from client to client depending upon the size, type, complexity of the business, past history of the firm and on whether the accounting officer anticipates delegating some or all of the tasks of updating the working paper file.

In general terms, where such updating is to be delegated, much of the data can be recorded in the form of checklists.

### **D.6.2. Benefits of Maintaining Effective Work Papers**

The maintenance of working papers offers numerous advantages:

#### **D.6.2.1.**

It assists in planning the duties to be undertaken.

#### **D.6.2.2.**

It provides ongoing history of the business, thus simplifying the conduct of the work.

#### **D.6.2.3.**

It assists in supervision and review.

#### **D.6.2.4.**

It provides evidence of completed work in the event of billing queries or enquiries by legitimate third parties, such as seizure in terms of the Income Tax Act.

#### **D.6.2.5.**

It provides continuity between accounting officers.

### **D.6.3. Typical Contents of the Working Paper File**

Typically, working papers would include the following:

#### **D.6.3.1.**

Detailed contact information.

#### **D.6.3.2.**

Basic organisation structure.

#### **D.6.3.3.**

Copies of founding documents, important contracts, agreements, minutes.

#### **D.6.3.4.**

Copies of financial statements, accountant's reports and letter of engagement.

#### **D.6.3.5.**

Copies of correspondence concerning important matters discussed with the business, with its members and with expert third parties.

#### **D.6.3.6.**

Letters of representation by the business or its members.

#### **D.6.3.7.**

List of accounting records with notes indicating whether these have been maintained to an acceptable standard.

#### **D.6.3.8.**

Evidence that work performed by junior staff has been supervised and properly reviewed.

#### **D.6.3.9.**

Confirmation that the annual financial statements have been reviewed and systematically agreed with the accounting records.

#### **D.6.3.10.**

Records of supporting schedules prepared by the business, and those prepared by the accounting officer.

#### **D.6.3.11.**

Checklist confirming the review of those aspects of the Act which if infringed constitutes a contravention of the Act, with distinction between those aspects of which the Commissioner must be informed, and those which are to be notified to members. Where applicable, evidence of notification must be appended.

**D.6.3.12.**

Checklist covering the contents of the accounting officer's report, including the appropriateness of accounting policies to the business, compliance with GAAP, the degree to which accounting standards are applied and whether these are disclosed in the financial statements.

## **D.7.     *Resignation and Removal of Accounting Officer***

### **D.7.1. General**

An accounting officer may voluntarily resign at any time and without reason. Similarly, the CC may remove the accounting officer from office without reason.

### **D.7.2. Resignation of Accounting Officer**

The steps to be taken by the accounting officer upon resignation are detailed in section 59 of the Act. Every member of the corporation must be informed of the resignation in writing and similar notification made by letter to the corporation at its last known address.

### **D.7.3. Removal from office of Accounting Officer**

The close corporation must advise the accounting officer in writing of his removal from office. Removal is valid only where the decision represents the view of members holding majority interest in the corporation, and where the decision does not conflict with any association agreement in force. If the accounting officer believes he was removed from office unfairly, he must advise every member accordingly.

### **D.7.4. Notification to the Commissioner**

An accounting officer must notify the Commissioner whenever he resigns or is removed from office. Specifically, he must advise:

#### **D.7.4.1.**

That he has resigned or been removed from office.

#### **D.7.4.2.**

The date of resignation or removal from office.

#### **D.7.4.3.**

The date up to which he continued to perform his duties.

#### **D.7.4.4.**

That he was not aware at the time of his resignation or removal from office of any matters in the financial affairs of the corporation which are in contravention of the Act.

#### **D.7.4.5.**

Or, where he is aware of contraventions, these are notified to the Commissioner.

## D.8. *Examples of annual financial statements Review*

ABC COMPUTERS CC  
(Reg. No. XXXX/099999/23)

### ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

28 FEBRUARY 20X02

<i>Compiled in terms of ISRS4410, Not independently audited or reviewed</i>
---

MEMBERS:	A N Other N D Vidual P E Erson
REGISTERED OFFICE:	(Address)
POSTAL ADDRESS:	(PO Box No.)
ACCOUNTING OFFICER:	(Name)
ADDRESS:	(Of Accounting Officer)
NATURE OF BUSINESS:	The main activities of the corporation include the purchase and sale of new and used computer hardware, the marketing of packaged and customised software and the rental and maintenance of computer equipment.

### CONTENTS

	<u>Page</u>
Report of the Accounting Officer	1
Statement of Income and Retained Earnings	2-3
Statement of Financial Position	4
Statement of Cash flows	5
Notes to the Financial Statements	6-8

### APPROVAL OF FINANCIAL STATEMENTS

We confirm that the annual financial statements comply with sections 58(1) and (2) of the Close Corporations Act of 1984 as amended. In terms of section 58(3) they were approved by all the members on 6 June 20x02 and are signed on their behalf by:

---

A N Other  
6 JUNE 20X02



**LETTERHEAD OF  
ACCOUNTING OFFICER**

**Report of Accounting Officer to ABC COMPUTERS CC**

I have performed the duties of the Accounting Officer to ABC Computers cc as required by section 62 of the Close Corporations Act, 1984, as amended. No audit or review is required by the Close Corporations Act or the Companies Act.

The annual financial statements for the year ended 28 February 20X02 as set out on pages 2 to 8 are the responsibility of the members. I have determined that the financial statements are in agreement with the accounting records and have done so by adopting such procedures and conducting such enquiries in relation to the books of account and records as were considered necessary in the circumstances.

I have also reviewed the accounting policies which have been represented to me as having been applied in the preparation of the annual financial statements and I consider them to be appropriate to the business of the corporation.

**A B Smith FCG  
Bedfordview  
6 June 20x02**

## COMMENTARY ON SPECIMEN ACCOUNTS

### 1. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

If the annual financial statements are signed by the members holding more than 50%, but not the entire membership, then the following wording is recommended:

"The annual financial statements set out on pages 2 to 8 were approved by all the members and are signed on their behalf."

.....20X02  
Date M F See (45%)

.....20X02  
Date J VAN ESS (15%)

### 2. MEMBERS' INCOME

2.1 A substantial balance has been retained by way of retained earnings in the example given. It is, however, fairly common practice in the smaller close corporations to adjust members' income in order to absorb the profits for the year. This adjustment should then be shown as members' emoluments.

However, users of this manual should be sure to familiarise themselves with recent amendments to the Fourth Schedule to the Income Tax Act, 1962 into which paragraph 11C was inserted effective from 1 March 2002, making directors of private companies subject to employees tax (PAYE). In section 1 of the Act a director is defined in such a way as to include members of close corporations.

This is a complex provision in that PAYE on directors' emoluments is to be calculated by means of a formula except that fixed monthly salaries paid to directors are subject to the EMP10 tables.

2.2 By retaining profits the Statement of Financial Position is strengthened and the funds capitalise the corporation. This can be a very important consideration where the corporation seeks loan finance.

2.3 Any distribution to members will be subject to Dividends Withholding Tax (C/f section 64E(1) of the Income Tax Act 1962).

**ABC COMPUTERS CC**

(Reg. no. XXXX/099999/23)

**STATEMENT OF INCOME AND RETAINED EARNINGS**

**Changed**

**For the year ended 28 February 20X02**

	<u>Notes</u>	<u>20X02</u>	<u>20X01</u>
		R	R
REVENUE	2	1 658 600	1 651 500
COST OF SALES		(1 271 100)	(1 259 600)
GROSS PROFIT		387 500	391 900
OTHER INCOME		39 100	31 200
Commission received		33 200	6 500
<i>Profit/(loss) on disposal of equipment</i>		5 900	-
		426 600	423 100
EXPENDITURE		377 200	353 800
Accounting officer's remuneration		2 000	1 500
Advertising		25 000	25 500
Bad debts		4 000	2 800
Bank charges		1 800	1 400
Commissions paid		1 500	1 800
Depreciation	1.2	26 603	28 900
Donations		300	400
Entertainment	3	9 600	10 100
Members remuneration		2 600	2 200
Insurances		6 400	5 200
Legal fees		1 100	300
Motor vehicle expenses		14 097	14 700
Warranties	9	5 800	3 300
Repairs & maintenance		1 000	-
Rates, light and water		24 600	22 100
Rent paid		52 800	47 700
Salaries	3	174 300	161 000
Staff contributions		7 400	7 500
Staff recruitment and training		2 600	3 500
Staff refreshments		1 200	1 000
Stationery and printing		8 200	7 600
Travel		4 300	5 100
NET PROFIT before interest and tax		49 400	69 300
Investment income		7 700	8 900
Finance expenses on leases		(5 668)	(6 234)
Interest expense		(8 932)	(8 666)
NET PROFIT before tax		42 500	63 300
Income tax expense	4	12 292	18 900
NET PROFIT for the year		30 208	44 400
RETAINED EARNINGS AT BEGINING OF THE YEAR		157 800	122 400
Distributions to members		(10 000)	(9 000)
RETAINED EARNINGS AT THE END OF THE YEAR		178 008	157 800

**ABC COMPUTERS CC**  
(Reg.No. XXXX/099999/23)

**STATEMENT OF FINANCIAL POSITION**  
**at 28 February 20X02**

	<u>Notes</u>	<u>20X02</u> R	<u>20X01</u> R
<b>ASSETS</b>			
<b>Non-current assets</b>		181 550	165 353
Property, plant and equipment	5	86 550	85 353
Fixed deposit	6	95 000	80 000
<b>Current assets</b>		719 650	692 747
Inventory	7	469 600	391 800
Trade and other receivables	8	229 450	257 947
Cash and cash equivalents	13	20 600	43 000
<b>Total Assets</b>		901 200	858 100
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		278 008	257 800
Members' contributions	9	100 000	100 000
Retained Earnings		178 008	157 800
<b>Non-current liabilities</b>		382 982	365 800
Loans from members	9	357 412	320 773
Long term lease liability	10	20 720	39 556
Deferred tax	1.5	4 750	5 471
<b>Current liabilities</b>		240 210	234 500
Trade and other payables		191 400	180 276
Short term lease liability	10	18 836	17 124
Provisions	11	14 024	11 500
S A Revenue Service		15 950	25 600
<b>Total Equity and Liabilities</b>		901 200	858 100

**ABC COMPUTERS CC**  
**(Reg.No. XXXX/099999/23)**

**STATEMENT OF CASH FLOWS**  
**for the year ended 28 February 20X02**

		<u>20X02</u>	<u>20X01</u>
		<u>R</u>	<u>R</u>
<b>Cash flows from operating activities</b>	<b>Notes</b>	(5 115)	x xxx
Cash receipts from customers		1 677 947	x xxx xxx
Cash payments to suppliers and employees		(1 643 499)	(x xxx xxx)
Cash generated from the operations	12	34 448	xx xxx
Interest received		7 700	x xxx
Finance expenses		(5 668)	x xxx
Interest paid		(8 932)	(xx xxx)
Distribution to members		(10 000)	(xx xxx)
Tax paid		(22 663)	(xx xxx)
<b>Cash flows from investing activities</b>		(36 900)	(xx xxx)
Proceeds from sale of equipment		6 600	x xxx
Addition to equipment		(28 500)	(xx xxx)
Addition to fixed deposit investment		(15 000)	xxx
<b>Cash flows from financing activities</b>		19 615	x xxx
Increase in loans from members		36 739	x xxx
Decrease in Lease liability		(17 124)	(x xxx)
<b>Net increase/(decrease) in cash and cash equivalents</b>		(22 400)	(xx xxx)
<b>Cash and cash equivalents at beginning of year</b>		43 000	xx xxx
<b>Cash and cash equivalents at end of the year</b>	13	20 600	xx xxx

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 28 February 20X02**

1. ACCOUNTING POLICIES

1.1. Basis of preparation

The financial statements have been prepared on the historical cost basis and the accounting policies used are consistent with those of the previous year

1.2. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairments. Depreciation is calculated for furniture, fixtures and fittings and the motor vehicles on the reducing balance basis, whereas computer equipment is depreciated on the straight line basis, allowing the corporation to write off the cost of property, plant and equipment over their expected useful lives. The useful lives are as follows:

Furniture, fixtures and fittings	6 years
Computer equipment	3 years
Leased motor vehicles	5 years

When there is objective evidence of impairment assets are tested for impairment at the higher of value in use or fair value less costs to sell.

Leased assets are capitalised and depreciated on the same basis as property, plant and equipment above.

1.3. Investments

Investments consist of fixed deposits and are measured at cost. Interest revenue is recognised on an accrual basis.

1.4. Inventory

Inventory is measured at the lower of cost or net realisable value on a first-in-first-out basis.

1.5. Deferred tax

Deferred tax is measured by taking into account all temporary differences arising from differences between the carrying amounts and tax bases of assets and liabilities.

1.6. Leases

Operating leases are smoothed over the lease period only if increases in leases from year to year are higher than the inflation rates.

Finance leases are capitalised at the fair value of the leased asset with the corresponding liability, which normally represent the present value of future lease payments including any final payment. Finance cost is recognised on the effective interest rate method.

### 1.7. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the CC and measured at an amount received or receivable.

### 1.8. Borrowing Cost

Borrowing costs are treated as expenses when incurred.

## 2. REVENUE

Revenue consists of sales of new and used computer hardware, packaged and customised software and the rental and maintenance of computer equipment. The figure stated is net of returns, discounts, rebates and of Value-Added Tax.

## 3. TRANSACTIONS WITH MEMBERS

Profit before tax is stated after charging the following transactions with members:

	M J See R	P T Eye R	J van Ess R	TOTAL R
20X02				
Salaries	51 929	49 139	0	101 068
Interest	3 071	2 512	3 349	8 932
Entertainment Allowance	2 400	2 400	0	4 800
	<u>57 400</u>	<u>54 051</u>	<u>3 349</u>	<u>114 800</u>
20X01				
Salaries	80 600	0	80 600	161 200
Entertainment Allowance	5 100	0	5 000	10 100
	<u>85 700</u>	<u>0</u>	<u>85 000</u>	<u>171 300</u>

## 4. INCOME TAX EXPENSE

S A normal tax is comprised of

Current	13 013	xx xxx
Deferred	(721)	xxx
Per Statement of Income and Retained Earnings	<u>12 292</u>	<u>xx xxx</u>

Tax rate reconciliation

Standard Rate	28.00%	xx xxx
Permanent differences	0.92%	xxx
Effective tax rate	<u>28.92%</u>	<u>xx xxx</u>

**ABC COMPUTERS CC**  
**(Reg. No. XXXX/099999/23)**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 28 February 20X02**

**5. PROPERTY, PLANT AND EQUIPMENT**

20X02	Furniture and fittings	Computer equipment	Leased vehicles	Total
Carrying amount at beginning of the year	24 353	4 000	57 000	85 353
Cost	35 900	10 000	86 400	132 300
Accumulated depreciation	(11 547)	(6 000)	(29 400)	(46 947)
Movements during the year	(3 653)	16 250	(11 400)	1 197
Additions	-	28 500		28 500
Depreciation	(3 653)	(11 550)	(11 400)	(26 603)
Disposal		(700)		(700)
Cost	35 900	31 500	86 400	153 800
Accumulated depreciation	(15 200)	(11 250)	(40 800)	(67 250)
Carrying amount at end of year	20 700	20 250	45 600	86 550

Note: Comparative figures should be disclosed in the same format for 20X01

**6. INVESTMENTS**

8% Fixed deposit at ABC Bank at cost	<u>95 000</u>	<u>85 000</u>
--------------------------------------	---------------	---------------

**7. INVENTORY**

Inventory is measured in accordance with note 1 above and consists of the following merchandise:

Hardware	313 100	271 200
Software	156 500	120 600
	<u>469 600</u>	<u>391 800</u>

**8. TRADE AND OTHER RECEIVABLES**

Debtors after allowance for credit losses	228 000	247 347
Prepayments	1 450	10 600
	<u>229 450</u>	<u>257 947</u>



**ABC COMPUTERS CC**  
**(Reg. No. XXXX/099999/23)**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 28 February 20X02**

9. MEMBERS' FUNDS

Percentages	45%	40%	15%	100%
Contributions	<u>45 000</u>	<u>40 000</u>	<u>15 000</u>	<u>100 000</u>
Loans from members:				
Balance at 1 March 20X01	109 973	90 800	120 000	320 773
Add:				
Salaries credited	51 929	49 139	0	101 068
Interest	3 071	2 512	3 349	8 932
Entertainment	2 400	2 400	0	4 800
Distribution	4 500	4 000	1 500	10 000
	<u>171 873</u>	<u>148 851</u>	<u>124 849</u>	<u>445 573</u>
Less:				
Withdrawals	16 761	61 400	10 000	88 161
Balance at 28 February 20X02	<u>155 112</u>	<u>87 451</u>	<u>114 849</u>	<u>357 412</u>

Interest is calculated at ?% per annum.

10. FINANCE LEASE LIABILITY

	<u>20X02</u>	<u>20X01</u>
Finance lease commitment in respect of motor vehicles repayable annual instalments of R22 792 over 5 years with the last payment on 28 February 20x04. The effective interest is 10% pa.	39 556	56 680
Short term portion transferred to current liabilities	18 836	17 124
Long term portion	<u>20 720</u>	<u>39 556</u>

11. PROVISIONS

	<u>20X02</u>	<u>20X01</u>
Provision for warrantees		
Balance at the beginning of the year	11 500	10 600
Repairs done during the year	(3 276)	(2 400)
New provision: Statement of Income and Retained earnings	5 800	3 300
Balance at the end of the year	<u>14 024</u>	<u>11 500</u>

**ABC COMPUTERS CC**  
**(Reg. No. XXXX/099999/23)**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 28 February 20X02**

**12. RECONCILIATION OF NET PROFIT BEFORE  
TAX WITH CASH GENERATED FROM  
OPERATIONS**

Net profit before tax	42 500	xx xxx
Adjusted for:	27 603	xx xxx
Depreciation	26 603.	xx xxx
Finance cost	5 668	xxx
Interest paid	8 932	xx xxx
Interest received	(7 700)	(x xxx)
Profit on sale of equipment	(5 900)	(x xxx)
Operating profit before working capital changes	70 103	xx xxx
Working capital changes	(35 655)	(xx xxx)
(Increase/decrease in inventory)	(77 800)	(xx xxx)
(Increase)/decrease in receivables	28 497	xx xxx
Increase in provisions	2 524	xx
Increase/( decrease) in payables	11 124	xx xxx
Cash generated from operations	34 448	xx xxx

**13. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Petty cash	445	200
Floats	1 000	1 000
Current account	19 155	41 800
	<u>20 600</u>	<u>43 000</u>

**14. FUTURE OPERATING LEASE EXPENSES**

The CC signed a long term lease agreement for its premises and the following rentals are payable in the future:

Payable within one year	55 440	52 800
Longer than one year	110 880	166 320
	<u>166 320</u>	<u>219 120</u>

**ABC COMPUTERS CC**  
**(Reg. No. XXXX/099999/23)**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 28 February 20X02**

15. CONTINGENT LIABILITY

A customer fell on a slippery floor on 1 February 20x02. A claim for damages of R323 000 was received. According to the CCs lawyer it is not probable that the claim will be successful.

16. NON-ADJUSTED POST STATEMENT OF FINANCIAL POSITION

On 15 March 20x02 a fire broke out at one of the CCs clients who owed the CC R19 200 on 28 February 20x02. The customer was declared insolvent on 1 May 20x02.

**TAX COMPUTATION**

Profit before tax	42500
Permanent differences:	1400
Donations	300
Legal fees	1100
Temporary differences	2575.11
Depreciation	26603
Wear and tear	-11550
Finance charges	5668
Lease payment	-20670
Provision	5800
Warranty expenses	-3276
Taxable income	<u>46475.1</u>

<b>Current tax at 28%</b>	<b>13013</b>
<b>Deferred tax (below)</b>	<b>-721</b>
	<b>12292</b>

**Deferred tax:**

Assume that furniture was depreciated in full for tax purposes

	<b>Carrying amount</b>	<b>Tax Base</b>	<b>Difference</b>	
<b>20x01</b>				
Furniture	24353	0	24353	
Computer equipment	4000	4000	0	
Leased assets	57000	0	57000	
Lease liability	-56680	-6366	-50314	
Provision for warranties	-11500	0	-11500	
			<u>19539</u>	<b>Deferred Tax balance</b>
				5471

	<b>Carrying amount</b>	<b>Tax Base</b>	<b>Difference</b>	
<b>20x02</b>				
Furniture	20700	0	20700	
Computer equipment	20250	20250	0	
Leased assets	45600	0	45600	
Lease liability	-39556	-4244	-35312	
Provision for warranties	-14024	0	-14024	
			<u>16964</u>	<b>Deferred Tax balance</b>
				4750

Movement **-2575**

Deferred tax

Dr to Statement  
of Financial  
-721 Position

## **D.9. Sample letters from and to the accounting officer**

### **D.9.1. Consent to Appointment**

LETTERHEAD OF ACCOUNTING OFFICER  
TO ACCOMPANY FORM CK2A

The Members  
**ABC Computers CC**  
Address

Date-

Dear Sirs

APPOINTMENT AS ACCOUNTING OFFICER TO SEE EYE ESS CC.

I consent to appointment as accounting officer of **ABC Computers CC**, and confirm that I am qualified to accept the appointment in terms of Section 60 of the Close Corporations Act No. 69 of 1984.

Yours faithfully,

A Secretary  
ACG (Acc)  
Practice No:

## **D.9.2. Professional Courtesy**

LETTERHEAD OF ACCOUNTING OFFICER

The Original Accounting Officer  
**ABC Computers CC** Address

Date

Dear Sirs

APPOINTMENT AS ACCOUNTING OFFICER TO SEE EYE ESS CC

Please be aware that I have been approached by the majority of members, namely Mr A Bee and Ms B See, to accept appointment as accounting officer of See Eye Ess CC.

Please indicate whether you have any professional objection to my appointment.

Your early response will be appreciated.

Yours faithfully,

A Secretary  
ACG (Acc)

### **D.9.3. Response - Professional Courtesy**

LETTERHEAD OF ACCOUNTING OFFICER

A Secretary  
**ABC Computers CC**  
Address

Date

Dear Sirs

**APPOINTMENT AS ACCOUNTING OFFICER TO SEE EYE ESS CC**

With reference to your letter dated ..... I advise that I have no professional objection to your appointment as accounting officer of See Eye Ess CC.

Yours Sincerely,

Original Accounting Officer  
ACG (Acc)

**NOTE:**

It is appropriate to draw to the attention of the accounting officer seeking appointment that outstanding debts in respect of services rendered exist, if this is the case, but this does not constitute professional objection to the appointment.

#### **D.9.4. Acceptance of Appointment (To Original Accounting Officer)**

LETTERHEAD OF ACCOUNTING OFFICER

Original Accounting Officer  
**ABC Computers CC**  
Address

Date

Dear Sirs

**APPOINTMENT AS ACCOUNTING OFFICER TO SEE EYE ESS CC**

With reference to my previous letter, please note that I have accepted appointment as accounting officer of See Eye Ess CC.

Amended Founding Statements CK2 and/or CK2A have accordingly been lodged with the Commissioner of the Companies and Intellectual Property Commission.

Yours sincerely,

A Secretary  
ACG (Acc)



## **D.9.5. Terms of Appointment of Accounting Officer**

**Date**

**Partners names**

**Trading as:**

**Trading name**

Dear

### **APPOINTMENT TO PROVIDE ACCOUNTING AND TAXATION SERVICES**

We are pleased to confirm acceptance of our engagement to provide accounting services to your business entity. This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our view in respect of additional services that have to be provided, as agreed, is also set out.

#### **Accounting records and services**

It is your responsibility to maintain proper accounting records. Such accounting records should adequately record all receipts, payments, sales, income, purchases, expenses, assets, liabilities and capital. As a minimum you should open a bank account and channel all monies received and paid through this account.

We will assist you on an annual basis with the writing up a general ledger from the source documentation you provide.

Any enquiries and investigation that we may undertake in respect of supporting evidence are for purposes of enabling us to adequately provide the accounting services mentioned, alone, and therefore do not fall outside the description of our appointment.

*We may also be obliged to take certain action if, during the performance of our duties as accountants, we become aware of contraventions of the Prevention of Organised Crime Act 121 of 1998 and the Financial Intelligence Centre Act 38 of 2001.*

#### **Preparation of annual financial statements**

It is primarily your responsibility to prepare annual financial statements which fairly present the entity's financial position at the end of the book year, as well as the results of operations and cash flow information for the financial year.

We will prepare the annual financial statements of your entity from information provided to us by you and in accordance with generally accepted accounting principles applicable to the business. The annual financial statements will be prepared for your consideration and approval.

Although we may examine the accounting records, as well as make certain enquiries, this will be for purposes of enabling us to adequately prepare the annual financial statements alone, and therefore do not fall outside the description of our appointment.

#### **Taxation services**

In addition to the services mentioned above, we will also provide the following services to you, as agreed:

We will prepare and submit your provisional tax returns and annual return of income on due dates.

## **Limitation of liability**

All work to be performed by *[company name]* is subject to the following considerations. *[Company name]'s* liability, howsoever incurred and in respect of all loss or damage, is limited to an amount equal to twice the professional fees paid to *[company name]* in consideration for the particular work, or to an amount of R 500 000, whichever is the less amount. Similarly, *[company name]'s* liability in respect of any item of work is limited to a period of three years from the completion date of that particular work, notwithstanding the provisions of the Prescription Act No. 68 of 1969 (as amended). These two requirements are in line with recommendations made by our professional indemnity insurers.

## **Responsibility regarding the electronic distribution of information**

In the event of you planning to publish or copy our report and the financial statements, in printed or electronic format, or in any other way refer to our firm in a report containing other information, you agree to (a) provide us with a draft of the document and (b) obtain our consent to include our report before the documents are finalised and distributed. If ever our report is reproduced, it must include the complete set of financial statements as well as the notes.

## **Electronic communication**

From time to time we may communicate with you electronically. You must be aware that no guarantee can be given as to the correctness and safety of electronically transferred data. Electronic information can be intercepted, lost, corrupted, negatively affected and unsafe to use. We will take reasonable precautions to trace the known viruses at the time, before the transmission of electronic data. Thus, notwithstanding any collateral agreement, guarantee or representation, neither we, any staff member or agent (including our Service Suppliers) can be held responsible on any grounds, in any contract, delict (including negligence) or otherwise, for any error or omission resulting from and as a result of the electronic transmitting of information to you. These exclusions of responsibilities shall not apply to us if such actions, omissions or misrepresentations results from criminal, fraudulent or misleading actions of any of our staff members or agents.

## **Work for other clients**

Our relationship with you will not prohibit or restrict us in any way from rendering services to any other client. Standard internal procedures are in place to ensure that confidential information that is supplied to us as a result of our appointment shall be treated as confidential.

## **Fees**

Our fees will be calculated on the basis of the time spent on your affairs by the member and personnel. Except when agreed otherwise, our fees will be billed separately for each main type of work mentioned above, and accounts will be sent to you at appropriate intervals during the course of the year. Our account is payable on presentation. If our account is not settled within thirty (30) days then interest of 2% per month will be raised on any outstanding balance.

You agree that we will have a right to retention over all documents of any nature of your entity and yourself until such time as our account is settled in full.

This letter will be effective for future years unless it is amended, suspended or terminated. Should the content not correspond with your view of our terms of engagement, we will gladly discuss this matter further with you.

Kindly acknowledge receipt of this letter.

Yours faithfully

**Received, read and accepted on this the [date].**

\_\_\_\_\_  
**Partner name**

\_\_\_\_\_  
**Partner name**

## D.9.6. Representation to Accounting Officer

Date

Client's name

Trading as:

Trading name

Dear

### **APPOINTMENT OF [PRACTIONER NAME] TO PROVIDE ACCOUNTING AND TAXATION SERVICES TO [CLIENT NAME]**

We are pleased to confirm acceptance of our engagement to provide accounting services to your business entity. This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our view in respect of additional services that have to be provided, as agreed, is also set out.

#### **Accounting records and services**

It is your responsibility to maintain proper accounting records. Such accounting records should adequately record all receipts, payments, sales, income, purchases, expenses, assets, liabilities and capital. As a minimum you should open a separate business entity bank account and channel all monies received and paid through this account.

We will assist you on an annual basis with the writing up a general ledger from the source documentation you provide.

Any enquiries and investigation that we may undertake in respect of supporting evidence are for purposes of enabling us to adequately provide the accounting services mentioned, alone, and therefore do not fall outside the description of our appointment.

*We may also be obliged to take certain action if, during the performance of our duties as accountants, we become aware of contraventions of the Prevention of Organised Crime Act 121 of 1998 and the Financial Intelligence Centre Act 38 of 2001.*

#### **Preparation of annual financial statements**

It is primarily your responsibility to prepare annual financial statements which fairly present the entity's financial position at the end of the financial year, as well as the results of operations and cash flow information for the financial year.

We will prepare the annual financial statements of your entity from information provided to us by you and in accordance with generally accepted accounting principles applicable to the business. The annual financial statements will be prepared for your consideration and approval.

Although we may examine the accounting records, as well as make certain enquiries, this will be for purposes of enabling us to adequately prepare the annual financial statements alone, and therefore do not fall outside the description of our appointment.

#### **Taxation services**

In addition to the services mentioned above, we will also provide the following services to you, as agreed:

We will prepare and submit your provisional tax returns and annual return of income on due dates.

## **Limitation of liability**

All work to be performed by *[practioner name]* is subject to the following considerations. *[practioner name]*'s liability, howsoever incurred and in respect of all loss or damage, is limited to an amount equal to twice the professional fees paid to *[practioner name]* in consideration for the particular work, or to an amount of R 500 000, whichever is the lower amount. Similarly, *[practioner name]*'s liability in respect of any item of work is limited to a period of three years from the completion date of that particular work, notwithstanding the provisions of the Prescription Act No. 68 of 1969 (as amended). These two requirements are in line with recommendations made by our professional indemnity insurers.

## **Responsibility regarding the electronic distribution of information**

In the event of you planning to publish or copy our report and the financial statements, in printed or electronic format, or in any other way refer to our firm in a report containing other information, you agree to (a) provide us with a draft of the document and (b) obtain our consent to include our report before the documents are finalised and distributed. If ever our report is reproduced, it must include the complete set of financial statements as well as the notes.

## **Electronic communication**

From time to time we may communicate with you electronically. You must be aware that no guarantee can be given as to the correctness and safety of electronically transferred data. Electronic information can be intercepted, lost, corrupted, negatively affected and unsafe to use. We will endeavour to take reasonable precautions to trace the known viruses at the time, before the transmission of electronic data. Thus, notwithstanding any collateral agreement, guarantee or representation, neither we, any staff member or agent (including our Service Suppliers) can be held responsible on any grounds, in any contract, delict (including negligence) or otherwise, for any error or omission resulting from and as a result of the electronic transmission of information to you.

## **Work for other clients**

Our relationship with you will not prohibit or restrict us in any way from rendering services to any other client. Standard internal procedures are in place to ensure that confidential information that is supplied to us as a result of our appointment shall be treated as confidential.

## **Fees**

Our fees will be calculated on the basis of the time spent on your affairs by the member and personnel. Except when agreed otherwise, our fees will be billed separately for each main type of work mentioned above, and accounts will be sent to you at appropriate intervals during the course of the year. Our account is payable on presentation. If our account is not settled within thirty (30) days then interest of 2% per month will be raised on any outstanding balance.

You agree that we will have a right to retention over all documents of any nature of your entity and yourself until such time as our account is settled in full.

This letter will be effective for future years unless it is amended, suspended or terminated in writing.

Kindly acknowledge receipt of this letter. Should the content not correspond with your view of our terms of engagement, we will gladly discuss this matter further with you.

Yours faithfully

**Received, read, confirmed and accepted on this the [date].**

---

**Sole proprietor name**

**Date**

**To: Name of clients  
The Members  
CC Name**

Dear

**APPOINTMENT OF [COMPANY NAME] AS ACCOUNTING OFFICER FOR [CLIENT NAME]**

Following our recent discussions, I am pleased to confirm acceptance of my appointment as accounting officer. This letter sets forth my understanding of terms and objectives of my engagement, and the nature and scope of the services *[company name]* will provide. My view in respect of additional services that have to be provided, as agreed, is also set out.

**Accounting officer**

In terms of the Close Corporations Act, Act No. 69 of 1984, I am required to determine that the annual financial statements agree with accounting policies represented to me as being the policies represented to us as being the policies applied in the compilation of the financial statements and to report to the corporation in respect of these matters.

I am also obliged to take certain action if, during the performance of my duties as accounting officer, I become aware of any and/or all of the following:

- a. a provision of the Close Corporations Act (No 69 van 1984) has been contravened;
- b. a change to the particulars in the founding statement has not been registered;
- c. the financial statements indicate that the liabilities exceed the assets;
- d. the financial statements incorrectly indicate that the assets exceed the liabilities;
- e. the corporation is not carrying on business and has no intention of resuming operation in the foreseeable future.

I may also be obliged to take certain action if, during the performance of my duties as accounting officer, I become aware of contraventions of the Prevention of Organised Crime Act 121 of 1998 and the Financial Intelligence Centre Act 38 of 2001.

In order to properly fulfil my duties, I will require written representations on certain matters from you.

**Contravention of the Close Corporations Act**

If in the performance of my duties I become aware of any contraventions of the Close Corporations Act, I will report the matter to you immediately. You should be aware that a contravention of the Close Corporations Act could result in your personal liability.

**Accounting records and services**

In terms of section 56 of the Close Corporation Act No. 69 of 1984, it is your responsibility to maintain proper accounting records for your corporation. Such accounting records should adequately record all receipts, payments, sales, income, purchases, expenses, assets, liabilities and capital. As a minimum you should open a bank account in the name of your corporation and channel all monies received and paid through this account. I can assist you with these accounting and related tasks.

In terms of section 61 (1) of the Close Corporation Act No. 69 of 1984, I shall at all times have a right of access to the accounting records and all the books and documents of the corporation, and to

require from you such information and explanations as I consider necessary for the performance of my duties as the accounting officer.

It is your responsibility to register with the following authorities where applicable. I can assist you with these requirements and related tasks:

1. SARS for Income tax purposes
2. SARS for Employees tax purposes
3. SARS for VAT purposes
4. SARS for registration as an Employer
5. Compensation Commissioner (OID Act)
6. Unemployment Insurance Commissioner
7. Industrial Council (if applicable)

Any enquiries and investigation that I may undertake in respect of supporting evidence are for purposes of enabling me to adequately provide the accounting services mentioned, alone, and therefore do not fall outside the description of my appointment.

#### **Preparation of annual financial statements**

It is primarily your corporation's responsibility to prepare annual financial statements which fairly present the organisation's financial position at the end of the financial year, as well as the results of operations and cash flow information for the financial year.

I will prepare the annual financial statements for your close corporation from information provided to me by you and/or your designated members of staff and in accordance with generally accepted accounting principles applicable to the business. The annual financial statements will be prepared for your consideration and approval.

Although I may examine the accounting records, as well as to make certain enquiries, this will be for purposes of enabling me to adequately prepare the annual financial statements alone, and therefore do not fall outside the description of my appointment.

#### **Taxation services**

In addition to the services mentioned above, *[company name]* will also provide the following taxation services to your corporation, as agreed:

- Prepare and lodge with SARS the Income Tax return (IT14) on completion and sign-off of the Annual Financial Statements each year
- Prepare and lodge with SARS the Provisional Tax returns (IRP6) on or before due date each period.

#### **Statutory secretarial services**

Should you require any changes to your corporation's statutory status as registered with CIPC we will be able to offer this service.



## Limitation of liability

All work to be performed by *[company name]* is subject to the following considerations. My liability, howsoever incurred and in respect of all loss or damage, is limited to an amount equal to twice the professional fees paid to *[company name]* in consideration for the particular work, or to an amount of R 500 000, whichever is the lesser amount. Similarly, my liability in respect of any item of work is limited to a period of three (3) years from the completion date of that particular work, notwithstanding the provisions of the Prescription Act No. 68 of 1969 (as amended). These two requirements are in line with recommendations made by my professional indemnity insurers.

## Responsibility regarding the electronic distribution of information

In the event of your corporation planning to publish or copy my report and the financial statements, in printed or electronic format, or in any other way refer to me or *[company name]* a report containing other information, your corporation agrees to (a) provide me with a draft of the document and (b) obtain my consent to include my report before the documents are finalised and distributed. If ever my report is reproduced, it must include the complete set of financial statements as well as the notes thereto.

## Electronic communication

From time to time either I or any of the staff of *[company name]* may communicate with you and your corporation electronically. You and your corporation must be aware that no guarantee can be given as to the correctness and safety of electronically transferred data. Electronic information can be intercepted, lost, corrupted, negatively effected and unsafe to use. I will take reasonable precautions to trace and delete any known viruses at the time, before the transmission of electronic data. Thus, notwithstanding any collateral agreement, guarantee or representation, neither me, any staff member or agent (including our Service Suppliers) can be held responsible on any grounds, in any contract, delict (including negligence) or otherwise, for any error or omission resulting from and as a result of the electronic transmitting of information to your corporation. These exclusions of responsibilities shall not apply to me if of such actions, omissions or misrepresentations results from criminal, fraudulent or misleading actions of any of me or any staff members of *[company name]* or our agents.

## Work for other clients

My relationship with your corporation will not prohibit or restrict me in any way from rendering services to any other client. Standard internal procedures are in place to ensure that confidential information that is supplied to me and my staff as a result of our appointment shall be treated as confidential.

### Fees

*[Company name]* fees will be calculated on the basis of the time spent on your affairs by me and any of our staff. Except when agreed otherwise, our fees will be billed separately for each main type of work mentioned above, and accounts will be sent to you at appropriate intervals during the course of the year. Our account is payable on presentation and if still outstanding after the month end interest at the rate of 2% per month will be raised on the outstanding balance.

As the members of your close corporation, you agree that *[the company]* will have a right of retention over all documents of any nature of your corporation and/or yourselves until such time as our account is settled in full.

As the members of your corporation, you bind yourself jointly and severally as co-debtors of your corporation for settlement of our account.

This letter will be effective for future years unless it is terminated, amended or suspended.

Should the content not correspond with your view of my terms of engagement, I will gladly discuss this matter further with you.

Kindly acknowledge receipt of this letter as well as your agreement with the contents thereof by initialling each page and signing in full on the last page.

Yours faithfully

**Received, read, confirmed and accepted on behalf of [name of CC]  
on this [date].**

\_\_\_\_\_

MEMBER

\_\_\_\_\_

MEMBER

**Date**

**The Member  
CC**

Dear

**APPOINTMENT OF [PRACTICE NAME] AS ACCOUNTING OFFICER FOR [NAME OF CLIENT]  
CC**

Following our recent discussions, I am pleased to confirm acceptance of my appointment as accounting officer to [name of CC]. This letter sets forth my understanding of terms and objectives of my engagement, and the nature and scope of the services [the company] will provide. My view in respect of additional services that have to be provided, as agreed, is also set out.

**Accounting officer**

In terms of the Close Corporations Act, Act No. 69 of 1984, I am required to determine that the annual financial statements agree with accounting policies represented to me as being the policies represented to me as being the policies applied in the compilation of the financial statements and to report to the corporation in respect of these matters.

I am also obliged to take certain action if, during the performance of my duties as accounting officer, I become aware of any and/or all of the following:

- f. a provision of the Close Corporations Act (No 69 of 1984) has been contravened;
- g. a change to the particulars in the founding statement has not been registered;
- h. the financial statements indicate that the liabilities exceed the assets;
- i. the financial statements incorrectly indicate that the assets exceed the liabilities;
- j. the corporation is not carrying on business and has no intention of resuming operations in the foreseeable future.

I may also be obliged to take certain action if, during the performance of my duties as accounting officer, I become aware of contraventions of the Prevention of Organised Crime Act 121 of 1998 and the Financial Intelligence Centre Act 38 of 2001.

In order to properly fulfil my duties, I will require written representations in respect of certain matters from you.

**Contravention of the Close Corporations Act**

If in the performance of my duties I become aware of any contraventions of the Close Corporations Act, I will report the matter to you immediately. You should be aware that a contravention of the Close Corporations Act could result in your personal liability.

**Accounting records and services**

In terms of section 56 of the Close Corporation Act No. 69 of 1984, it is your responsibility to maintain proper accounting records for your corporation. Such accounting records should adequately record all receipts, payments, sales, income, purchases, expenses, assets, liabilities and capital. As a minimum you should open a bank account in the name of your corporation and channel all monies received and paid through this account. I can assist you with these accounting and related tasks.

In terms of section 61 (1) of the Close Corporation Act No. 69 of 1984, I shall at all times have a right of access to the accounting records and all the books and documents of the corporation, and to

require from you such information and explanations as I consider necessary for the performance of my duties as the accounting officer.

It is your responsibility to register with the following authorities where applicable. I can assist you with these requirements and related tasks:

8. SARS for Income tax purposes
9. SARS for Employees tax purposes
10. SARS for VAT purposes
11. SARS for registration as an Employer
12. Workmen's Compensation Commissioner
13. Unemployment Insurance Commissioner
14. Industrial Council (if applicable)

Any enquiries and investigations that I may undertake in respect of supporting evidence are for purposes of enabling me to adequately provide the accounting services mentioned above, alone, and therefore do not fall outside the description of my appointment.

#### **Preparation of annual financial statements**

It is primarily your corporation's responsibility to prepare annual financial statements which fairly present the organisation's financial position at the end of the financial year, as well as the results of operations and cash flow information for the financial year.

I will prepare the annual financial statements for your close corporation from information provided to me by you and/or your designated members of staff and in accordance with generally accepted accounting practice applicable to the business. The annual financial statements will be prepared for your consideration and approval.

Although I may examine the accounting records, as well as to make certain enquiries, this will be for purposes of enabling me to adequately prepare the annual financial statements alone, and therefore do not fall outside the description of my appointment.

#### **Taxation services**

In addition to the services mentioned above, *[the company]* will also provide the following taxation services to your corporation, as agreed:

- Prepare and lodge with SARS the Income Tax return (IT14) on completion and sign-off of the Annual Financial Statements each year
- Prepare and lodge with SARS the Provisional Tax returns (IRP6) on or before due date each period.

#### **Statutory secretarial services**

Should you require any changes to your corporation's statutory status as registered with CIPC we will be able to offer this service.

## Limitation of liability

All work to be performed by *[the company]* is subject to the following considerations. My liability, howsoever incurred and in respect of all loss or damage, is limited to an amount equal to twice the professional fees paid to the *[the company]* in consideration for the particular work, or to an amount of R 500 000, whichever is the lesser amount. Similarly, my liability in respect of any item of work is limited to a period of three (3) years from the completion date of that particular work, notwithstanding the provisions of the Prescription Act No. 68 of 1969 (as amended). These two requirements are in line with recommendations made by my professional indemnity insurers.

## Responsibility regarding the electronic distribution of information

In the event of your corporation planning to publish or copy my report and the financial statements, in printed or electronic format, or in any other way refer to me or *[the company]* a report containing other information, your corporation agrees to (a) provide me with a draft of the document and (b) obtain my consent to include my report before the documents are finalised and distributed. If ever my report is reproduced, it must include the complete set of financial statements as well as the notes thereto.

## Electronic communication

From time to time either I or any of the staff of *[the company]* may communicate with you and your corporation electronically. You and your corporation must be aware that no guarantee can be given as to the correctness and safety of electronically transferred data. Electronic information can be intercepted, lost, corrupted, negatively affected and unsafe to use. I will take reasonable precautions to trace and delete any known viruses at the time, before the transmission of electronic data. Thus, notwithstanding any collateral agreement, guarantee or representation, neither me, any staff member or agent (including our Service Suppliers) can be held responsible on any grounds, in any contract, delict (including negligence) or otherwise, for any error or omission resulting from and as a result of the electronic transmitting of information to your corporation. These exclusions of responsibilities shall not apply to me if of such actions, omissions or misrepresentations results from criminal, fraudulent or misleading actions of any of me or any staff members of *[the company]* or our agents.

## Work for other clients

My relationship with your corporation will not prohibit or restrict me in any way from rendering services to any other client. Standard internal procedures are in place to ensure that confidential information that is supplied to me and my staff as a result of our appointment shall be treated as confidential.

## Fees

*[Company name]* fees will be calculated on the basis of the time spent on your affairs by me and any of our staff. Except when agreed otherwise, our fees will be billed separately for each main type of work mentioned above, and accounts will be sent to you at appropriate intervals during the course of the year. Our account is payable on presentation and if still outstanding after the month end interest at the rate of 2% per month will be raised on the outstanding balance.

As the members of your close corporation, you agree that *[company name]* will have a right of retention over all documents of any nature of your corporation and/or yourselves until such time as our account is settled in full.

As the members of your corporation, you bind yourselves jointly and severally as co-debtors of your corporation for our account.

This letter will be effective for future years unless it is amended, suspended or terminated.

Kindly acknowledge receipt of this letter by initialling each page and signing in full on the last page.

Should the content not correspond with your view of my terms of engagement, I will gladly discuss this matter further with you.

Yours faithfully

**Received, read, confirmed and accepted on behalf of [name of CC] on this [date].**

---

MEMBER  
Contact details

## D.9.7. Resignation

### NOTIFICATION TO MEMBERS AND CLOSE CORPORATION

LETTERHEAD OF ACCOUNTING OFFICER  
BY REGISTERED POST

(Date)

The Members,  
**ABC Computers CC** (Address)

Dear Sirs,

### RESIGNATION OF ACCOUNTING OFFICER TO ABC COMPUTERS CC

I hereby tender my resignation from the appointment of accounting officer to **ABC Computers CC**

Please Note that my resignation is effective from .....(date).

As required by section 59 of the Close Corporations Act No. 69 of 1984, I am notifying every member of the corporation and the corporation itself, by means of registered post, at the last known address.

Yours faithfully

A.Secretary  
ACG (Acc)

#### NOTE:

In terms of the Act, an accounting officer may resign at any time and without reason.

## **D.9.8. Resignation**

NOTIFICATION TO CIPC

LETTERHEAD OF ACCOUNTING OFFICER  
BY REGISTERED POST

(Date)

The Commissioner  
Companies and Intellectual Property Commission  
PO Box 429  
PRETORIA  
0001

Dear Sir,

**RESIGNATION OF ACCOUNTING OFFICER  
OF ABC COMPUTERS CC  
(XXXX1999999/23)**

This serves to inform you that I have tendered my resignation from the office of accounting officer to **ABC Computers CC** with effect from ..... (date).

I have performed my duties as accounting officer to **ABC Computers CC** up to ..... (date).

At the time of my resignation, I was not aware of any matters in the financial affairs of the corporation which are in contravention of the provisions of the Close Corporations Act No. 69 of 1984.

Yours faithfully,

A. Secretary ACG (Acc)



**D.9.9. Removal from Office - Notification to Individual Members**

LETTERHEAD OF ACCOUNTING OFFICER  
BY REGISTERED POST

(Date)

The members,  
**ABC Computers CC** (Address)

Dear Sirs,

**REMOVAL FROM OFFICE OF ACCOUNTING OFFICER  
OF ABC COMPUTERS CC  
(XXXX/999999/23)**

This serves to inform you that I have tendered my resignation from the office of accounting officer to **ABC Computers CC** with effect from .....(date).

I have performed my duties as accounting officer to **ABC Computers CC** up to ..... (date).

At the time of my resignation, I was not aware of any matters in the financial affairs of the corporation which are in contravention of the provisions of the Close Corporations Act No. 69 of 1984.

Yours faithfully,

A. Secretary ACG (Acc)

Note:

In term of the Act, the close corporation must inform the accounting officer in writing of his/her removal from office.

Removal is valid only where the decision represents the view of the members holding a majority interest in the corporation and where the decision does not conflict with any association agreement in force.

If the accounting officer believes that he has been removed from office unfairly, he/she must inform the Commissioner and every member accordingly.

**D.9.10. Removal from Office - Notification to CIPC**

LETTERHEAD OF ACCOUNTING OFFICER  
BY REGISTERED POST

(Date)

The Commissioner,  
Companies and Intellectual Property Commission  
PO Box 429,  
PRETORIA  
0001

Dear Sir,

**REMOVAL FROM OFFICE OF ACCOUNTING OFFICER  
OF ABC COMPUTERS CC  
(XXXX/999999/23)**

This serves to inform you that I have been removed from office of accounting officer to **ABC Computers CC** with effect from .....(date).

I have performed my duties as accounting officer to **ABC Computers CC** up to .....  
(date).

At the time of my removal, I was not aware of any matters in the financial affairs of the corporation which are in contravention of the provisions of the Close Corporations Act No. 69 of 1984.

Yours faithfully,

A. Secretary ACG (Acc)

Note:

In terms of the Act, the close corporation must inform the accounting officer in writing of his/her removal from office.

Removal is valid only where the decision represents the view of the members holding a majority interest in the corporation and where the decision does not conflict with any association agreement in force.

If the accounting officer believes that he/she has been removed from office unfairly, he/she must inform the Commissioner and every member accordingly.

## **D.10. Independent Review**

Regulation 29 of the Companies Act , No. 71 of 2008 deals with the `Independent Review of Annual Financial Statements`.

For the purpose of this Regulation-

`**independent reviewer**`, means a person referred to in regulation 29(4) and who has been appointed to perform an independent review under this regulation; and

`**reportable irregularity**`, means any act or omission committed by any person responsible for the management of a company, which-

Unlawfully has caused or is likely to cause material, financial loss to the company or to any member, shareholder, creditor or investor of the company in respect of his, her or its dealings with that entity; or

Is fraudulent or amounts to theft; or

Causes or has caused the company to trade under insolvent circumstances.

### **When an independent review of a company's financial statements must be carried out**

**Regulation 29 (4) states that** `An independent review of a company's annual financial statements must be carried out-

In the case of a company whose **public interest score** for the particular financial year was at least 100, by a registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Professions Act; or

In the case of a company whose **public interest score** for the particular financial year was less than 100, by-

A registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Professions Act; or

A person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60(1), (2) and (4) of the Close Corporations Act, 1984 (Act 69 of 1984).

### **Steps to alert CIPC about a "Reportable Irregularity"**

An **independent reviewer** of a company that is satisfied or has reason to believe that a reportable irregularity has taken place or is taking place in respect of that company must, without delay, send a written report to the Commission. This is known as the `**first report**`.

The report must give particulars of the reportable irregularity referred to above and must include such other information and particulars as the independent reviewer considers appropriate.

The independent reviewer must within three (3) business days of sending the report to the Commission notify the members of the Board of the company in writing of the sending of the report referred to in regulation 29(6) and the provisions of this regulation.

The First report of the reportable irregularities (RI's) from the Independent Reviewer to CIPC must include the letter which was sent to the board of directors notifying them of the reportable irregularity.

The independent reviewer must as soon as reasonably possible but not later than 20 business days from the date on which the report referred in regulation 29(6) (the first report) was sent to the Commission-

Take all reasonable measures to discuss the first report with the members of the board of the company;

Afford the members of the board of the company an opportunity to make representations in respect of the report; and

**A Second Report** must be sent by the Independent Reviewer to the Commission within twenty (20) business days from the date of the First report. The second report must include the independent reviewer's opinion as to whether:

no reportable irregularity has taken place or is taking place; or  
the suspected reportable irregularity is no longer taking place and that adequate steps have been taken for the prevention or recovery of any loss as a result thereof, if relevant; or  
the reportable irregularity is continuing; and the detailed particulars and information supporting his conclusions.

If the second report from the independent reviewer states that the reportable irregularity is continuing, the Commission must notify the appropriate regulator in writing and provide a copy of the reportable irregularity to them. The Commission may investigate any alleged contravention of the Act.

Independent Review reports must be e-mailed to: [independentreview@cipc.co.za](mailto:independentreview@cipc.co.za)

#### **D.10.1. No limited Liability of Reviewer**

##### **Review engagement – no limit to liability of reviewers**

It is important that the letter provides for indemnity as the Companies Act 2008 and Regulations does not limit the liability of independent reviewers.

Section 46 of the Auditing Professions Act 2005 limits the liability of auditors. The auditor incur liability only if it is proved that the audit opinion was issued maliciously, fraudulently or pursuant to negligent performance of auditors duties.

The reviewer's engagement letter should therefore include provisions related to:

- Use and distribution of report
- Reproduction of review report
- Preparation of schedules
- Working papers
- File inspection
- Governing legislation
- Dispute resolution
- Indemnity

I have drafted an example engagement letter which can be used as a guide. This is your responsibility so get an attorney to review this sample.

It is available here: [Case study – 983 Engagement letter-Review-New client – Updated 2020315](#)

The potential unlimited liability is another reason that reviewers should seriously consider obtaining legal advice.

#### **D.10.2. Independent Review – A list of minimum procedures to perform**

The current International Standard on Review Engagement (ISRE 2400) is being revised. The proposed new ISRE 2400 that is expected to be released by the end of the year identifies the minimum number of procedures to be performed as part of a review engagement. It should be kept in mind that procedures should be designed and performed to address all material items and to focus on areas in the financial statements where material misstatements are likely to arise. The procedures below incorporate both inquiry and analytical procedures, where relevant.

D.10.2.1 Determine materiality (and during performance revise where necessary), for the financial statements as a whole. Use materiality to design procedures and evaluate results.

D. 10.2.2 Obtain an understanding of:

D.10.2.2.1 the entity

D.10.2.2.2 the applicable financial reporting framework and its application in the relevant industry;

D.10.2.2.3 the entity's accounting system; and

D.10.2.2.4 the entity's accounting records relevant to the review.

D.10.2.2 Obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. Read the financial statements.

D.10.2.3 Consider if a review engagement is appropriate. If relevant financial information is unreliable or unavailable, consider whether a compilation engagement should not be performed.

**Inquiries of management and other within the entity, as appropriate, shall relate to:**

- The significant accounting policies used, and their application by management in presenting the financial statements;
- The development of significant accounting estimates required under the applicable financial reporting framework;
- The identification of related parties and related party transactions.
- Request management to identify related parties within the context of the business,
- Request management to identify related party transactions,

**Whilst performing a review engagement:**

- Be alert to related party transactions,
- Identify significant transactions outside the entities normal course of business and inquire about:
  - the nature of transactions,
  - involvement of related parties,
  - business rationale for transaction.

**Whether there are significant, unusual, or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:**

- Significant changes in the entity's business activities or operations;
- Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;
- Significant journal entries or other adjustments to the financial statements;
- Significant transactions occurring or recognized near the end of the reporting period;
- The status of any uncorrected misstatements identified during the previous review engagement carried out; and
- Effects or possible implications for the entity of transactions or relationships with related parties;

- The existence of any actual, suspected, or alleged fraud or illegal acts affecting the entity, and non-compliance with provisions of laws and regulations.

A consideration of non-compliance is generally limited to those that have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.

If fraud, illegal acts, or non-compliance are suspected:

- Communicate to management,
- Obtain management assessment of the effect on financial statements,
- Consider effect on the practitioner's conclusion and report,
- Consider whether an action should be reported to a body outside the entity.
- Obtain through inquiry and analytical procedures management's assessment of the entity's ability to continue as a going concern, and whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern.

If significant doubt exists

- Inquire about management response to the situation and the expected outcome of the response,
- Consider if a sufficient basis exists to conclude that financial statements are materially misstated (if accounting framework assumes a going concern) or misleading as to management's assertion of going concern.
- Obtain confirmation that management's assessment is based on at least a twelve-month period from the date of the review of financial statements.
- Consider whether the data from the entity's accounting system and accounting records are satisfactory for the purpose of performing the analytical procedures.
- Assess whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements.
- Evaluate the sufficiency and appropriateness of the evidence obtained and determine whether it is necessary to perform additional procedures.

If the practitioner uses work performed by another practitioner or an expert in the course of performing the review and intends to rely on that work, the practitioner shall take appropriate steps to be satisfied that the work performed by the other practitioner or the expert is adequate for the practitioner's purposes in relation to the review engagement.

**PPG MANUAL**

**CONTENTS**

**SECTION E - ACCOUNTS OF A SOLE TRADER AND OF A PARTNERSHIP**

**E. SECTION E - ACCOUNTS OF A SOLE TRADER AND OF A PARTNERSHIP**

**E.1. Introduction**

**E.2. Sole Trader**

# Section E - ACCOUNTS OF A SOLE TRADER AND OF A PARTNERSHIP

## E.1. Introduction

One of the main duties of the professional practitioner to the client is to ensure that the client receives information in the form of financial statements. The information contained in these statements should be sufficient to cover the needs of the users at the lowest possible cost. The normal users of the financial statements are the owners, tax authorities, and banks. The financial statements are therefore for specific purpose. In the case of most small proprietors and partnerships, the main purpose of the financial statements is to serve as a statement of taxable income to the South African Revenue Service (SARS). These financial statements should still aim to be understandable, relevant, reliable and comparable. They will also provide the means for determining the division of profits between the partners.

The set of sample financial statements on E2 has been compiled with the foregoing in mind. However, cognisance should be taken of the following points:

- Should the practitioner have received insufficient information, vouchers or explanations, a qualification should be made in the report

The third sentence in the report should be omitted in any circumstances where the practitioner is not completely confident in including it. Where neither a full audit nor a review has been conducted, the practitioner should be wary of being placed into a possibly, indefensible position.

- Income and Expenses

Apart from the provisions for Tax on Capital Gains, the South African Law does not subject income of a capital nature to tax nor allow capital expenditure as a deductible expense, the SARS might require schedules of any income or expenditure which might include items that constitute capital income or expenditure. Care must be taken to ensure that accurate and detailed records are kept of these.

- Income and Expenses

The SARS usually requires details of the income and expenditure items marked with an asterisk (\*) in the example Statement of income and expenses. If it is not possible to supply this information in the financial statements, a separate schedule should be included with the tax return or information may be provided in the notes to the financial statements or an attachment thereto.

- Travel and Accommodation

The SARS requires details of travel to a country outside South Africa. The following information is required: expenses of trip(s), an itinerary of each, length of stay abroad and the purpose of each trip.

- Repairs and Maintenance

The SARS requires full details of all items charged as repairs and maintenance of property, plant and equipment for the purpose of ascertaining that no expense of a capital nature



has been charged to this item. The user of this manual would do well to consult the literature referring to court decisions concerning this matter.

- Note 1

Should the general assumptions of generally accepted accounting practice (i.e. accrual basis and going concern) have not been applied, mention of this should be made in Note 1 to the financial statements.

The specimen financial statements have been prepared for a small trader. However, the only additional information that would be needed for a partnership would be to show the apportionment of the net profit or loss to the partners.

- Note 1.1

In the specimen financial statements, property, plant and equipment have been depreciated at the straight-line basis, however, rates usually allowed by SARS may also be used. With the majority of sole traders and partnerships, the SARS-method will be a realistic and cost effective rate to use. Should, however, different rates be necessary, taking cognisance of the relevant and reliable concepts, to include useful lives and residual values. The Fixed Assets Register should then contain calculations of depreciation at both sets of rates used for SARS and for accounting purposes. An adjustment should therefore be made to the taxable income computation, which will represent the difference between the two depreciation calculations.

- Note 1.2 Inventory

The practitioner should, in all instances try to measure inventory according to standard practices (i.e. lower of cost or net realisable value on a FIFO or average basis, including all production overheads and cost to bring inventory to its present location and condition) when accounting for inventory and Work - in - Progress.

- Note 3 Leases

Finance leases are not capitalised as assets and recognised as liabilities in accordance with standard accounting practices as this will be a time consuming and costly exercise.

- Note 5

In presenting these financial statements standard accounting practices have been followed and the assets have been capitalised. This might be unnecessary and too much of an expense for a small trader in which case the assets with small amounts may be written off in the year during which they were acquired.

- Note 6

The computation of Finance Charges has, in this instance, been calculated by use of a spread sheet (amortised table), which calculated finance charges and capital deductions over the period of the agreement. However, as an alternative method, the sum of the digits method could be used.

## **E.2. Sole Trader**

### **E.2.1. Specimen Annual Financial Statements**

**JOHN BLOGGS**

**Trading as**

**HENTAN ENTERPRISES**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021**

***Compiled in terms of ISRS4410 (Revised), Not independently audited or reviewed***

<b>CONTENT</b>	<b>PAGE</b>
Approval and contents	1
Compilation report	2
Statement of income and expenses	3
Statement of financial position	4
Notes to the financial statements	5-8
Attachment: Computation of taxable income	9

#### **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements set out on pages 1 - 9 were approved by the proprietor on 31 May 2021 and have been signed by him hereunder.

JOHN BLOGGS  
31 May 2021

**COMPILATION REPORT TO J C BLOGGS TRADING AS HENTAN  
ENTERPRISES**

The attached financial statements as set out on pages 1 - 9 have been compiled from vouchers, information and explanations supplied by the proprietor. Based on the performance of my duties the financial statements for the year ended 28 February 2021 represent a compilation of financial information provided by the proprietor.

A. Secretary

ACG (Acc)

JOHANNESBURG

31 May 2021

## JOHN BLOGGS

Trading as

### HENTAN ENTERPRISES

#### STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDED 28 FEBRUARY 2021

	Notes	2021 R	2020 R
Revenue	2	187 837	93 037
Cost of Sales		(81 881)	(46 067)
Opening inventory		16 182	0
Purchases		91 751	62 249
Less: Closing inventory	1.2	(26 052)	(16 182)
<b>GROSS PROFIT</b>		<b>105 956</b>	<b>46 970</b>
<b>OPERATING EXPENSES</b>		<b>(57 667)</b>	<b>(28 473)</b>
Accountancy fees		1 000	750
Advertising and gifts		297	241
Bad debts		600	0
Bank charges		615	316
Depreciation		1 455	116
Discounts allowed		490	28
Entertainment and refreshment		2 124	1 873
Fines and penalties		150	200
Hygiene		157	75
Insurance premiums		1 209	1 027
Legal fees		65	0
Motor and travel		7 512	6 292
Protective clothing		146	87
Repairs and maintenance		96	0
Regional services levy		376	107
Rentals	3	12 198	7 627
Scrapped assets		174	0
Stationery		363	108
Subscriptions		75	60
Telephone and postage		24 931	8 476
Wages and salaries		1 634	1 090
<b>OPERATING PROFIT</b>		<b>50 289</b>	<b>18 497</b>
<b>OTHER INCOME</b>		<b>801</b>	<b>189</b>
Discount received		457	27
Interest received		314	162
Gain on disposal of plant		30	0
<b>OTHER EXPENSES</b>		<b>(3 056)</b>	<b>(1 214)</b>
Finance expenses		(1 502)	0
Interest expenses	4	(1 554)	(1 214)
<b>NET PROFIT</b>		<b>48 034</b>	<b>17 472</b>

## JOHN BLOGGS

Trading as

## HENTAN ENTERPRISES

### STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2021

	Notes	2021 R	2020 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	42 706	4 016
		<u>42 706</u>	<u>4 016</u>
<b>Current assets</b>			
Inventory	1.2	52 100	33 536
Trade and other receivables		26 052	16 182
Prepaid amounts		25 598	15 058
Cash and cash equivalents		450	300
		-	1 996
		<u>94 806</u>	<u>37 552</u>
<b>Total assets</b>			
<b>OWNER'S INTEREST AND LIABILITIES</b>			
<b>Owner's interest: J Bloggs</b>			
Opening balance: 1 March 2020		36 358	29 685
Contribution		29 685	-
Profit for the year		4 320	23 100
Drawings		45 618	17 418
		<u>(43 265)</u>	<u>(10 833)</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	6	32 513	-
		<u>32 513</u>	-
<b>Current liabilities</b>			
Trade and other payables		25 935	7 867
Current portion of interest-bearing borrowings	6	19 338	7 867
Bank overdraft	7	4 606	-
		1 991	-
		<u>94 806</u>	<u>37 552</u>
<b>Total owner's interest and liabilities</b>			

## **JOHN BLOGGS**

**Trading as**

**A BUILDER**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021**

#### **1. ACCOUNTING POLICIES**

The financial statements have been prepared on the historical cost basis. The following are the principal accounting policies, which are consistent with the previous year.

##### **1.1.PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are measured at cost less accumulated depreciation. Depreciation has been calculated on the straight line method at rates considered appropriate to reduce carrying amounts over the expected useful lives of the assets to their realisable values. (or Depreciation has been calculated on the reducing balance method at rates which is in harmony with the SARS). The annual rates for this purpose are:

Equipment	10% (10 Years)
Furniture and fittings	10% (10 Years)
Soft furnishings	20% (5 Years)

##### **1.2.INVENTORY**

Inventory consists of merchandise and consumables. The inventory has been measured at the lower of cost or net realisable value by applying the First-In-First-Out method.

#### **2. SALES**

Revenue consists of sales and is net of value added tax.

#### **3. RENTALS**

Mr Bloggs uses approximately 20% of his residential property for business purposes. The figure reflected in the financial statements is for electricity, water, interest on bond used for this purpose, lease rental and paging system. The corresponding amount has been recognised in owner's interest as a contribution.

## JOHN BLOGGS

### Trading as

## HENTAN ENTERPRISES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021 (CONT'D)

#### 3 RENTALS (cont.)

	<b>2021</b>	<b>2020</b>
	<b>R</b>	<b>R</b>
Portion of electricity and water	120	75
Interest on bond	1 541	178

Mr Bloggs obtained a R20 000 loan to finance the working capital of Hentan Enterprises. This was secured by his residential property and consisted of an extension to his bond. The figure was included in rentals and reflects the portion of interest on the bond relevant to the R20 000.

#### LEASES

(Details reflected in note 3.1)

Internet logging system	8 851	6 842
	1 686	532
<b>AS PER INCOME STATEMENT</b>	<u>12 198</u>	<u>7 627</u>

- 3.1 Hentan Enterprises leases its motor vehicles, a Toyota bakkie and a Nissan Tida under financial agreements. Both are with Stannic. Rentals are charged against income when incurred. 12 payments of R432.18 and 5 of R733 have been made during the year. The remaining periods under the leases are 25 and 55 months respectively. Future rentals to be charged against income are:

Due within one year	13 982	5 186
Thereafter	42 755	11 237
	<u>56 737</u>	<u>16 423</u>

#### 4 INTEREST EXPENSES

On bank overdraft	68	0
Creditors	20	0
On loan	1 466	1 214
	<u>1 554</u>	<u>1 214</u>

**JOHN BLOGGS**

Trading as

**HENTAN ENTERPRISES****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2021  
(CONT'D)****5 PROPERTY, PLANT AND EQUIPMENT**

<u>2021</u>	<u>Equipment</u>	<u>Furniture &amp; fittings</u>	<u>Soft furnishings</u>	<u>Tools</u>	<u>Total</u>
Carrying amount at beginning of year	3 039	577	-	400	4 016
Cost price	3 147	585	-	400	632
Accumulated depreciation	(108)	(8)	-	-	(116)
Movements during the year	37 287	787	640	(24)	38 690
Depreciation	(1 276)	(92)	(46)	(41)	(1 455)
Additions	38 911	879	686	17	40 493
Disposals	(348)	-	-	-	(348)
Cost Price	41 558	1 464	686	376	41 108
Accumulated depreciation	(1 232)	(100)	(46)	-	(1 378)
Carrying amount at year end	40 326	1 364	640	376	42 706

May provide the above  
movements for 2020 also



**JOHN BLOGGS**

Trading as

**HENTAN ENTERPRISES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 28 FEBRUARY 2021 (CONT'D)**

**6 INTEREST BEARING BORROWINGS**

	2021	2020
	R	R
(Secured by equipment – refrigerator equipment)	32 513	0
Consists of credit sale agreement with Stannic which bears interest at 15,5% on fluctuating interest rate linked to prime and is being paid over a period of 60 months in instalments of approximately R1 130 each	37 119	0
Transferred to current liabilities	(4 606)	0

**7 BANK OVERDRAFT**

The bank overdraft facilities are secured by a personal guarantee from the proprietor.

**COMPUTATION OF TAXABLE INCOME\***  
**Assessment period ended 28 February 2021**

**R**

PROFIT FOR THE PERIOD	45 618
Add: Disallowable expenses - fines	<u>150</u>
	45 768
Less: Capital gain on property, plant and equipment (Fluke meter. Cost R200-R26 dep. Sold for R204)	(4)
Add: Depreciation above	1455
Less: Wear and tear (SARS) per fixed asset register	(1 700)
Add: Personal use of telephone	88
Add: Personal use of motor vehicle	<u>1 529</u>
Taxable Income to be included in the IT12 of Mr Bloggs	<u>47 136</u>

**SCHEDULE OF BAD DEBTS**

A. Soap, P O Box XXXX, Johannesburg 2000	6000
--	------

**PPG MANUAL**

**CONTENTS**

**SECTION F - ACCOUNTING FOR OTHER FORMAL AND INFORMAL  
BUSINESS STRUCTURES**

**F. ACCOUNTING FOR OTHER FORMAL AND INFORMAL BUSINESS STRUCTURES**

**F.1. Accounting and Reporting of Bodies Corporate**

**F.2. Accounting and Reporting on Trusts**

**F.3. Accounting and Reporting to Clubs and Institutions**

## **F. SECTION F - Accounting for Other Formal and Informal Business Structures**

### **F.1. *Accounting and Reporting of Bodies Corporate***

#### **F.1.1. Introduction**

Bodies corporate are governed by the Sectional Titles Act number 95 of 1986 whereby the Sectional Title Scheme provides each participant occupant (owner) rights to a unit. The owners participate in the management of the scheme through the annual general meeting of owners and indirectly through the board of trustees elected by the owners at the annual general meeting. The essential component of a body corporate is the title to the land and buildings which are the subject of the scheme.

The objects of these schemes:

- To place participants of the scheme in the position of owners of their units with proportionate interests in the surrounding structure, common facilities and the land;
- To give owners the advantages of co-operation whereby maintenance and other costs are shared between the owners;
- To ensure that the body corporate is democratically controlled by the participants of the scheme;
- To minimise the risk of the owners becoming personally liable for the debts of the body corporate.

#### **F.1.2. Roles of People involved with a Sectional Title Scheme**

- Sectional Title Scheme refers to a registered "business" that holds full ownership of a property.
- Managing agent is the person (business) who is contracted by the body corporate to conduct the administration of the scheme on behalf of its owners.
- Body corporate is the collective term for all owners participating in a sectional title scheme.
- Owner is someone who has sectional title to one or more units within a scheme.
- Unit refers to one of a number of houses, simplexes or flats built on a single piece of property to form a sectional title scheme.
- Board of Trustees is comprised of persons (usually owners) who are elected by the body corporate (all owners) to conduct the business of the scheme on behalf of the owners.

##### **F.1.2.1. Owners**

Owners have a vital role to play in the well being and financial management of the scheme.

By attending the annual general meeting the owners will:

- actively participate in decisions made that affect owners, approve the financial budget for the forthcoming financial year, be involved in selecting a board of trustees, people to represent the owners' interests in the day-to-day running of the scheme, take an active role in decisions concerning larger problems.
- Owners will understand that holding sectional title over a property requires that owners must conform to certain rules and regulations that differ from those for sole title owners.

#### **F.1.2.2. Board of trustees**

As the board of trustees is elected by the body corporate to conduct the business and activities of the scheme on behalf of the owners, it is expected that owners will receive feedback on all matters. It is therefore one of their duties to see to it that the financial statements of the body corporate are presented to the owners at the annual general meeting.

Owners must receive notice of the annual general meeting of the body corporate.

There is also a 'Home Owners Association' which is a collective body created by persons living in a particular area, and who have ownership/title of their property, agreeing to adopt collective rules. For example the HOA might contract on a central basis with a security service provider, or a gardening service.

The members of a HOA would pay an agreed levy but in all other respects are responsible for their own maintenance, inside and outside, of their units.

In other respects, such as with sectional title developments, a HOA will also hold an AGM, elect trustees, etc and is regarded as a separate legal entity to the members who compromise it.

The following is an example:

## **THE BODY CORPORATE OF SWEETTHORN**

Board of Trustees: A Allan, B Ball, D Donkin F Fall, H Hall, Z Zwan

### **NOTICE OF ANNUAL GENERAL MEETING**

To the owners

Notice is hereby given that the Annual General Meeting of the Sweetthorn Body Corporate will be held at Sweet Lodge on 6 May 2010 at 10:00 for the following business.

1. The approval of the minutes of the Annual General Meeting held on 31 August 2009. Please note that minutes of the previous Annual General Meeting are available on request.
2. Matters arising:
3. Chairman's report
4. To adopt the annual financial statements at 28 February 2010
5. To re-appoint auditors (Not necessary if less than 10 units or the members have resolved to dispense with)
6. To transact any other business of the body corporate which may be lawfully transacted at an annual general meeting
7. To elect trustees

A member of the body corporate who is entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend, speak and vote there at in his stead. Such proxy need not be a member of the body corporate.

### **BY ORDER OF THE BOARD**

**A Allan**  
**Chairman**

An example of such a proxy:

### PROXY

I, .....of .....being the owner of unit 3 hereby appoint ..... or, failing him, Mr Alfred Allan, chairman, as my proxy to vote for me and on my behalf at the annual general meeting of the 'body corporate to be held on 6 May 2010 at Sweet Lodge and at any adjournment thereof.

### Resolutions

- |  | <u>In favour</u> | <u>Against</u> | <u>Abstain</u> |
|--|------------------|----------------|----------------|
| 1. Resolution to accept the minutes of the annual general meeting held on 31 August 2009 |                  |                |                |
| 2. Resolution to adopt the annual financial statements at 28 February 2010               |                  |                |                |
| 3. Resolution to re-appoint the auditor Mr Z Swarts (If required)                        |                  |                |                |
| 4. Election of trustees  |                  |                |                |
| 4.1 A. Apple   |                  |                |                |
| 4.2 B Banana   |                  |                |                |
| 4.3 C Cherry   |                  |                |                |
| 4.4 D Date   |                  |                |                |

Unless otherwise instructed, my proxy may vote as he thinks fit.

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Date

Unit Number:\_\_\_\_\_

(Please attach a list of the unit numbers if you own 2 or more units)

Note: In terms of recommendations made in the latest King Report on Corporate Governance the election of directors must be voted on individually. It is recommended that this be followed in the case of trustees.

## **Specimen of Annual Financial Statements to be presented at The Annual General Meeting**

**F.1.2.3.** Table of contents

### **THE BODY CORPORATE OF SWEETTHORN ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2010**

**BOARD OF TRUSTEES:**

**A Allan  
B Ball  
D Donkin  
F Fall  
H Hall  
Z Zwan**

**SECRETARY:**

**H Hall**

***Independently audited***

### **CONTENTS**

Auditor's (or Accounting Officer's report)  
Trustees' report  
Statement of Financial Position  
Statement of income and expenses  
Notes to the financial statements

### **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements as set out on pages 2 to 6 have been approved by the board of trustees on 20 March 2010 and signed on their behalf by:

---

**A. ALLAN  
CHAIRMAN  
BOARD OF TRUSTEES**

**20 March 2010**



## 1. Auditor's report

XYZ  
PO Box 0000  
Chartered Accountants (S.A.)  
Johannesburg, 2000  
Partners: John Smith CA(SA)

Address: 1 Elroy Street  
Johannesburg  
2001

### **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE BODY CORPORATE OF SWEETTHORN**

We have audited the annual financial statements of the Body Corporate of Sweetthorn set out on pages X to X for the year ended 28 February 20XX. These financial statements are the responsibility of the trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

#### **Scope**

We conduct our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

#### **Audit Opinion**

In our opinion the financial statements fairly present, in all material aspects, the Body Corporate financial position as at 28 February 20XX, and the results of its operations for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Sectional Titles Act.

XYZ  
Chartered Accountants (S.A.)  
Registered Accountants and Auditors

Johannesburg  
Date: XXX

Trustees report

**THE BODY CORPORATE OF SWEETTHORN TRUSTEES' REPORT FOR  
THE YEAR ENDED 28 FEBRUARY 2010**

To the owners

The board of trustees have pleasure in submitting the annual financial report with the financial statements of the Body Corporate.

1. Activities of the Body Corporate

The business of the Body Corporate is the administration of the community property of Sweetthorn as set out by the Sectional Titles Act 95 of 1986.

2. Trustees

The following people serve as trustees:

A Allan, B Ball, D Donkin, F Fall, H Hall, Z Zwan

3. Managing agent

The rights and duties in accordance with the rules and regulations conveyed upon the trustees by the owners, with the exception of the administration performed by the managing agent on behalf of the trustees, are executed by the trustees. The managing agent is HJK Property Management CC with business address 600 Small Street, Glenview, Pretoria 0001 (name and business address of managing agent).

Mr H. J King FCIS, owner of unit 5, is a member of HJK Property Management CC. He has, with the consent of the majority of unit owners, performed the duties of Accounting Officer to the Body Corporate.

4. Financial statements

The financial statements for the year ended 28 February 2010, comprised of the trustees report, statement of financial position, statement of income and expenses and notes to the financial statements, reflect a net surplus of R9 542 (2009: R3 828).

The statements have been approved by the trustees and signed by the chairman on their behalf.

20 March 2010

---

**A. ALLAN  
CHAIRMAN  
BOARD OF TRUSTEES**

Statement of Financial Position

**THE BODY CORPORATE OF SWEETTHORN (Reg. No. 00000)**  
**STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2010**

	NOTES	2010 R	2009 R
<b>ASSETS</b>			
<b>Non-current assets</b>		97 789	80 339
Property, plant and equipment	2	44 489	56 189
Fixed Deposits	5	43 300	24 150
<b>Current assets</b>		87 038	104 767
Inventory	3	15 100	14 000
Amounts receivable	4	35 638	75 717
Prepaid amounts		1 500	2 600
Cash at managing agent	5	2 300	4 050
Bank	5	9 300	7 200
Savings account	5	23 200	1 200
<b>Total assets</b>		<u>184 827</u>	<u>185 106</u>
<b>ACCUMULATED FUNDS AND LIABILITIES</b>			
<b>Accumulated funds</b>		139 380	129 838
Opening balance 1 March 2009, 2008		129 838	126 010
Net surplus		9 542	3 828
<b>Current liabilities</b>		45 447	55 268
Amounts Payable	6	42 101	49 990
Levies received in advance		3 179	3 521
SA Revenue Services	8	167	1 757
<b>Total accumulated funds and liabilities</b>		<u>184 827</u>	<u>185 106</u>

Statement of Income and Expenses

**THE BODY CORPORATE OF SWEETTHORN  
STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDED 28 FEBRUARY  
2010**

	Notes	2010 R	2009 R
<b>INCOME</b>		245 388	224 240
Levies		241 918	219 500
Parking rentals		1 200	320
Penalty levies		2 270	4 300
Store room rental		-	120
<b>EXPENSES</b>		(237 715)	(221 376)
Municipal charges		113 613	109 726
Electricity		9 780	9 250
Water		24 483	21 481
Refuse removal		9 215	8 399
Rates and taxes		35 145	38 766
VAT Municipal charges		9 630	8 710
Sanitation		25 360	23 120
Salaries and wages		45 690	42 870
Caretaker		15 400	14 500
Labourers		29 900	28 000
Government levies	7	390	370
Maintenance		22 100	19 250
Fire equipment		1 200	1 200
Buildings		3 300	500
Depreciation	2	11 600	10 100
Garden		3 900	4 300
Security		2 000	1 750
Cleaning materials		1 300	1 400
Insurance	9	15 400	11 500
Bank charges		812	590
Management fees		32 000	33 000
Auditors' remuneration		3 400	3 870
Audit Fee		2 500	3 070
Accounting fees		900	800
Collection of debtors		3 500	570
		<hr/>	<hr/>
Interest income received		7 673	2 864
Interest expense		2 075	1 878
		-	(500)
<b>NET SURPLUS FOR THE YEAR</b>		<hr/>	<hr/>
Income tax expense	8	9 718	4 242
<b>NET SURPLUS AFTER TAX</b>		(176)	(414)
		<hr/>	<hr/>
		9 542	3 828

Notes to the Financial Statements

**THE BODY CORPORATE OF SWEETTHORN**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2010**

1. ACCOUNTING POLICIES

The financial statements are presented on the historical cost basis and incorporate the following principal accounting policies which are consistent with the previous year:

1.1. Property, plant and equipment

Property, plant and equipment consist of equipment and lawn mowers and are measured at cost less accumulated depreciation and impairments. The depreciation is determined with reference to the assets useful lives and residual values. The following useful lives are used:

Equipment	10 years
Lawn mowers	5 Years

When circumstances of a possible impairment exist, property, plant and equipment are tested for impairment. Assets are impaired if the recoverable amount is lower than the carrying amount. Recoverable amount is the higher of the fair value less cost to sell or the value in use.

1.2. Inventory

Inventory consists of consumables. Inventory has been measured at the lower of cost or net realisable value. Cost is determined on a first-in-first-out-basis.

1.3. Levies

Levies are recognised in the month when due.

2. PROPERTY, PLANT AND EQUIPMENT

	Equipment R	Lawnmowers R	Total R
Carrying amount 01/03/2009	24 089	32 100	56 189
Cost	56 000	35 000	91 000
Accumulated depreciation	(31 911)	(2 900)	(34 811)
Movements during the year	(3 600)	(8 100)	(11 700)
Additions	2 000	-	2 000
Disposal		(2 100)	(2 100)
Depreciation	(5 600)	(6 000)	(11 600)
Carrying amount 28/2/2010	20 489	24 000	44 489
Cost	58 000	30 000	88 000
Accumulated depreciation	(37 511)	(6 000)	(43 511)

May also provide the same movement as above for 2009.

### 3. INVENTORY

Inventory consists of

	2010	2009
	R	R
Consumables	15 000	14 100

### 4. AMOUNTS RECEIVABLE

	2010	2009
	R	R
Accrued levies	44 138	52 417
Loan to employee	-	2 000
Allowance for credit losses	(8 500)	(5 000)
	<u>42 101</u>	<u>49 417</u>

### 5. CASH AND CASH EQUIVALENTS

	2010	2009
	R	R
Long term deposit: ABSA	43 300	24 150
Cash at managing agent	2 300	4 050
Savings account	23 100	1 200
Bank	9 300	7 200
	<u>78 000</u>	<u>36 600</u>

### 6. AMOUNTS PAYABLE

	2010	2009
	R	R
Municipal costs payable	39 025	46 465
Audit remuneration	2 576	3 025
Sundry creditors	500	500
	<u>42 101</u>	<u>49 990</u>

### 7. GOVERNMENT LEVIES

This item in the Statement of Income and Expenses is made up of:

Unemployment insurance; compensation assurance; skills development levy and value added tax.

(Note: The sums paid should be detailed in this schedule if they are not detailed in the Statement of Income and Expenses).

## 8. INCOME TAX EXPENSE (SA REVENUE SERVICES)

	R
Income tax computation	
Interest income received	2 075
10% Audit fees	<u>(287)</u>
Taxable income	<u>1 788</u>
Limited to	
Net surplus	7 673
Levies received in advance	3 179
Levies in advance previous year	<u>(3 521)</u>
Adjusted income	<u>7 331</u>
Taxable amount	<u>1 788</u>
Tax at 28%	501
Over provision previous year	<u>(325)</u>
Income tax	<u>176</u>
Normal income tax	176
Unpaid previous year	1 757
Income tax paid	<u>(1 766)</u>
Income tax due	<u>167</u>

## 9. INSURANCE VALUE

Buildings comprehensive R10 546 000 (1999 - R8 137 800).

(Estimated replacement value). Includes public liability cover for R.....

### F.1.4. Option to dispense with audit

The Sectional Titles Act (Act No. 95 of 1986) contains a set of rules by which a Sectional Title Scheme must be conducted. The rules are contained in Annexure 8 to the Regulations under the Act.

In terms of this Act, every Body Corporate at its first meeting, which shall be held no later than seven days after the establishment of the Body Corporate, shall appoint an auditor, provided that Bodies Corporate comprising fewer than ten units may appoint an Accounting Officer instead.

However, although the Act does not make specific provision for dispensing with an audit of a scheme consisting of ten or more units, it does not prohibit it. Therefore, at any time after the establishment of a Body Corporate the owners may, by unanimous resolution, agree to dispense with the auditing of its books and appoint an Accounting Officer.

#### 1. Unanimous Resolution - Requirements for validity

- 1.1. At least 30 days written notice, specifying the proposed unanimous resolution, must be given of the meeting at which the unanimous resolution is to be proposed.
- 1.2. The resolution must be approved unanimously by all the owners present at the meeting.
- 1.3. A quorum of owners must be present at the meeting which must, in all respects, have been duly convened and properly constituted

## 2. Quorums:

The quorum for a general meeting of a Body Corporate is comprised as, follows:

In the case of a scheme which consists of:

- |  |   |
|--|---|
| (i) not more than 10 units                 | 50% of the owners present in person or represented by proxy or by a representative recognized by law. |
| (ii) more than 10 but fewer than 50 units: | 35% of those described in (i) preceding.  |
| (iii) 50 or more units                     | 20% of those described in (i) preceding   |

NOTE: A unanimous decision may also be obtained, without the holding of a meeting, by the written approval of all the owners in a scheme.



## 1) Suggested wording of a unanimous resolution

RESOLVED:

THAT: Clause 40 of the Body Corporate's Management Rules be and are hereby amended to read as follows:

- (1) Subject to sub-clause (2) hereof, the Body Corporate shall, at its first meeting and at every ensuing Annual General Meeting, appoint an auditor to hold office from the conclusion of that meeting until the conclusion of the next Annual General Meeting.
- (2) Notwithstanding that the Scheme (the Body Corporate of (.....)) comprises more than nine (9) units, the Body Corporate may, on authority of a unanimous resolution, dispense with the appointment of an auditor but shall appoint an Accounting Officer.
- (3) The provisions of sub-clause (1) hereof relating to the appointment of an auditor shall apply *mutates mutandis* to the appointment of an Accounting Officer.

### 1. Accounting Officer's Report

**(In place of Auditor's report if appropriate)**

#### **Report of the Accounting Officer to the members of the Body Corporate of Sweetthorn**

The Financial Statements set out on pages 2 to 6 were prepared by the Accounting Officer.

The Financial Statements are the responsibility of the Trustees. My preparation has been based upon the documentation and information provided by the Trustees. I have determined that the Financial Statements are in agreement with the accounting records and have done so by adopting such procedures and conducting such enquiries in relation to the books of account and records as I considered necessary in the circumstances. I have also reviewed the accounting policies used in the preparation of the Financial Statements and consider them to be appropriate to the scheme.

ACCOUNTING OFFICER

24 July 2000

(Note: In the event of the scheme consisting of less than 10 units or if the members have resolved that no audit is required, it would be prudent to add: "No audit is required and none has been performed.")

## **F1.5 Share Block Schemes**

A share block scheme regulated by the Share Blocks Control Act 59 of 1980 as amended, refers to any scheme in terms of which a share, in any manner whatsoever, confers a right to or an interest in the use of immovable property, irrespective of the size of the development and the extent of the shareholders participation, the manner in which the shareholding confers the right and the use to which the land is put.

A so-called time-sharing scheme whereby holders of different share blocks obtain the right to occupy the same portion of a building successively for a determinable period of time each year qualifies as a share block scheme for purposes of the Act.

As share block schemes are normally registered as companies the body corporate will in addition to the previously mentioned financial statements have to present a cash flow statement for the financial year.

Notes required to accompany the cash flow statement:

- Any additions in respect of property, plant and equipment can either be given on the face of the Statement of Financial Position or in a note thereto.
- Any sales of property, plant and equipment should be reflected in a note in respect of the carrying amount of the assets and profit (losses) thereof.
- A break down of the cash and cash equivalents amount.

**(Name and registered number of share block scheme)**  
**STATEMENT OF CASH FLOWS AT 28 FEBRUARY 2010**

<b>STATEMENT OF CASH FLOWS</b>	<u>2010</u>	<u>2009</u>
	<u>R</u>	<u>R</u>
Levy surplus/(deficit) for the year	945 246	842 334
Adjustment for interest reversal	35 000	20 000
	<hr/>	<hr/>
	980 246	862 334
Working capital changes		
(Increase)/decrease in amounts receivable	(147 641)	115 423
Increase/(decrease) in amounts payable	23 267	111 273
(Increase)/decrease in inventory	(65 697)	(26 357)
(Increase)/decrease in loan account	132 472	2 563
Increase/(decrease) in levies paid in advance	306 607	21 170
	<hr/>	<hr/>
	1 229 254	1 086 406
Income tax expense	(27 433)	(3 720)
Net cash inflow from operations	<hr/>	<hr/>
	1 201 821	1 082 686
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
	(5 241 144)	(1 688 104)
Additions to property, plant and equipment	(4 996 027)	(1 299 634)
Replacement of equipment	(245 117)	(388 727)
 <b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
	4 917 891	1 201 201
Issue of shares	2 407 798	2 093 634
Prepayment for shares	2 510 093	(892 433)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	878 568	595 783
Cash and cash equivalents at beginning of year	972 137	376 354
Cash and cash equivalents at end of year	<hr/>	<hr/>
	1 850 705	972 137

## **F.2     *Accounting and Reporting on Trusts***

### **F.2.1    Introduction**

The trust is a versatile legal concept which may be utilised for, amongst others, carrying on a business. A trust can be created by means of a will or by means of a contract. Where the trustees use trust assets for carrying on a business for profit to benefit the trust beneficiary or to further the aims of the trust it is defined as a business trust.

A private business trust is normally created by the founders who appoint themselves as trustees and trust beneficiaries and as they manage the trust business jointly they distribute the trust benefits partly as salaries to themselves. The beneficiaries control over the acts of the trustee is completely dependent on the provisions of the trust deed which are minimal and only supplemented by the fiduciary duty of the trust to act in accordance with their instructions as set out in the trust deed. This element of risk and minimal control over the trustee, as well as the absence of disclosure requirements and uncertainty as to the benefits, must be weighed up against other advantages.

Section 80 of the Companies Act of 1973 provides that no company, association, syndicate or partnership consisting of more than 20 persons shall be permitted in South Africa for the purpose of carrying on any business that has for its object the acquisition of gain by its members, unless it is registered in terms of the Companies Act or another Act. This section is generally construed as limiting the number of trustees of business trusts to 20 persons.

It can happen that the duties of the accounting officer can be performed by the auditors appointed by the trust. A report to the trust on the financial statements can then be presented by the accounting officer or the auditors. Study specimens provided.

### **F.2.2    Personal Service Trust**

It is the responsibility of a Company, Close Corporation or Trust to determine whether there is a liability for Employees' tax to be deducted and paid over. If a trust is a Service Trust and therefore an employer, as defined in the Income Tax Act, the tax affect will be the following:

The trust will be:

- subject to employees' tax with effect from 1 August 2000.
- required to register in terms of the Skills Development Levies Act, 1999.
- A personal service trust is subject to 40% tax.

A personal service trust means any trust where any service is rendered on behalf of the trust:

- to a client of the trust,
- is rendered personally,
- by any person who is a connected person in relation to such trust and
- the person would be regarded as an employee of the client if the service was not rendered on behalf of the trust but directly to the client, etc.

But excluding a trust which throughout the year of assessment employs more than three full-time employees (other than a connected person) who are engaged in the business of the trust on a full-time basis in rendering the service.

**F.2.3. Financial Statements to be Prepared at the End of the Financial Year**

1. Index

**DAWSON FAMILY TRUST**

**FINANCIAL STATEMENTS**

**28 FEBRUARY 2010**

***Compiled in terms of ISRS4410, independently audited***

INDEX	PAGE
Accounting officer's report	1
Auditors report	2
Statement of Financial position	3
Statement of income and expenses	4
Notes to financial statements	5-6

The financial statements as set out on pages 3 to 6 have been approved and signed by the trustees on 15 March 2010.

\_\_\_\_\_  
TRUSTEE  
X DAWSON

\_\_\_\_\_  
TRUSTEE  
B DAWSON

PRETORIA  
15 March 2010

2. Accounting officer's report

**REPORT OF THE ACCOUNTING OFFICER TO THE TRUSTEES OF DAWSON FAMILY TRUST (REGISTRATION NUMBER)**

The financial statements set out on pages 3 - 6 were prepared by the accounting officer.

The financial statements are the responsibility of the trustees. My preparation is based on documents and information provided by the trustees. I applied the accounting policies presented in preparation of the annual financial statements. I am of the opinion that it is acceptable for the trust and in accordance with generally accepted accounting practice.

---

**ACCOUNTING OFFICER**  
**15 March 2010**

### 3. Auditor's report

#### **REPORT OF THE INDEPENDENT AUDITOR TO THE TRUSTEES OF THE DAWSON FAMILY TRUST**

We have audited the annual financial statements of the Dawson Family Trust as set out on pages 3 to 6 for the financial year ended 28 February 2010. These financial statements are the responsibility of the trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

#### Scope

We conducted our audit in accordance with statements of International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

#### **Audit opinion**

In our opinion the financial statements fairly present, in all material respects, the financial position of the Dawson Family Trust at 28 February 2010 and the results of its operations for the year then ended in accordance with generally accepted accounting practice.

#### **Accounting services**

We report that we have performed some of the duties of the accounting officer of the trust.

**AUDITORS  
REGISTERED ACCOUNTANTS AND AUDITORS**

**PRETORIA  
15 March 2010**



4. Statement of Financial Position

**DAWSON FAMILY TRUST**

**STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2010**

	Notes	2010 <u>R</u>	2009 <u>R</u>
<b>ASSETS</b>			
<b>Non-current assets</b>		231 750	233 365
Investment Property	2	173 450	173 450
Loan to X Dawson	3	58 300	59 915
<b>Total assets</b>		231 750	233365
<b>EQUITY AND LIABILITIES</b>			
<b>Trust Funds</b>		5 911	4 278
Balance accumulated profit		4 278	2 204
Net surplus for the year		1 633	1 074
Original donation		-	1 000
<b>Non-current liabilities</b>		210 011	214 529
Interest-bearing borrowings	4	154 466	166 766
Loans from trustees	5	55 545	47 763
<b>Current liabilities</b>		15 828	14 558
Amounts payable		2 419	2 715
SA Revenue Services	6	1 109	671
Short-term portion of interest bearing borrowings	4	12 300	11 172
<b>Total Funds and liabilities</b>		231 750	233 365

**DAWSON FAMILY TRUST**

**STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDED  
28 FEBRUARY 2010**

	Notes	2010 R	2009 R
<b>INCOME</b>		44 756	42 202
Rent income		36 000	32 616
Interest income		8 756	9 586
<b>EXPENSES</b>		(42 214)	(40 909)
Auditors remuneration		1 140	1 566
Insurance		1 500	1 200
Bank charges		940	860
Accounting officer		614	566
Secretarial services		592	300
Interest expense		37 428	36 983
Net profit (loss) before tax		2 542	1 293
Income tax expense	6	(909)	(219)
Net profit (loss) for the year		1 633	1 074

## DAWSON FAMILY TRUST

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

28 FEBRUARY 2010

#### 6. ACCOUNTING POLICIES

The accounting policies of the trust are consistent with previous years.

.1. Basis

The financial statements are prepared on the historical cost basis.

.2. Investment property

Investment Property consists of land and buildings are measured at the cost model. Land and buildings are not depreciated as they are considered to be an investment. If circumstances indicate the property is tested for any impairment.

#### 6. INVESTMENT PROPERTY

	2010	2009
	R	R
Plot 4000 Pretoria Gauteng	<u>173 450</u>	<u>173 450</u>

The property is encumbered by a first mortgage bond held by Boland Bank (refer note 4).

#### 6. LOAN TO X DAWSON

Unsecured

	2010	2009
	R	R
15% per annum loan to be repaid if and when funds are available	<u>58 300</u>	<u>59 915</u>

**(The movement from the beginning to the end of the year may be useful)**

#### 6. INTEREST-BEARING BORROWINGS

Secured to Boland Bank by first mortgage bond over land and buildings with carrying amount of R173 450 (refer note 2). Repayable in monthly instalments of R4 050 over 17 years at current mortgage interest rate of 15% per annum.

	2010	2009
	R	R
Total obligation	166 766	177 938
Transferred to current liabilities	<u>(12 300)</u>	<u>(11 172)</u>
15% per annum loan to be repaid if and when funds are available	<u>154 466</u>	<u>166 766</u>

## 6. LOAN FROM TRUSTEE

Unsecured

	2010	2009
	R	R
Interest free loan from B Dawson	55 545	47 763

**(The movement from the beginning to the end of the year may be useful)**

## 6. INCOME TAX EXPENSE

Income tax computation

	2010	2009
	<u>R</u>	<u>R</u>
Taxable income (loss) for the year	2 542	1 293
Income tax for the year @ 40%	1016	219
Under (over) provided in previous year	(107)	0
	<u>909</u>	<u>219</u>
Owed to SARS: for current year	890	219
for previous years	219	452
Total owed to SARS	<u>1 109</u>	<u>671</u>

### F.3. Accounting and Reporting to Clubs and Institutions

#### F.3.1 Receipts and Payments Statement

Many smaller associations, clubs and entities which are non-profit in nature often find that the preparation of formal financial statements is of no real importance and benefit. In many cases these types of entities have no assets or liabilities other than a bank or savings account. At the end of the financial year members expect to receive at least a report back on the cash received during the year and an indication as to how the funds were utilised.

A receipts and payments statement serves this purpose. In preparing this statement the balances of any cash on hand (in savings or bank account) at the beginning of the financial period will be the starting point whilst the balances of any cash on hand (in savings or bank account) at the end of the financial period will be used to close off this statement.

#### BIG BOY RUGBY CLUB

##### Receipts and Payments statement for the year ended 31 December 2010

Receipts	R	R Payments	R
Balance b/f	1 780	Affiliation fees	150
-Cash	80	Tennis balls	300
-Savings A/c	500	Loan Repayment	1 000
-Bank	1200	Braai	500
Membership fees	5 180	Deposit on cold drinks	120
-2010	220	Awning	4000
-2011	4 800	Repairs to fencing	200
-2012	160	Water and electricity	150
Donations	250	Wages	720
Entrance fees	350	Tennis Court nets	200
Proceeds	2 680	Balances c/f	3 000
-braai	2 100	-cash	100
-cold drinks	580	-savings account	550
Sale of balls	50	-bank	2350
Interest	50		
-savings a/c	50		
	10 340		10 340

## **F3.2 Financial Statements to be prepared at the end of the Financial Year.**

### **1. Statement of income and expenses**

The purpose of this statement is to determine the surplus or shortage of income over expenditure for the financial period concerned. This surplus (shortage) is transferred to the capital (accumulated) fund which represents the members' interest in a non-profit entity. Since there is no prescribed format in which the information should be presented the specimen provided in 3.3 is but one possibility.

### **2. Trading statement**

Some non-profit entities obtain funds from sources other than their primary activities. A club may have pub or restaurant facilities which are available to its members. The income and expenditure which relate to the earning of that income should be matched and the net result (profit or loss) then transferred to the income and expenditure statement.

There are no hard and fast rules and should members so wish, full details may be given for each of these activities. The specimen provided in 3.3 is but one possibility.

### **3. Fund accounting**

Other than the accumulated fund of this type of entity, funds may also be set up for the attaining of a specific objective or for a specific project. A fund can, therefore, be defined as an amount of money which has been set aside, or income earned on a fund investment, which may only be used to finance the specific project or to achieve a specific objective.

A fund set up for this project or objective may not be used for anything other than that for which it was intended to be used. The source of the funding of the fund as well as the manner in which the funds were applied must be disclosed in the financial statements or in the notes to the financial statements.

#### **➤ Income of funds can be used to defray general club expenses**

The interest income earned on the investment will be credited to the fund account and debited to the bank account (if received) or accrued interest income account (if still outstanding). At the end of the financial year the investment income will be transferred from the fund account to the statement of income and expenses. The accrued interest income amount will be disclosed as part of the trade and other receivables amount in the Statement of Financial Position.

#### **➤ Income of funds can be used to finance prizes, bursaries or other awards.**

The same procedure as above will be followed in respect of the interest income earned on the investment. At the time when the prize, bursary or award (normally at the end of the financial year) has been granted, the fund account will be debited and the prize, bursary or award account credited. When actual payment is made this account will be debited and the bank account, credited. Outstanding amounts will be disclosed as part of the trade and other payables amount in the statement of financial position.

➤ **Income of funds can be utilised to finance purchases of assets.**

Where the purchase of the asset is in respect of a replacement of an asset. As previously, the interest income earned on the investment will be credited to the fund account and debited to the bank account or accrued interest income account. In this case the interest income is also utilised to defray an operating expense and must therefore be transferred at the end of the financial year to the statement of income and expenses.

Where the purchase of the asset is in respect of an addition to the existing assets. The same procedure as previously will be followed to account for the interest income earned. The purchase of an additional asset will increase the assets of the entity and represents an increase in the accumulated funds of the entity. Therefore, at the end of the financial year, the amount of the interest income will be transferred from the fund account to the accumulated (capital) fund of the entity.

In any one of the above cases the amount to be transferred at the end of the financial year must be determined. Should the amount be less than interest income (or any other income) the surplus income should be reinvested with the original investment. Should the amount be less than the income earned, the shortfall would have to be made good out of other income or the normal current income (income and expenditure statement).

It is important that the balance of the fund account and the fund investment account will correspond. See the specimen provided in 3.3.

#### 4. Statement of financial position

Although there are no hard and fast rules governing the preparation and format of the statement of financial position of such entities, it is suggested that the format and sequence in which items are disclosed in the Statement of Financial Position of a close corporation or company should be followed where applicable and practical. It is also suggested that generally accepted accounting practice should be considered and applied. A specimen is provided in F.3.3.

### **F3.3. Specimen of Financial Statements to be presented at The Annual General Meeting**

1. Annual general meeting

#### **BIG BOY RUGBY CLUB**

Notice is hereby given of the annual general meeting to be held on Wednesday 15 January 2011 at 19:00 at Ledgeville hall.

#### **AGENDA**

1. Welcome
2. Attendance
3. Determination of agenda
4. Approval of minutes of previous annual general meeting held on 14 January 2010 at 19:00 at Ledgeville hall
5. Matters arising:
6. Annual financial statements and auditor's report
7. Electing of new committee
8. Appointment of auditor
9. General
10. Conclusion



## BIG BOY RUGBY CLUB

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

*Compiled in terms of ISRS4410, Not independently audited or reviewed*

<b>CONTENT</b>	<b>PAGE</b>
Approval and contents	1
Compilation report	2
Refreshments trading account	3
Statement of income and expenses	4
Statement of financial position	5
Notes to the financial statements	6-8

#### **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements set out on pages 1 - 8 were approved by club committee on 31 May 2011 and have been signed by the club's chairman hereunder.

JOHN BLOGGS  
31 May 2011

**BIG BOY RUGBY CLUB**

**Compilation report to Big Boy Rugby Club**

On the basis of information provided by the committee of Big Boy Rugby Club we have compiled, in accordance with the statement on South African Audit Standards applicable to compilation engagements, the Statement of Financial Position of Big Boy Rugby Club at 31 December 2010 and the related income and expenditure statement for the year then ended as set out on pages 1 to 8.

The committee of Big Boy Rugby Club is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no assurances thereon.

ACCOUNTANT

---

B Louw

31 May 2011

**BIG BOY RUGBY CLUB****Refreshments trading account for the year ended 31 December 2010**

	2010	2009
	R	R
Sales	29 000	21 750
Cost of sales	(16 500)	(12 375)
Opening inventory (1 January)	7 500	5 625
Net purchases	19 000	14 250
Closing inventory (31 December)	(10 000)	(7 500)
Gross profit	<u>12 500</u>	<u>9 375</u>
Wages	(2 400)	(1 800)
Net profit transferred to statement of income and expenses	<u><u>10 100</u></u>	<u><u>7 575</u></u>

#### 4. Statement of Income and Expenses

### **BIG BOY RUGBY CLUB**

#### **Statement of Income and expenses for the year ended 31 December 2010**

	2010	2009
	R	R
<b>INCOME</b>	47 100	35 300
Net profit: Trading account refreshments	10 100	7 575
Membership fees (77 x R100)	7 700	7 000
Gate fees	24 000	18 000
Function:	1 400	1 050
Income	2 500	1 875
Expenses	(1 100)	(825)
Donations	3 000	1 000
Interest income: bank account	900	675
<b>EXPENSES</b>	<b>(20 602)</b>	<b>(17 893)</b>
Depreciation	580	580
Crockery	400	400
Lawnmower	180	100
Honorarium	1 000	750
Balls purchased	600	425
Purchases	700	525
Sales	(100)	(100)
Wages : sports grounds	3 600	2 700
Salaries	8 600	10 450
Unemployment insurance	86	1 045
Compensation assurance	50	75
Skills development levies	-	-
Regional Council levies	5	7
Value added tax	1	1
Interest expense	1 000	1 000
Affiliation fees	300	275
Travelling expenses	780	585
Fund account (note 4)	4 000	-
<b>SURPLUS (SHORTFALL) TO MEMBERS FUND</b>	<b>26 98</b>	<b>17 407</b>

## 5. Statement of Financial Position

### BIG BOY RUGBY CLUB

#### Statement of financial position at 31 December 2010

	Notes	2010 R	2009 R
<b>ASSETS</b>			
Non-current assets		125 020	142 200
Property, plant and equipment	1	61 020	82 200
Fund investment at Big Bank	2	64 000	60 000
<b>Current assets</b>		13 190	10 072
Inventory	3	10 600	8 000
Amounts receivable		660	500
Prepaid amounts		200	200
Cash and cash equivalents (3.1)		1 730	1372
<b>Total assets</b>		138 210	152 272
<b>MEMBERS INTEREST AND LIABILITIES</b>			
<b>Members interest</b>		111 910	81 412
Members fund		47 910	21 412
Balance beginning of year		21 412	4 005
Surplus income for the year		26 498	17 407
Blue Bell Fund	4	64 000	60 000
<b>Non-current liabilities</b>		24 000	67 800
Interest-bearing borrowings	5	24 000	67 800
<b>Current liabilities</b>		2 300	3 060
Amounts received in advance		300	1 200
Amounts payable		2 000	1 860
<b>Total members' interest and liabilities</b>		138 210	152 272

6. Notes to the Financial Statements  
**(comparative figures should be provided)**

**BIG BOY RUGBY CLUB**

**Notes to the financial statements for the year ended 31 December 2010**

1. Accounting policies.

The accounting policies of the trust are consistent with previous years.

1.1 Basis

The financial statements are prepared on the historical cost basis.

1.2 Property plant and equipment.

Property plant and equipment consists of sports grounds and lawn mowers and are measured at cost less accumulated depreciation and impairments. Sport grounds are not depreciated. Lawn mowers are depreciated over 5 years to their respective residual values. If circumstances indicate the property is tested for any impairment.

1.3 Inventory.

Inventory consists of consumables and baking raw materials. The inventory has been measured at the lower of cost or net realisable value by applying the First-In-First-Out method

1.4 Membership fees.

Membership fees are recognised on an accrual basis. Any pre-paids and outstanding membership fees are reflected in the statement of financial position.

2 Property, plant and equipment

	Sports Grounds R	Lawnmower R	Total R
Carrying amount 01/01/2010	80 000	2 200	82 200
Cost price	80 000	2 300	82 300
Accumulated depreciation	-	(100)	(100)
Movements during the year	(21 930)	750	(21 180)
Additions	-	3 000	3 000
Disposal	(21 930)	(2 070)	(24 000)
Depreciation	-	(180)	(180)
Carrying amount 31/12/2010	58 070	2 950	61 020
Cost price	58 070	3 000	61 070
Accumulated depreciation	-	(50)	(50)

Sports grounds situated on plot 5, Glenvale, Pretoria

3 Fund Investment	2010
	R
10% per annum investment at Big Bank for Blue Bell fund	<u>64 000</u>

4 Inventory

Consists of:

Baking materials	<u>10 600</u>
------------------	---------------

5 Blue Bell Fund

	2010
	R
Balance at beginning of year	60 000
Interest income earned	10 000
Bequest	5 000
Statement of income and expenses: transfer	4 000
Bursaries awarded	<u>(15 000)</u>
	<u><u>64 000</u></u>

Blue Bell Fund invested at Big Bank.

6 Interest-bearing borrowings

10% per annum unsecured loan from XY Finance to be paid in full at 30 June 2013	<u>24 000</u>
---	---------------

**(Comparative figures for all the notes should be provided)**

**PPG MANUAL**

**CONTENTS**

**SECTION G - MANAGEMENT CONSULTING**

**G. SECTION G - MANAGEMENT CONSULTING**

**G.1. Starting and Managing a Small Business**

**G.2. Developing a Business Plan**

**G.3. Basic Budgeting Techniques**



## **G. SECTION G - MANAGEMENT CONSULTING**

### **G.1. *Starting and Managing a Small Business***

#### **G.1.1. Introduction**

Many people are unsure about what is involved in starting a business, the available legal formats of such business, some statutory requirements of which the entrepreneur should be aware and the role the Accounting Officer plays in a small to medium business.

Times are tough. Often insufficient formal remuneration or lack of career opportunities, prompt individuals to leave formal employment in order to start their own business - or to run a small business in addition to formal employment. Retrenchments, cut-backs, a lack of employment experienced by graduates and a large proportion of matriculants leave many individuals little alternative but to start their own business.

##### **G.1.1.1. Choosing the Type of Undertaking**

Once the individual has decided to start a small business, a few considerations are crucial.

- Deciding on the type of business to start is crucial and must relate to the personal experience and ability of the entrepreneur.
- Any individual will find that there is much to learn - time to learn the core principles of the service the business offers will simply not be available. Therefore, stick to what you are good at, what you enjoy and where you can provide a true value service to your customers.
- Utilise the KISS principle and keep things simple. The more complicated the set up is, the more difficult it is to control and the more difficult it is to identify those areas that are doing well and those that are not.
- To run a small business is not easy and the workload is often extremely heavy. The hours are more likely to be from 07h00 to 23h00 six or seven days a week than from nine to five from Monday to Friday. To succeed, the willingness to work long hours is essential, especially during the phase when the business is fighting for market share in order to establish itself.
- A negative individual will rarely succeed. Whatever the factor prompting the individual to start a business, the individual must be positive and, at worst, positive in approach.

##### **G.1.1.2. Legal Formats of Business in South Africa**

There are several legal formats available in South Africa. Not all are suitable for a small business and each has its advantages and disadvantages.

- *Sole trader*  
Individual trading in his or her own name or in a trade name.
- *Partnership*  
Two to twenty individuals working together. Often the nature of the formation leads to difficulty when the partnership is dissolved.
- *Close Corporation*  
A legal entity in its own right, allowing one to ten natural persons to form an enterprise, offers good protection to the members and has the advantage in that the corporation has its own legal existence that is not affected by a change in membership or even the death of a member.

To an extent the protection to members is negated when credit/bank loans are required as it is standard practice for banks to insist that the members sign surety-ship, thus enabling the lender to attach the personal assets of the member should the corporation be unable to meet its obligations.

Close Corporations do have some statutory requirements, mainly concentrating on formation and the appointment of an Accounting Officer so as to ensure proper record keeping and accounting.

It is no longer possible to register new Close Corporations (effective from 1 May 2011).

(Section D contains guidelines on accounting for Close Corporations).

- *Private company -(Proprietary) Limited*  
Similar to the Close Corporation in that it is a legal entity in its own right. The statutory requirements of the Companies Act, 2008 are, however, more onerous and involved than those of the Close Corporations Act. These include, *inter alia*, the possible requirement of an annual audit of the annual financial statements

Caution is recommended when considering the choice of this option for a new business. However, where there is to be shareholding by other corporate bodies this is the appropriate format.

- *Public company - Limited*  
A legal entity in its own right, which may offer shareholding to the public. As public shareholding is offered, statutory regulations are extensive. Also, whereas a private company must, by its memorandum of incorporation, restrict the right to transfer its shares, there is no such restriction applicable to a public company.

#### **G.1.1.3. Conversion of Legal Formats**

Because it is recognised that a close corporation may grow and require corporate shareholding, the relevant legislation provides procedures for the conversion of a close corporation into a private company.

Starting a business in the format of a close corporation is, therefore, usually recommended as the advantage of being a legal entity can be utilised while the corporation can be converted into a company should the need arise.

#### **G.1.1.4. Statutory Requirements, Mandatory Registration and Appointments**

Registration with a number of bodies is mandatory. Failing to register often leads to prosecution, penalties and accumulated interest charges. Ignorance is not considered a feasible excuse.

#### **G.1.1.5. Professional Assistance**

After discerning the extent to which a small company is bound by legislation, the average entrepreneur is often at a loss. Even worse, many entrepreneurs already operating, may realise that their companies do not adhere to all (or most) of the legal requirement and mandatory registrations.

Further assistance - professional - is obviously required.

This assistance can be provided by an Accounting Officer in private practice, applicable particularly to a Close Corporation and a sole trader. An Accounting Officer deals with these bodies on a day to day basis, and has the necessary experience to unravel the legalities and procedures involved.

For a company, the professional should be a person (e.g. a Chartered Secretary) who is familiar with the provisions of the Companies Act, 2008, as well as the several other pieces of legislation which apply to this legal format.

For the new enterprise, it is advisable to involve the professional at an early stage. He/she can assist with the registration of the corporation or company and, knowing the current procedures, can usually perform the requirements far more quickly than a layman could.

While it is possible for the entrepreneur to perform all the registration personally, it is advisable to utilise the skills of the professionals mentioned above. In doing so the professional can ensure that the common pitfalls are avoided, that opportunities are created and that any tax advantages are assured.

If there is the likelihood of the new business employing labour the professional will be able to give advice on the requirements of the legislation applicable to employers, e.g. Employees Tax (PAYE), Skills Development Levies, Compensation Act, Unemployment Insurance Act, the possibility of Stated Benefits Insurance for the labour force, to name but a few of the many legal requirements currently affecting entrepreneurs.

Requirements for registration of a new business are dealt with in more detail in the following pages of this section.

## **G.1.2. Registration Requirements**

### **G.1.2.1. Receiver of Revenue (SARS)**

#### **1. INCOME TAX**

- **Sole Traders and Partnerships**

The sole proprietor is required to register as a taxpayer. The business, not being a legal entity separate from the proprietor, need not register as a taxpayer. The same applies in the case of a partnership i.e. each partner must register as a taxpayer.

- **Close Corporations (CC) and Companies**

CIPC provides details of CCs and Companies registered to the SARS, who will automatically register the CC or Company concerned. (The Members and Directors are required to register as taxpayers themselves).

- **Approval of Public Officer and Address**

Section 101 of the Income Tax Act, 1962 provides that, within one month after the company begins to carry on business or, in the case of an external company, within one month after acquiring an office in the Republic, every company shall appoint a person to represent the company. This person shall be called the Public Officer. Also, within one month after the company begins to carry on business, such company shall appoint a place within the Republic as the address to which all notices and other documents may be delivered.

Both these appointments require the approval of the SARS.

- **Provisional Tax**

Even though the Receiver automatically registers CCs and Companies, the onus remains on the CC or Company to register. Sole Traders, partners of partnerships, Directors of Private Companies and Members of CCs are obliged to register themselves as provisional taxpayers within 14 days of the commencement of business.

## 2. *PAY AS YOU EARN (EMPLOYEES' TAX)*

Any business which becomes an employer (as defined in the fourth schedule to the Income Tax Act) must, in terms of paragraph 15(1) of that schedule, apply for registration as such within 14 days of becoming an employer.

This must be done by completing form EMP101 and submitting it to the SARS.

Deductions, in accordance with the PAYE tables, must be made from the employee's remuneration. These tables are obtainable from the local SARS OFFICE and are also obtainable by download from the SARS website.

Within 14 days (or such extended time as the Commissioner for South African Revenue Services may allow) of the last day of February annually, the employer must provide the employee with a Tax Certificate (Form IRP5). These are produced on disc and hard copy by the employer's computer system.

The SARS will provide full details upon request.

Also, within such time as is allowed, the employer must submit a reconciliation of the sums deducted during the previous tax year by way of Employees' Tax with the totals paid over to the SARS and must pay over any shortfall together with penalty and interest. This procedure is carried out on the SARS Easyfile software, freely available from SARS. The resulting reports and electronic IRP5 and IT3 certificates are then uploaded directly to SARS via the e-Filing portal.

### **G.1.2.2. Value Added Tax (Vat)**

Any person conducting an enterprise i.e.

- Ordinary businesses:  
Shops, contractors, manufacturers, wholesalers, etc.
- Trades and professions:  
Builders, engineers, doctors, accountants, attorneys, etc.
- Activities of non-profit organisations:  
Welfare organisations, associations, sporting clubs, etc.

and person includes any body corporate or partnership, provided they regularly or continuously make supplies of goods or services on which VAT is chargeable and whose turnover at the end of any period of twelve months has exceeded R1,000 000 or, at the beginning of any month, there are reasonable grounds for believing that, during the succeeding period of twelve months, such turnover will exceed R1,000 000.

An enterprise not obliged to register for VAT may, however, apply for voluntary registration: Provided the turnover exceeds or is likely to exceed R50 000.

Registration must be made with the local SARS on Form VAT 101.

Registration may also be done online via the e-Filing portal.

### **G.1.2.3. Skills Development Levy (SDL)**

The Skills Development Levy Act, No. 9 of 1999 was promulgated in accordance with the Skills Development Act, No. 97 of 1998 and came into effect on 1 September 1999. It provides for the payment of a levy (The Skills Development Levy) to be made by all employers who pay remuneration as defined in the Fourth Schedule to the Income Tax Act, 1962.

Excluded from the term remuneration are the following:

- Any pension or allowance in terms of any of the following Acts:
  1. Aged Persons Act
  2. Blind Persons Act
  3. Disability Grants Act
  4. Children's Act
- Reimbursement for expenses incurred by an employee for actual expenses in the course of the employee's duties.
- Any annuity paid in accordance with an order in connection with divorce or judicial separation.

Section 4 of the SDL Act and sections 30 and 30A of the Skills Development Act exempt certain employers from the payment of the levy. Among the exemptions are:
- Any employer who during anyone month has reasonable grounds to believe that the total leviable amount payable to employees during the ensuing 12 months will not exceed R500 000; and
- The employer is not required to register as an employer in terms of section 15(1) of the Fourth Schedule to the Income Tax Act. (This paragraph exempts from registration as an employer in terms of the Income Tax Act any employer none of whose employees will be liable for normal tax).

All employers who are liable to be registered for PAYE in terms of paragraph 15(1) of the Fourth Schedule to the Income Tax Act are required to register with the South African Revenue Services notwithstanding the fact that the employer's payroll is unlikely to exceed R250 000 during the ensuing period of 12 months.

Registration must be made with the local Receiver of Revenue using Form SDL101. Registration may also be done online via the e-Filing portal.

Among other matters this form provides for the employer to choose from a list of Registered Education and Training Authorities (SETA). The employer must choose a SETA most representative of the employer's core activity.

Local SARS will provide any information which might be required.

However, a "GUIDE FOR EMPLOYERS IN RESPECT OF SKILLS DEVELOPMENT LEVY" has already been issued and is available on the SARS website.

An employer is not permitted to make a deduction from an employee's remuneration to cover this levy. It is a cost to be borne by the employer only.

Payment of the levy must be made monthly to the local Receiver of Revenue by not later than seven days after the end of the month in respect of which the levy is payable. As with PAYE, the SARS will provide all registered employers with a "Return for Remittance" (Form EMP 201) which facilitates the calculation of the amount of levy due.

The amount payable will be calculated as follows:

1. as from 1<sup>st</sup> April 2001 the levy will be 1% of the total remuneration paid to employees.

Penalties and interest for late payment are the same as those for late payment of PAYE.

It must be borne in mind that, although it is all employers who are registered for PAYE who must be registered for the SDL, an employer cannot necessarily simply use the total remuneration from which the employer has deducted PAYE.

If this figure is used then the remuneration of those employees from whom no PAYE has been deducted must be included when calculating the SDL because it is based on the total of the payroll

#### **G.1.2.4. Unemployment Insurance Fund**

An employer of contributors (as defined) is required to register within 14 days of commencing business i.e. submit an application on Form U.F.1 to the Unemployment Insurance Fund.

A return, together with payment of the amount due, must be submitted each month within 10 days after the end of the month to which the return relates.

Failure to render a return by due date results in the employer being liable for a penalty of 10% of the amount due or R1, whichever is the greater. Contributions are payable in respect of all employees whose earnings do not exceed the sum specified by the UIF from time to time.

The contribution is a percentage of the remuneration of each contributor and is paid in equal proportions by the contributor and the employer.

The postal address of the UIF is c/o Department of Labour - Unemployment Insurance Fund, The UIF, Private Bag X117, Pretoria, 2000

#### **G.1.2.5. Compensation for Occupational Injuries and Diseases**

This is regulated by the Compensation for Occupational Injuries and Diseases Act of 1993 (formerly the Workmen's Compensation Act).

Every employer carrying on a business must register in terms of the Act within 14 days of the commencement of business.

All employees are covered. Earnings for the purpose of assessment are limited to a specific figure laid down by the Compensation Commissioner irrespective of the actual earnings.

## **G.2.     *Developing a Business Plan***

### **G.2.1.    **Controlling the Company****

The ability to control a company - which invariably seems to pick up its own momentum - is one of the crucial abilities any small business owner must learn in order to survive. While numerous aspects can be highlighted, four key factors deserve special attention:

#### **G.2.1.1.    Securing the company cash flow**

Cash flow will determine the survival of the small business. Without proper cash flow planning, no small business will survive. While it serves no purpose to attempt a detailed 25 year plan, cash flow forecasts must be completed - and kept up to date - for at least the next 90 days, preferably the next 6 to 12 months, with six-monthly indications for two years thereafter.

Cash flow forecast does not equal bank reconciliation. While without question the bank reconciliation does form the basis of cash flow forecast, the cash flow forecast also includes all known and reasonably anticipated expenses.

According to the prudence principal, as applied in accounting in general, anticipated expenses are included in the cash flow forecast, while anticipated income is only included in as far as that income is reasonably certain and that it excludes multiple zero round sum amounts still to be 'earned' at the local (or distant) casino.

Never "improve" anticipated income values simply because the cash flow bottom line does not indicate what you want or need it to be.

If you did not initially expect to receive that money, you will not receive it now only because you know that your cash flow is not good enough. Rather plan to reduce expenses, or make alternative plans to ensure increased income. By changing income levels to suit a paper exercise - what cash flow forecasting boils down to - to prevent an unsuitable outcome is deceiving. And the only person deceived is the owner. The reality of an unsuitable bottom line will manifest itself without further assistance. Your job as manager is to make alternative plans to ensure that it does not happen.

#### **G.2.1.2.    Securing income through stock control and ensuring payment is received for goods delivered to customers**

Obvious, though it might seem, does your company have written proof of delivery, signed by an identifiable individual (illegible scribbles do not count) employed by the company you supplied to, for every single delivery you make?

If not, how are you going to prove that you did, in fact, deliver the goods to the company which you expect to pay for them?

Remember, all it takes is a bright clerk working for the other party to insist on proof of delivery, and you will never see your profit - or, for that matter, the delivered cost of the goods. Test it if you wish; no court will grant you a verdict if you cannot prove, beyond reasonable doubt, that the goods were delivered where you say they were.

Equally important, stockholding and delivery procedures must be strictly controlled, to ensure that no stock is delivered without complete and proper documentation. If anybody in accounts is aware of the delivery, the amount that they will know to charge

the party who received the items is slim indeed.

Often the 'error' is only discovered at the next stock take, when everybody tries to remember to whom all those toggles were delivered.

### **G.2.3. Safeguarding of the company's assets**

Again this seems obvious. Assets must be controlled and theft of assets must be prevented. Surprisingly, many companies simply never bother to keep a record of their assets, or even get around to ensuring that no unauthorised persons use or remove such assets. That is, until someone wonders why the same tools have to be purchased repeatedly, or the consultant, called in to repair the lightning damaged computer system, required the system disks of the invoicing and delivery software of the package.

#### **G.2.3.1. Fixed assets register**

Utilisation of a fixed assets register is imperative in controlling assets. While it is true that not all assets should be capitalised, how many managers have any idea of the true value of the company assets at either cost price or replacement value? Or, should the place burn down, how many of those assets have been properly recorded for insurance purposes, and for how many can ownership be proved?

#### **G.2.3.2. Insurance**

As regards insurance, if no record is kept of assets (including serial numbers or unique identification marks), it is impossible to know if your company is adequately insured, over insured or underinsured.

Remember: Insurance policies very often contain a clause called "average" which effectively means that the insurance company appointed assessor will make a valuation of the deemed total value of assets on the premises at the time of the incident, calculate the insured value per the insurance policy as a percentage of such value, and apply that percentage to any claim the insurance company may agree upon.

As an example: Per your insurance policy (you do have a copy on file!) you are insured for R100 000. The valuator estimates that the value of assets on the premises was R175 000. Remember, you are trading, hopefully growing, and keep on buying new toys and goodies. Without asset records, how can you refute his estimation? The average percentage:  $100/175 = 57$ . Now say a claim for R75 000 is lodged, of which the assessor agrees to (R20 000 worth of goods you cannot prove ownership of). The insurance payment is calculated as R55 000 times 57% being R31 350.

Do you still feel that a Fixed Assets Register is too much trouble? There is, however, a further reason why a Fixed Assets Register is essential.

The Companies Act 2008, makes it mandatory for every company registered under the Act to maintain a register of fixed assets.

If your business is a Close Corporation then in terms of Section 56(1)(b) of the Close Corporations Act, 1984 you are required to maintain a register of fixed assets.



#### **G.2.4.** Securing the future of the company through organised planning and management tools

To control a company, a number of procedures and techniques can be used. In practice it is best to break the process into manageable segments.

##### **G.2.4.1.** *Planning*

Sounds obvious, but how many people actually plan regularly? Planning does not include daydreaming, nor does it include what crises have unconditional priority.

Planning means more hard work. Usually, time for planning is not readily available in a manager's schedule. Therefore, only one alternative works: Start that much earlier - before day's work commences. After work is not time for planning. For making notes on the days' work, yes. For thinking about the day, and what went right and what went wrong, yes. But for planning, no!

In short, planning involves listing all the things that have to be done, assigning priorities to them and finally assigning accountability to each item. Also, planning means identification of those items successfully completed, those items you never got to, and those items no longer needing attention.

And remember, "planning" in order to delay attending to items in the hope that they will go away is not planning - it is procrastination.

##### **G.2.4.2.** *Internal control*

Internal control consists of those procedures employed by management to ensure accuracy of actions taken by staff, as well as those controls ensuring that action is taken when certain criteria or circumstances are met and dealt with.

Here, two problems are encountered:

- Staff checking on each other causes friction and, to some extent at least, involves double work.
- Management simply does not have enough time to check everything everybody else does and still keep the company on track.

The key: Management should control, through direct action, only those items identified as key areas, while staff responsible should duplicate as little as possible, ensuring proper, full accountability.

##### **G.2.4.3.** *Authorisation levels*

In order to ensure that decisions are made by the persons best positioned or qualified to make them, authorisation levels should be identified, communicated and enforced. Just as no manager would give all employees signing powers on the company's bank account, so no manager should allow every employee to make decisions which bind the company.

This is particularly important where sales and other representatives are involved as, by the nature of their work, they can commit the company to contracts, written or oral, both of which are enforceable in common law.

Simultaneously, over-regulation should be guarded against.

Too little authorisation restricts initiative, and may even endanger the quality of the service offered to clients. Often, however, the ideal balance can only be found by trial and error.

#### **G.2.4.4.** *Accountability*

Each staff member should be responsible for a number of items, procedures and tasks, without overlap and, as far as possible, with clear indication of where duties rely on input by other staff members or third parties. Each member should report to management on his or her responsibility area, and must be held accountable for problems or errors in that area.

Similarly, where praise is due, the staff member accountable for that area must be rewarded for work well done.

#### **G.2.4.5.** *Management accounts*

In today's environment no company should be without some form of monthly management accounts. The reality is that circumstances change, and that expenses increase by themselves when not monitored properly.

Such management accounts can be complicated and expensive or simple and to the point. The key factor therein is the information not the format.

Typically, such management accounts would consist of:

- Income statement
- Statement of financial position
- Schedule of income - if from different sources
- Schedule of expenses
- Bank reconciliation
- Cash flow forecast - based on bank reconciliation but including other known expenses

Whatever format management accounts have, the accounts must be used by management to compare current expenses with the previous records in order to identify those accounts and expenses that have increased unacceptably, or those that have not been incurred but should have been. Through early identification, corrective action can be taken before the cumulative effect is too serious.

#### **G.2.4.6.** *Budgets* (For guidance on the construction of budgets refer to pages G-3 below).

Often the manager of a small business will decide that a budget is not required for his or her type and size of business or that the work involved is not worth the end result. Alternatively, he or she might simply not know how to prepare a budget or where to obtain the information required for such a budget.

Just the same, a budget is a powerful tool that should be used by all companies.

A budget need not be complicated. A simple method is to use the previous year's financial statements as a base, and to adjust all income and expenses by certain percentages. Thereafter, selected items are adjusted to provide for known conditions i.e. the appointment of an additional staff member, the launch of a new product range or a planned

increase in advertising sponsorships.

An alternative method is called “zero base budgeting”. In effect this means preparing a budget without basing the budget on the prior year's data. In order to complete such a budget, each and every item contained in the budget has to be individually justified and documented. If done properly, this exercise results in a budget far superior to the short method suggested above. However, the inherent risk in zero based budgeting is that any area of income or expense can be excluded in error and that the error is seldom rectified before the budget becomes part of the planning structure of the company. Such exclusion will lead to greater misrepresentation of the reality as in the first method where, at least, some of the expenses will have been identified on the prior year's figures.

#### **G.2.4.7.** *Management - board meetings*

It has been said that meetings are the collective wasting of time of as many people as are attending the meeting. While such meetings do take place, the fault invariably rests with the chairman who either has not planned properly for the meeting, has not insisted that all participants arrive prepared or fails to keep control of the meeting and the time allowed for the discussion of items on the agenda. To attend any meeting unprepared is a clear indication of the lack of respect for the other participants and the chairman of the meeting.

On the other hand, without regular meetings, formal or semi-formal, no management can plan effectively nor can all members of management effectively contribute to management and the direction the company is taking.

Meetings should be planned in advance. Participants should advise the convener of items proposed for discussion. The convener should ensure that a proper agenda is drawn up and distributed in advance to all participants.

During the meeting notes should be taken of decisions made, including allocation of accountability, i.e. who will take the matter to its conclusion and report back at the next meeting?

Minutes must be kept of all meetings and those of the previous meetings must be signed as true and correct by the chairman.

The value of control procedures cannot be overemphasised. However, it is true that each additional control requires management time and other resources.

Due to scarcity of management time in a small company, it is imperative that management concentrates on those areas where the company can suffer great damage or make big gains for relatively little management time.

In suggesting such priorities and insisting on the implementation of such controls, the assistance of trained and experienced consultants can save management both embarrassment and prevent time and resource wastage.

## **G.3. Basic Budgeting Techniques**

### **G.3.1. Introduction**

Budgeting is generally accepted as applying to the construction of a formal plan by means of which a business undertaking is guided to achieve its principal objective. Probably all managements do some kind of planning. In smaller undertakings, this might consist of no more than a mental exercise or a discussion with colleagues, where little or nothing is committed to paper. However, in larger undertakings, management usually undertakes a very complex type of budgeting with the line managers all becoming involved.

Whatever method of budgeting is applied it is certain that, without some sort of forward planning, no undertaking is likely to achieve the success hoped for when it was first planned.

### **G.3.2. Types of budget**

The most common type of budget is the Income and Expenditure Budget with its counterpart, the Cash Flow Budget. Whether anything more than this is required depends very much on the type of undertaking and what management believes to be necessary. For example, a company owning property, such as a shopping complex, will probably be able to get by with only these two budgets although, if there is to be an extensive advertising campaign, then a budget for that will also be necessary. However, for a manufacturing undertaking it is usual to prepare a production budget and, possibly, a sales budget as well.

### **G.3.3. Procedure**

#### **G.3.3.1. The Budget Committee**

It is essential that all departments are represented on this committee if the budget is to be accepted by all who might be affected by it. If, for instance, the advertising manager is precluded from taking part in its formulation it is unlikely that the budget will receive the respect that it deserves and will probably fail to achieve its purpose. The same applies to the production department because what the sales department believes to be the size of the market might well be beyond the current means of production. On the other hand the production department might very well have idle capacity and the sales department should know about that. This committee might also have as a member, the company secretary or the accountant either of whom is usually tasked with the co-ordination of the various budgets.

#### **G.3.3.2. Methods of construction**

##### **G.3.3.2.1. Using the previous figures**

Normally, the current year has not yet run its course when it is time to construct the budget for the ensuing year. However, one method of construction is to refer to the current year's Income Statement and to compare the actual performance to date with the budgeted figures, note and find the reasons for the variances and then update the figures for use in the budget being constructed for the ensuing year. In the event that it is the first time budgeting is being undertaken there are, naturally, no previous budget figures available. In such event it will be necessary for each item of the budget to be considered without the luxury of comparison. One advantage of using this method is that it is unlikely that any item will be overlooked and, for the smaller concern, this method is usually satisfactory. If

some new venture is to be entered into during the coming year then that will also have to be taken into account.

However, take care not to include in your next year's budget any items of expenditure or revenue that are of a non-recurring nature. For example the expense accounts could contain costs related to a particular event such as a burglary. It is unlikely that the burglary will be an event that happens from year to year so deduct these costs from the expense accounts when you use the current year costs as a basis to set the budget level for the next year.

#### **G.3.3.2.2. Zero base budgeting**

This method is far and away the most satisfactory. It does, however, involve a great deal more work than by using the previous figures. Zero base budgeting replaces the method by which the previous figures are simply updated. Instead, a decision has to be made in respect of each item of income and expenditure. One disadvantage is that items might be overlooked but, with care, this should not occur. One can ensure that all items appearing on the previous Income Statement are catered for. But this cannot be done when the budget is being prepared for a newly formed undertaking. In this case management has to decide what market is available for the products of the business, how much manufacturing capacity is needed, if the undertaking is of the type where manufacturing is to take place, and what capital expenditure is involved.

For some undertakings there is not as much difficulty with this method as there might be for others. For example, in the case of the property owner, calculating the expected income for the year is made easier because the lease agreements will provide the information for the rentals. Providing for the expenses is rather more difficult. It is still necessary, therefore, for reference to be made to previous figures in order to obtain a trend and to adjust this where it is known that there are probably going to be changes. For this exercise the expected rate of inflation is a useful measure.

When it comes down to the manufacturing undertaking, decisions are rather more difficult and so it emphasizes the need for all departments to be represented on the budget committee and for each department to prepare and present its own budget. This will facilitate the completion of the main budget.

#### **G.3.3.2.3. The Production Budget**

One sometimes hears the argument, put forward by the production department that the sales department must find a market for what the production department can produce and the counter argument by the sales department that the production department must produce what the sales department is able to sell. This can be solved only by top management, the members of which will decide the policy of the business.

The purpose of the production budget is to ensure that there will be available:

- sufficient equipment;
- sufficient labour; and
- sufficient material

to produce the quantity and type of product required to meet the budgeted turnover. It might well emerge that there is insufficient manufacturing facility to meet the budgeted turnover. In this event top management will have to decide whether to reduce the turnover budget or to provide for the additional manufacturing facility.

### **G.3.4. The time span**

Normally the budget is prepared to cover one financial year but it is not altogether unusual for (say) a five-year budget to be constructed in addition to the annual budget. However, this is not normally prepared in as much detail as the annual budget.

The annual budget is usually prepared so as to show the expected income and expenditure month by month. This facilitates monthly comparison with the actual figures reflected in the monthly management accounts and, if there is a significant variation in either income or expenditure, steps may be taken to discover the reason.

A significant variation in income might have been caused by a large sale not having been invoiced, that a progress claim has not been made, that the budgeted manufacturing output has not been achieved and so the turnover is below budget or any one or more of numerous other causes.

A failure to meet the manufacturing budget might indicate a serious problem with a supplier of the material. This is particularly important when the system of just in time (JIT) supply is in operation.

A large variation in an item of expenditure could be more serious than it is thought to be. For example, a budgeted advertising campaign was overlooked leading to the problem of unsold, specially manufactured goods for which the advertising campaign was planned.

This emphasizes the importance of continuous monitoring of actual figures with those budgeted.

### **G.3.5. The cash budget**

This is often referred to as the Cash Flow Forecast. It is based on figures contained in the main budget. However, it is necessary to take into consideration the payment habits of the customers and also those of the undertaking itself.

In the case of the property owner the receipt of the income is fairly simple to calculate because the lease agreements will specify the last date upon which the rental is due. Normally rentals are payable in advance on the 1<sup>st</sup> day of each month with a period of grace, often seven days, for payment to be received.

As concerns other undertakings, however, there is a time lag between the date of invoicing and the date of payment. Generally there is a stipulation that payment must be made not later than 30 days from date of statement. Customers do not, however, always adhere to this. In some cases a settlement discount is offered for prompt payment. This must be taken into consideration.

Then there are the undertakings involved in the building industry where work is undertaken in accordance with a contract. In these undertakings, particularly when the contract is a large one, provision is made for progress payments after a certain amount of the work has been completed.

The payment information is just as important and, if the receipts data is overoptimistic, the danger exists that, in order to meet important payments, a bank overdraft might have to be resorted to or an existing one increased, thus exacerbating the cash shortage due to interest on the overdraft.

These are some of the daunting tasks of good cash flow management. Never the less, they must be faced if management is to be kept informed of the cash flow position. Failure

to do so could have serious consequences for the enterprise.

### **G.3.6. The budget fixed**

At one time it was thought legitimate to make changes to the budget when something unforeseen became evident i.e. flexible budgets. This, however, is no longer the accepted norm. Once the budget has been accepted and approved by top management it must not, under any circumstances, be altered.

So the question posed is: What should be done when something not provided for needs to be financed? For instance: the necessity to replace a machine which has become totally unserviceable and the output of which is vital to the enterprise. The answer is that top management must be asked to consider the matter and, if believed to be unavoidable, authorize the expenditure and the over-run should be shown as a variance.

### **G.3.7. Conclusion**

As stated earlier, good budgeting is vital if the enterprise is to have any chance of achieving its potential. However, it requires dedication by everyone affected by it, particularly top management. If the members of middle and lower management are permitted to deviate from the budget it undoubtedly will fail. Therefore, top management must be totally dedicated to the policy of budgeting and the responsible persons must be able, and must be called upon, to account for any significant variances.

It is also advisable to set out clearly the basis for 'budget switching' – this occurs, for example, where there might be an unspent amount in the Capital Expenditure budget that gets transferred to the Operating Budget to cover an overspent amount. At times a switch might be acceptable – for example when it is decided to hire an item of equipment instead of buying it outright in order to conserve cash resources.

# SECTION H – FINANCIAL STATEMENTS FOR COMPANIES

## *H.1. Overview of Changes to The Companies Act 2008*

On the 1st April, 2011 the new Companies Act 2008 (“Act”) replaced both the Companies Act 1973 and Corporate Laws Amendment Act 2006. The new Act introduced the concept of an “**Independent Review**” as an alternative form of **Auditing** the financial statements. Private companies in South Africa were then able to replace the annual audit with an Independent Review. The act also did away with the formation of new Close Corporations (CC’s), although established CCs would continue to exist. In this way the act aligned the reporting requirements of companies and close corporations, creating consistency and clarity.

The Act brought in various options for companies to choose from whether to have a financial review or audit of their financial statements, which might save substantial amounts of money.

Small businesses would now be able to opt for a less onerous and costly way of having their financial statements independently reviewed rather than the traditional route of audit.

Under the new Companies Act, only public companies are obliged to be audited. The objective of the new legislation was to simplify the regulation of small to medium-size enterprises and make it less costly, and more affordable to do business in South Africa.

About 90% of all companies that were previously required to obtain an audit report will now be exempt, and the remaining 10% will be subject to either an independent review report or audit. However, all companies will be required to prepare annual financial statements, but regulations will determine the financial reporting standard to be followed.

This is all very good news for members of the Professional Practice Group of the Institute, as it significantly increases the available client base that our members may service.

### **Professional requirements for an independent reviewer**

Any person who is a member in good standing of a relevant recognized professional body and who is qualified as an accounting officer may perform Independent Reviews. Some professional bodies require members to obtain an additional qualification before issuing them with an Independent Review License. (SAIPA, SAIBA)

### **International financial reporting standards (IFRS)**

The Act also demands greater accountability from those who prepare financial statements, demonstrating the importance placed on improving transparency in business. A person who will be engaged to prepare financial statements for a company would be required to do so in accordance with international financial reporting standards (IFRS), and independent review in accordance with ISRS4400 (International Standard on Related Services).

Section 29.1(e)ii of the Act required that the financial statements included a notice on the first page indicating the **name and professional designation** of the individual who prepared or supervised the preparation of the Annual Financial Statements.

The independent review is a report issued on the financial statements of smaller businesses by independent professional accountants. It is an alternative document to the traditional audit route issued by an auditor.



## **H.2. Public Interest Score**

### **H2.1. Explanation Of Public Interest Score (PIS)**

The first thing to consider when approached to prepare financial statements for a company, is The Public Interest Score (PI Score). The result of this calculation will indicate to you whether you may proceed with the engagement or not.

The Companies Act, No. 71 of 2008 and the Companies Regulations, 2011 brought forth a new concept of the public interest score (PI Score).

Each company is required to calculate a PI Score annually. This calculation should be done for each company individually and not at a consolidated group level.

The PI Score helps:

- Determine which Financial Reporting Standards, a company must use;
- Whether a company must be audited or independently reviewed;
- Which persons are eligible to perform the independent review, and
- Whether a company must appoint a Social and Ethics Committee.

### **H2.2. How To Calculate The Public Interest Score (Pis)**

#### **Calculation principles**

In terms of Regulation 26(2), the PI Score is calculated as the sum of the following:

- A number of points equal to the average number of employees of the company during the financial year
- One point for every R1 million (or portion thereof) in third party liability of the company at the financial year-end
- One point for every R1 million (or portion thereof) in turnover during the financial year
- One point for every individual who, at the end of the financial year, is known by the company to directly or indirectly have a beneficial interest in any of the company's issued securities.
  - Profit Companies:  
One point is allocated for every individual who, at the end of the financial year, is known by the company to have a beneficial interest in any of the company's issued securities. This is broad enough to include a right to receive or participate in any distribution in respect of a company's securities. For example, the beneficiaries of an employee trust holding shares in a company will be regarded as having a "beneficial interest" in the securities of that company. In the same way, if a community trust in which 3000 individuals have a beneficial interest is a shareholder in a company, this will equate to 3000 public interest points. A "beneficial interest" does not include an interest held by a person in a unit trust or collective investment scheme.
  - Non-Profit Companies:  
One point is allocated for every individual who, at the end of the financial year, is known by the company to be a member of the company or a member of an association that is a member of the company.

### H2.3. Effect of Public interest Score on financial Reporting

A company with a public interest score of 350 or more points in a financial year, **must** have its annual financial statements for that financial year audited.

A company with a public interest score of between 100 and 349 points (both inclusive), must have its annual financial statements audited **only** if they were internally compiled. In terms of the Regulations, annual financial statements are “internally compiled” unless they are prepared by an independent external accounting professional on the basis of financial records provided by the company in question and in accordance with relevant financial reporting standards.

### Social and Ethics Committee

Every state-owned company and listed public company is obliged to appoint a social and ethics committee. Any other company which, in any two of the previous five financial years, has attained a public interest score of over 500 points, is also obliged to appoint a social and ethics committee.

### H2.4. Diagram To Determine Scope Of Work.

PI SCORE		OWNER MANAGER COMPANY		NON-OWNER MANAGED COMPANY	
		AFS Internally Compiled	AFS Externally Compiled	AFS Internally Compiled	AFS Externally Compiled
<100	AFS Classification	Compilation	Compilation	Independent Review	Independent Review
	Reporting Standard	No prescribed framework (own reporting standard)	IFRS or IFRS for SMEs	No prescribed framework (own reporting standard)	IFRS or IFRS for SMEs
100 - 349	AFS Classification	Audit	Compilation	Audit	Independent Review
	Reporting Standard	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs
350+	AFS Classification	Audit	Audit	Audit	Audit
	Reporting Standard	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs	IFRS or IFRS for SMEs

Once you have determined that you may indeed accept the engagement of preparing the Annual Financial Statements, you would proceed in a very similar manner as with Close Corporations.

A set of “example” company financial statements is attached for your convenience.

***ABC (PROPRIETARY) LTD***

*(Registration No. 2020/XXXXXXXX/07)*

***ANNUAL FINANCIAL STATEMENTS***

***For the year ended***

***28 February 2020***

ABC (Proprietary) Ltd  
Registration number 2020/XXXXXX/07

**Directors:** C I Ess  
F G Instant

**Registered Office:** Suite 110  
Business Park  
Parklands  
Gauteng  
1212

**Postal Address:** P O BOX XXX  
Parklands  
1210

CONTENTS	Page
<i>Directors Responsibilities and Approval</i>	1
<i>Report of the independent external compiler</i>	2
Directors Report	3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Change in equity	6
Statement of Cash Flows	7
Accounting Policies	8 & 9
Notes to the Financial Statements	10 & 11
Detailed Income Statement	12
Tax computation	13

**ABC (PROPRIETARY) LTD**

**Registration number 2020/XXXXXX/07**

**Annual Financial Statements for the year ended 28 February 2020.**

## **DIRECTORS RESPONSIBILITIES AND APPROVAL**

---

The directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility to ensure that the annual financial statements satisfy the financial reporting standards as to form and content and present fairly the statement of financial position, results of operations and business of the company, and explain the transactions and financial position of the business of the company at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the company and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss. The going concern basis has been adopted in preparing the financial statements. Based on forecasts and available cash resources the directors have no reason to believe that the company will not be a going concern in the foreseeable future. The financial statements support the viability of the company.

The compiler is responsible for reporting on the company's annual financial statements. The compilation report is presented on page 1.

The annual financial statements as set out on pages 4 to 13 were approved by the board on \_\_\_\_\_ 2020 and were signed by:

\_\_\_\_\_

C I Ess  
Director

***“Your practitioner Letter head”***

**REPORT OF THE COMPILING ACCOUNTANT**

I have compiled the accompanying financial statements of ABC (Proprietary) Limited, based upon information you have provided. These financial statements comprise the statement of financial position of ABC (Proprietary) Limited as at 28 February 2020, the statement of comprehensive income, the statement of changes in equity and a summary of significant accounting policies and other explanatory information.

I performed the compilation engagement in accordance with international standards on related services 4410 (revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with international Financial Reporting Standards for Small and Medium sized entities (IFRS for SME's) and the requirements of the Companies Act 71 of 2008.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly I do not express an assurance opinion or a review conclusion on whether these financial statements are prepared in accordance with IFRS for SME's.

-----  
A N Other

Johannesburg

May 2020

**ABC (PROPRIETARY) LTD**  
**Registration number 2020/XXXXXX/07**  
**Annual Financial Statements for the year ended 28 February 2020**

---

The directors have pleasure in submitting their report on the annual financial statements of ABS (Pty) Ltd for the year ended 28 February 2020.

**1. Review of financial results and activities**

The annual financial statements have been prepared in accordance with International Financial Reporting Standards for Small and Medium sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

**2. Share Capital**

There have been no changes to the authorised or issued share capital during the year under review.

**3. Dividends**

The company's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the board may consider a special dividend where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the board may pass on the payment of dividends.

**4. Directors**

The directors in office at the date of this report are as follows:

**Directors**

C I Ess

F G Instant

**5. Events after the reporting period**

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

**6. Director's interest in contracts**

To our knowledge none of the directors had any interest in contracts entered into during the year under review.

**7. Independent compilation of the financial statements**

The financial statements have been independently compiled by an external accounting firm

<b>ABC (PTY) LTD</b>			
<i>( Registration No. 2020/XXXXXX/07)</i>			
Annual Financial Statements for the year ended 28 February 2020			
<b>Statement of Financial Position as at 28 February 2020</b>			
		<b>2020</b>	<b>2019</b>
	<i>Notes</i>	<i>R</i>	<i>R</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
TRADE AND OTHER RECEIVABLES	<b>3</b>	975,092	1,264,792
CURRENT TAX RECEIVABLES		1,241	0
CASH AND CASH EQUIVALENTS	<b>4</b>	2,358,976	3,961,126
<b>TOTAL ASSETS</b>		<u>3,335,309</u>	<u>5,225,918</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
SHARE CAPITAL	<b>3</b>	1,000	1,000
RETAINED INCOME		2,095,783	3,960,232
		<u>2,096,783</u>	<u>3,961,232</u>
<b>NON CURRENT LIABILITIES</b>			
LONG TERM LIABILITIES-DIRECTORS LOANS		<u>1,000,000</u>	<u>1,000,000</u>
<b>CURRENT LIABILITIES</b>			
TRADE AND OTHER PAYABLES		238,526	263,110
CURRENT TAX PAYABLE		0	1,576
		<u>238,526</u>	<u>264,686</u>
<b>TOTAL LIABILITIES</b>		<u>1,238,526</u>	<u>1,264,686</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,335,309</u>	<u>5,225,918</u>



<b>ABC (PTY) LTD</b>				
<i>( Registration No. 2020/XXXXXXX/07)</i>				
Annual Financial Statements for the year ended 28 February 2020				
<b>Statement of Comprehensive Income</b>				
		<b>2020</b>		<b>2019</b>
	<i>Notes</i>	<i>R</i>		<i>R</i>
<b>REVENUE</b>		<b>9,995,895</b>		<b>13,395,894</b>
COST OF SALERS		<b>(426,800)</b>		<b>(367,771)</b>
GROSS PROFIT	<b>2</b>	9,569,095		13,028,123
OTHER INCOME		(140,312)		(110,454)
OPERATING EXPENSES		<b>(6,810,237)</b>		<b>(7,659,058)</b>
<b>OPERATING PROFIT</b>		<b>2,899,170</b>		<b>5,479,519</b>
FINANCE COSTS		<b>(120,486)</b>		<b>(121,158)</b>
PROFIT BEFORE TAXATION		2,778,684		5,358,361
TAXATION		<b>(682,901)</b>		<b>(1,398,130)</b>
PROFIT FOR THE YEAR		2,095,783		3,960,231
OTHER COMPREHENSIVE INCOME		-		-
<b>TOTAL COPMPREHENSIVE INCOME FOR THE YEAR</b>		<b>2,095,783</b>		<b>3,960,231</b>

**ABC (PTY) LTD***( Registration No. 2020/XXXXXX/07)*

Annual Financial Statements for the year ended 28 February 2020

**STATEMENT OF CHANGE IN EQUITY**

	<b>Share Capital</b>	<b>Retained Income</b>	<b>Total Equity</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>Balance at 1 March 2018</b>			
<b>Total comprehensive income for the year</b>	1,000	3,511,131	3,512,131
Profit (Loss) for the year	-	3,960,231	3,960,231
Other comprehensive Income	-	0	0
<b>Total comprehensive income for the year</b>	-	3,960,231	3,960,231
<b>Dividends</b>	-	(3,511,130)	(3,511,130)
<b>Total Changes</b>	-	(3,511,130)	(3,511,130)
<b>Balance at 28 February 2019</b>	1,000	3,960,232	11,432,593
Profit for thye year	-	2,095,783	2,095,783
Other comprehensive Income	-	-	0
<b>Total comprehensive income for the year</b>	-	2,905,783	2,905,783
<b>Dividends</b>	-	(3,960,232)	(3,960,232)
<b>Total Changes</b>	-	(3,960,232)	(3,960,232)
<b>Balance at 28 February 2020</b>	1,000	2,095,783	2,096,783

<b>ABC (PTY) LTD</b>			
<i>( Registration No. 2020/XXXXXX/07)</i>			
Annual Financial Statements for the year ended 28 February 2020			
<b>STATEMENT OF CASH FLOWS</b>			
	<b>Notes</b>	<b>2020</b>	<b>2019</b>
		<b>R</b>	<b>R</b>
<b>Cash Flows from operating activities</b>			
Cash generated from operations	12	3,164,286	7,217,149
Finance Costs		(120,486)	(121,158)
Tax Paid	13	(685,718)	(137,107)
<b>Net cash from operating activities</b>		<b>2,358,082</b>	<b>5,716,884</b>
<b>Cash flows from financing activities</b>			
Dividends paid	14	(3,960,232)	(3,511,130)
<b>Total cash movement for the year</b>		<b>(1,602,150)</b>	<b>2,205,754</b>
Cash at the beginning of the year		3,961,126	1,755,372
<b>Cash at the end of the year</b>	<b>4</b>	<b>2,358,976</b>	<b>3,961,126</b>

# ABC (PROPRIETARY) LTD

Registration number 2020/XXXXXX/07

Annual Financial Statements for the year ended 28 February 2020.

## Accounting Policies.

---

### 1. Basis of preparation and summary of significant accounting policies

The annual financial statements have been prepared on a going concern basis in accordance with the international Financial Reporting Standards for Small and Medium sized Entities, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below. They are presented in South African Rands.

#### 1.1 Financial Instruments

These include loans, trade receivables and trade payables. Those debt instruments which meet the criteria in section 11.8 (b) of the standard, are subsequently measured at amortised cost using the effective interest method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At each reporting date, the carrying amount of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence, the recoverable amount is estimated and compared with the carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount and an impairment loss is recognised immediately in profit or loss.

##### .Financial Instruments at cost

Equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably without undue cost or effort are measured at cost less impairment.

##### Financial Instruments at fair value

All other financial instruments, including equity instruments that are publicly traded or whose fair value can otherwise be measured reliably, without undue cost or effort, are measured at fair value though profit or loss.

If a reliable measure of fair value is no longer available without undue cost or effort, then the fair value at the last date that such a reliable measure was available is treated as the cost of the instrument. The instrument is then measured at cost less impairment until management are able to measure fair value without undue cost or effort.

#### 1.2. Tax

##### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

The tax liability reflects the effect of the possible outcomes of review by the tax authorities.

##### Tax expenses

Tax expense is recognised in the same component of total comprehensive income or equity as the transaction or other event that resulted in the tax expense.

# ABC (PROPRIETARY) LTD

Registration number 2020/XXXXXX/07

Annual Financial Statements for the year ended 28 February 2020.

## Accounting Policies.

---

### 1.3 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are operating leases.

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms unless:

- Another systematic basis is representative of the time pattern of the benefit from the leased asset, even if the payments are not on that basis, or
- The payments are structure to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessors expected inflationary cost increases.

Any contingent rents are expenses in the period they are incurred

### 1.4 Provisions and contingencies

Provisions are recognised when the company has an obligation at the reporting date as a result of a past event: it is probable that the company will be required to transfer economic benefits in settlement: and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increased in the provision due to the passage of time is recognised as interest expense

Provisions are not recognised for future operating losses\.

### 1.5 Revenue

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts.

Interest is recognised, in profit or loss, using the effective interest rate method.

### 1.6 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

**ABC (PTY) LTD***( Registration No. 2020/XXXXXX/07)*

Annual Financial Statements for the year ended 28 February 2020

**Notes to the Annual Financial Statement**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>2. Loans to (from) shareholders</b>		
C I Ess	(600,000)	(600,000)
F G Instant	(400,000)	(400,000)
	<u>(1,000,000)</u>	<u>(1,000,000)</u>
<b>3. Trade and other receivables</b>		
	949,599	1,264,792
Trade receivables	25,493	-
Prepayments	<u>975,092</u>	<u>1,264,792</u>
<b>4. Cash and cash equivalents</b>		
Cash and cash equivalents consist of	(32)	1,656
Cash on hand	2,359,008	3,959,470
Bank balances	<u>2,358,976</u>	<u>3,961,126</u>
<b>5. Authorised share capital</b>		
Authorise		
1000 ordinary shares of R1 ea		
Issued		
1000 ordinary shares of R1 ea	<u>1,000</u>	<u>1,000</u>
<b>6. Trade and other payables</b>		
Trade payables	735	26,081
VAT	86,878	137,812
Accrued expenses	113,495	-
Other payables	37,418	99,217
	<u>238,526</u>	<u>263,110</u>
<b>7. Revenue</b>		
Sale of goods	<u>9,995,895</u>	<u>13,395,894</u>
<b>8. Cost of sales</b>		
Cost of goods sold	<u>426,800</u>	<u>367,771</u>
<b>9. Other income</b>		
Interest received	<u>140,312</u>	<u>110,454</u>

<b>ABC (PTY) LTD</b>			
<i>( Registration No. 2020/XXXXXX/07)</i>			
Annual Financial Statements for the year ended			
28 February 2020			
<b>Statement of Financial Position as at 28 February 2020</b>			
		<b>2020</b>	<b>2019</b>
	<i>Notes</i>	<i>R</i>	<i>R</i>
<b>Revenue</b>			
<b>Sale of good</b>	<b>2</b>	9,995,895	13,395,894
<b>Cost of Sales</b>		<b>(426,800)</b>	<b>(367,771)</b>
<b>Gross profit</b>		<b>9,569,095</b>	<b>13,028,123</b>
<b>Other income</b>			
Interest received		140,312	110,454
<b>Operating expenses</b>			
ACCOUNTING ,FINANCIAL & SECRETARIAL SERVICES		16,587	16,550
ADVERTISING & PROMOTIONS		4,992	27,456
INDEPENDENT EXTERNAL ACCOUNTANT FEE	11	20,000	30,000
BANK CHARGES		13,278	11,626
CIPC ANNUAL; RETURN		2,000	2,000
CONSUMABLES		9,046	13,264
DELIVERY EXPENSES		613	573
DIRECTORS REMUNERATION		2,037,405	1,955,961
DONATIONS		3,000	3,000
EMPLOYEE COSTS		3,404,528	3,800,292
ENTERTAINMENT		10,087	188,094
GENERAL EXPENS		-	98,971
GIFTS		342	-
INSURANCE		64,075	67,190
LEASE RENTALS ON OPERATING LEASE		407,751	424,509
LIBRARY		1,275	2,543
MARKETING FUNCTION		-	28,824
MUNICIPAL ERXPENSS		104,054	75,281
PRINTING AND STATIONERY		30,896	58,984
PROFESSIONAL SERVICES		-	12,128
REPAIRS AND MAINTENANCE		226,225	130,301
STAFF RECRUITMENT		-	71,500
SUBSCRIPTIONS		45,234	48,665
TELEPHONE		19,000	45,004
TRAINING		-	1,350
TRAVEL - LOCAL		389,849	544,992
		<b>6,810,237</b>	<b>7,659,058</b>
<b>OPERATING PROFIT</b>		2,899,170	5,479,519
<b>FINANCE COSTS</b>	<b>10</b>	<b>(120,486)</b>	<b>(121,158)</b>
<b>PROFIT BEFORE TAXATION</b>		<b>2,778,684</b>	<b>5,358,361</b>
<b>TAXATION</b>		<b>(682,901)</b>	<b>(1,398,130)</b>
<b>PROFIT FOR THE YEAR</b>		<b>2,095,783</b>	<b>3,960,231</b>

<b>ABC (PTY) LTD</b>			
<i>( Registration No. 2020/XXXXXX/07)</i>			
Annual Financial Statements for the year ended 28 February 2020			
<b>TAX COMPUTATION</b>			
			<b>2020</b>
			<b>R</b>
Net Profit per income statement			277,684
Imputed net income from CFC			-
Assessed loss brought forward			-
			<b>2,778,684</b>
	Lower limit	Upper limit	
Tax bracket 1	-	79,000	0%
Tax bracket 2	79,001	365,000	7%
Tax bracket 3	365,001	550,000	21%
Tax bracket 4	550,001	N/A	28%
Tax bracket 5			
<b>Tax thereon @ rate determined in the table above</b>			<b>682,901</b>
<b>Reconciliation of tax balance</b>			
Amount owing/(prepaid) at the beginning of the year			1,576
Prior year adjustment			-
Amount refundable/(paid) in respect of prior year			-1,576
<b>Amount owing/(prepaid) in respect of prior year</b>			<b>-</b>
<b>Tax owing/(prepaid) for the current year:</b>			
<b>Normal tax</b>			
Per calculation			682,901
1st Provisional payment			(285,067)
2nd Provisional payment			(285,067)
Other payments			-
<b>Amount owing/ (prepaid) at the end of the year</b>			<b>(1,241)</b>



### **H.3. Extract of IFRS 4410 (Revised) pertaining to Engagement Letters.**

- 24 The practitioner shall not accept the engagement unless the practitioner has agreed to the terms of the engagement with management, and the engaging party if different, including:
- (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable; (Ref: Para. A20, A28-A29, A32-A33)
  - (b) Identification of the applicable financial reporting framework; (Ref: Para. A20, A30-A33)
  - (c) The objective and scope of the compilation engagement; (Ref: Para. A20)
  - (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A20)
  - (e) The responsibilities of management for: (Ref: Para. A34-A36)
    - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
    - (ii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
    - (iii) Judgements needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and (Ref: Para. A22)
  - (f) The expected form and content of the practitioner's report.
- 25 The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form written agreement, prior to performing the engagement. (Ref: Para. A37-A39)
- 26 Recurring Engagements 26. On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement. (Ref: Para. A40) COMPILATION ENGAGEMENTS ISRS 4410 (REVISED) 322 Communication with Management and Those Charged with Governance.
- 27 The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A41)
- 28 28 The intended use of the financial information is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.
- 29 The practitioner's identification of the intended use of the financial information also involves understanding such factors as the particular purpose(s) of management, or those charged with governance, where applicable, that are intended to be served through requesting the compilation engagement, and those of the engaging party where different. For example, a grant funding body may require the entity to provide financial information compiled by a professional accountant to obtain information about certain aspects of an entity's operations or activities, prepared in a specific form, to support provision of a grant or continuation of an existing grant.
- 34 Under this ISRS, the practitioner is required to obtain the agreement of management, or where applicable those charged with governance, on management's responsibilities in relation to both the financial information and the compilation engagement. In smaller entities, management, or those

charged with governance where applicable, may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the practitioner may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

- 35 If management does not acknowledge its responsibilities in the context of a compilation engagement, the practitioner is not able to undertake the engagement, and it is not appropriate for the practitioner to accept the engagement unless required to do so under applicable law or regulation. In circumstances where the practitioner is nevertheless required to accept the engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.
- 36 The practitioner is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations and other information relevant to the compilation of the financial information using the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to compile the information under the applicable financial reporting framework.
- 37 It is in the interest of both management, and the engaging parties where different, and the practitioner that the practitioner sends an engagement letter to management and, where applicable, to the engaging parties prior to performing the compilation engagement, to help avoid misunderstandings with respect to the compilation engagement. An engagement letter confirms the practitioner's acceptance of the engagement and confirms such matters as:
- The objectives and scope of the engagement, including the understanding of the parties to the engagement that the engagement is not an assurance engagement.
  - The intended use and distribution of the financial information, and any restrictions on its use or distribution (where applicable).
  - The responsibilities of management in relation to the compilation engagement.
  - The extent of the practitioner's responsibilities, including that the practitioner will not express an audit opinion or a review conclusion of the financial information.
  - The form and content of the report to be issued by the practitioner for the engagement.
38. The form and content of the engagement letter may vary for each engagement. In addition to the matters required by this IFRS, an engagement letter may make reference to, for example:
- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation engagement.
  - Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
  - The possibility that management or those charged with governance, as appropriate, may be requested to confirm in writing certain information or explanations conveyed orally to the practitioner during the engagement.
  - Ownership of the information used for purposes of the compilation engagement, distinguishing between documents and information of the entity provided for the engagement and the practitioner's engagement documentation, having regard to applicable law and regulation.
  - A request from management, and the engaging party if different, to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

## **H.4. Example Engagement Letter to a Company, For Non-Audit Preparation of Financial Statements.**

The Directors  
XYZ PTY LTD

Suite 110  
Business Park  
Parklands  
Gauteng  
1212

(Date)

Attention: xxxxxx

### ENGAGEMENT LETTER

Dear XXXXX

You have requested that I provide the following services:

On the basis of information that you will provide, I will assist you in the preparation and presentation of the following financial statements for XYZ PTY LTD: the statement of financial position as at (DATE), and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable less an allowance for doubtful accounts, inventory accounted for on an average cost basis, current income taxes payable as at the reporting date, and capitalization of significant long-lived assets at historical cost amortized over their estimated useful lives on the straight-line basis. These financial statements will not include explanatory notes, other than a note describing the basis of accounting as set out in this engagement letter.

The purpose for which the financial statements will be used is to provide full-year financial information showing the company's financial position at the financial reporting date of 28 February 2021 and financial performance for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.

### My Responsibilities

A compilation engagement involves applying expertise in accounting and financial reporting to assist you in the preparation and presentation of financial information. Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provide to me for the compilation engagement, or otherwise to gather evidence to express an audit opinion or a review conclusion. Accordingly, I will not express an audit opinion or a review conclusion on whether the financial statements are prepared in accordance with the basis of accounting you have specified, as described above.

I will perform the compilation engagement in accordance with the International Standard on Related Services (ISRS) 4410 (Revised), Compilation Engagements. ISRS 4410 (Revised) requires that, in undertaking this engagement, I comply with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care. For that purpose, I am required to comply with the International Ethics Standards Board for Professional Accountants' Code of Ethics for Professional Accountants (IESBA Code).

## Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that my role is to assist you in the preparation and presentation of the financial statements in accordance with the financial reporting framework you have adopted for the financial statements. Accordingly, you have the following overall responsibilities that are fundamental to my undertaking the compilation engagement in accordance with ISRS 4410 (Revised):

- (a) Responsibility for the financial statements and the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users.
- (b) Responsibility for the accuracy and completeness of the records, documents, explanations and other information you provide to me for the purpose of compiling the financial statements.
- (c) Responsibility for the judgements needed in the preparation and presentation of the financial statements, including those for which I may provide assistance in the course of the compilation engagement.

## My Compilation Report

As part of my engagement, I will issue my report attached to the financial statements compiled by me, which will describe the financial statements, and the work I performed for this compilation engagement [see attached]. The report will also note that the use of the financial statements is restricted to the purpose set out in this engagement letter, and that use and distribution of our report provided for the compilation engagement is restricted to you, as the directors of XYZ PTY LTD.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for my engagement to compile the financial statements described herein, and my respective responsibilities.

## Other Terms of Engagement

Subject to management review and approval, I will carry out such bookkeeping as I find necessary prior to the preparation of the financial statements, prepare the necessary federal and provincial income tax returns, and prepare any special reports as required. Management will provide the information necessary to complete the returns / reports and will file them with the appropriate authorities on a timely basis.

It should be noted that my accounting work in the area of VAT and other commodity taxes is limited to that appropriate to compile the financial statements. Accordingly, I may not detect situations where you are incorrectly collecting VAT or incorrectly claiming input tax credits. As you are aware, failure to properly account for the VAT could result in you or your company becoming liable for tax, interest or penalties. These situations may also arise for custom duties, and excise taxes.

I will also be pleased to provide other additional services upon request. Such services include income tax planning, VAT, business financing, management consulting, and valuations.

## Indemnity

Your company hereby agrees to indemnify, defend (by counsel retained and instructed by me), and hold harmless (Practitioner or Practice name) and its partners, agents, or employees, from and against any and all losses, costs (including legal fees), damages, expenses, claims, demands, or liabilities arising out of or in consequence of:

- The breach by your company, or its shareholder, officers, agents, or employees, of any of the covenants made by your company herein, including, without restricting the generality of the foregoing, the misuse of, or the unauthorized dissemination of, my Notice to Reader or the financial statements in reference to which the Notice to Reader is issued, or any other work product made available to you by my firm; and

I will use all reasonable efforts to complete the engagement as described in this letter within the agreed-upon time frame. However, I shall not be liable for failures or delays in performance that arise from causes beyond my control, including the untimely performance by your company of its obligations.

Fees

My professional fees will be based on my regular billing rates plus direct out-of-pocket expenses and applicable VAT and are due when rendered. Fees for additional services will be established separately.

I estimate that me fees for these services will be [R amount] for the compilation and [R amount] for the tax return, plus direct out-of-pocket expenses and applicable VAT. This fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs. My invoices for these fees will be rendered as work progresses and are payable on presentation.

If you have any questions about the contents of this letter, please raise them with me. If the services outlined are in accordance with your requirements and if the above terms are acceptable to you, please sign the copy of this letter in the space provided and return it to me. I appreciate the opportunity of continuing to be of service to your company.

Yours faithfully

---

(Name of registered independent external accountant responsible for the engagement)

Acknowledged and agreed on behalf of the directors of company by

Yours faithfully

---

Partner(s)/Director(s) name)

---

Title

---

Date

## Appendix 1

*Disclaimer: This is an illustrative compilation report and may therefore not be used for purposes other than illustration along with the engagement letter.*

## Illustrative Compilation Reports

[To Management of XYZ Company]

I have compiled  
the accompanying  
financial  
statements of XYZ  
PTY LTD

based on information you have provided. These financial statements comprise the statement of financial position of XYZ PTY LTD as at (date), and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

Yours faithfully

---

(Name of registered independent external accountant responsible for the engagement)

# **PPG MANUAL**

## **CONTENTS**

### **SECTION Y - CALCULATION OF PROFESSIONAL SERVICES FEES**

#### **Y. SECTION Y - CALCULATION OF PROFESSIONAL SERVICES FEES**

**Y.1 Guideline for the calculation of fees**

**Y.2 Time records**

**Y3. Rates**

**Y4. Salary and related costs**

**Y5 Percentage mark up**

**Y6 Chargeable hours**

**Y7 Examples for calculating hourly rates**

## **SECTION Y - Calculation of Professional Services Fees**

### **Y.1. Guideline for the calculation of Fees**

Members have requested a guideline for the calculation of Professional services fees.

This, it should be noted, unlike the law of the Persians and the Medes, is not cast in stone but is offered as some help to those members experiencing difficulty in the matter of calculation of the fees.

Every effort should be made to ensure that a high standard of service is not compromised because the fee charge is insufficient to allow the necessary amount of time to be spent on the work. There are, therefore, certain prerequisites in order to provide for the accurate calculation of the business.

### **Y.2. Time records**

Where fees are to be charged on time evaluation, records should be kept for individual staff members detailing the time incurred on the work for the client.

### **Y.3. Rates**

Hourly rates should be calculated on an annual basis.

The following formula is suggested for each class of employee:

$$(S+P)/C = HR$$

where S = salary and related costs

P = percentage mark up for overhead charges and margin

C = chargeable hours

HR = hourly rate.

### **Y.4. Salary and related costs**

These should include:

- Gross salaries and fringe benefits of employees;
- Employer contributions to medical aid and pension funds;
- Personal insurance (health, life, disability, etc.);
- Recruiting costs;
- Levies and contributions payable to other bodies;
- Staff welfare costs;
- Professional institute contributions

Not all of these will apply and, equally, there might be others omitted but this sets out the basic routine.



## Y.5. Percentage mark up

Overheads covered include premises expenses, professional indemnity insurance, and administrative costs incurred in operating a practice, which will vary for different locations and facilities. Fixed rates cannot and may not be laid down but the mark up should be within reasonable amounts to both the practitioner and the client.

A simple mark up factor is 3.5.

- Where 1 is the base cost of the actual salary package paid to the employee
- 1 is the 'desk cost' which would include the cost of providing the employee with floor space, furniture, computer & software equipment, printing & stationery, lighting heating/cooling, refreshments, communications etc. essentially all of the usual services provided by a well run office environment.
- 1 is the wasted cost of sick leave, annual leave, public holidays, family responsibility/compassionate leave etc.
- 0.5.....well, this is the profit to the practice/employer.

## Y.6. Chargeable hours

Chargeable hours should be an estimate of all the hours which could reasonably be expected to be charged on the premises where clients' work is planned, controlled and managed.

## Y.7 Examples for calculating hourly rates

So 52 weeks x 5 working day per week x 7 "useful" hours per day = 1,820 hours per annum.

Less: 15 days leave x 7 hours = 105.

So excluding public holidays, sick leave etc the maximum annual billing time for an employee would be around 1,715 hours.

Let's look at a few examples:

Junior accounts clerk – Starting salary R6,000 per month

$R6,000 \times 12$  (to annualise it) = R72,000 per annum

$R72,000 \div 52$  weeks = R1,384.62 per week

$R1,384.62 \div 5$  working days = R276.92 per day

$R276.92 \div 7$  "useful hours" = R39.56 per hour base cost

$R39.56 \times 3.5$  = R138.45 per hour billable charge for this individual.

Qualified staff member, possibly ACG level – starting salary R25,000

$R25,000 \times 12$  (to annualise it) = R300,000 per annum

$R300,000 \div 52$  weeks = R5,769.23 per week

$R5,769.23 \div 5$  working days = R1,153.85 per day

$R1,153.85 \div 7$  "useful hours" = R164.83 per hour base cost

$R164.83 \times 3.5$  = R576.90 per hour billable charge for this individual.

Another method of calculating billing hours for a professional working alone is as follows;  
This example is based upon the 2020 calendar to arrive at "working days"

365 days in the year

Less 104 days which are Saturdays or Sundays

Less 10 public holidays that fall on weekdays

Less 15 leave days

Total of 129 days that are not income producing.

= 365 – 129 = 236 working days or 1652 billable hours in 2020.

If you believe that you are worth a salary of say R60,000 per month, you will need to be charging an hourly rate of R1,525 to achieve this.

$R60,000 \times 12 = R720,000 \div 1652 \text{ hours} \times 3.5 = R1,525 \text{ hourly rate.}$

**Note:** We have added this Section Y to allow for further sections to be added at a later date.