



THE SAICA CLOSE CORPORATIONS GUIDE

Revised May 2015

CLOSE CORPORATIONS GUIDE

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CLOSE CORPORATIONS GUIDE

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PREFACE

This guide has been developed by The South African Institute of Chartered Accountants (SAICA) primarily to give guidance to members and associates on the accounting and reporting requirements of the Close Corporations Act, No. 69 of 1984. The guide has been updated in line with the Companies Act, No. 71 of 2008, and the subsequent changes to the Close Corporations Act as per Schedule 3 of the Companies Act.

The main provisions of the Close Corporations Act are summarised but this guide does not cover all the administrative details of a close corporation. Its main function is to address the accounting requirements, financial reporting standards, the duties of an accounting officer and the audit requirements. The guide, therefore, is a combination of legal principles and the Institute's authoritative interpretations.

The guide does not cover taxation implications for close corporations and reference should be made to other available guidance in this regard. The guide also does not include all other requirements of other acts applicable to close corporations.

The guide is specifically directed to Chartered Accountants and Associate General Accountants. This does not imply that the work and duties of an accounting officer will vary according to their professional qualifications. The duties of an accounting officer are set out in the Close Corporations Act. It is important that a distinction be drawn between the duties required of an auditor and those required of an accounting officer. All possible steps are to be taken to ensure that this distinction is recognised not only by the accounting officer but also by the members of the close corporation and, possibly, by other potential users of a close corporation's annual financial statements.

Although guides do not have the authority of the International Financial Reporting Standards or the International Standards of Auditing, in the event of significant deviation from the guidance given, and should the actions be questioned, a member or associate may be required to demonstrate that such a deviation was justified.

In certain areas the application of the Companies Act to close corporations is not clear and, in those cases, the different interpretations have been included.

Members should be advised to obtain legal advice where the application of the Close Corporations Act is not clear.

The Standards Division of SAICA has prepared the guide in collaboration with the Legal Compliance Committee, the National Small and Medium Practices Committee and the Accounting Practices Committee.

Every effort is made to ensure that the advice given in this guide is correct. Nevertheless that advice is given purely as guidance to members of SAICA to assist them with particular problems relating to the subject matter of the guide and SAICA will have no responsibility to any person for any claim of any nature whatsoever which may arise out of or relate to the contents of this guide.

1 Introduction

1.1 General

- 1.1.1. The Close Corporations Act, No. 69 of 1984, (“the Act”) was enacted by Parliament in June 1984. Regulations dealing with certain administrative and other matters have been published in the *Government Gazette* No. 9503 and these are to be read in conjunction with the Act. In addition, certain amendments to the principal Act were made in Close Corporation Amendment Acts No. 38 of 1986, No. 64 of 1988, No. 17 of 1990, No. 81 of 1992 and No. 26 of 1997, No. 22 of 2001; the Corporate Laws Amendment Act, No. 39 of 2002; the Judicial Matters Amendment Act, No. 16 of 2003; the Prevention and Combating of Corrupt Activities Act, No. 12 of 2004; the Close Corporation Amendment Act, No. 25 of 2005; the Corporate Laws Amendment Act, No. 24 of 2006; and the Companies Act, No. 71 of 2008, Schedule 3.
- 1.1.2. A close corporation enables undertakings to acquire corporate status with a legal persona distinct from its members and provides limited liability and perpetual succession.
- 1.1.3. The Act is designed to fulfil three basic criteria:
- simplicity;
 - flexibility; and
 - the ability of members to participate in the management and control of the business.
- 1.1.4. Members may lose their limited liability and may become jointly and severally liable for the close corporation’s debts if they transgress certain provisions of the Act.
- 1.1.5. As mentioned, the Act has been amended by the Companies Act, with effect from 1 May 2011. This guide discusses the amendments to close corporations and, where necessary, considers the changes in detail.

1.2 Glossary

- | | |
|-------------------------|---|
| • AFS | annual financial statements |
| • APA | Auditing Profession Act, No. 26 of 2005 |
| • Association agreement | defined in section 1 of the Act as: “in relation to any corporation or the members thereof, means an association agreement which has been entered into in |

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	terms of section 44 of the corporation, including any such agreement which has been altered or added to as contemplated in subsection (3) of section 49, or an agreement which has replaced it as contemplated in that subsection;”
• Auditor	auditor registered with the Independent Regulatory Board for Auditors (IRBA)
• CC Regulations	Close Corporations Act, 1984 Administrative Regulations (as amended)
• CIPC	Companies and Intellectual Property Commission
• Close corporation	Close corporation as defined in the Act
• Code	Code of Professional Conduct of the South African Institute of Chartered Accountants
• Company	Company in terms of the Companies Act, No. 71 of 2008
• Companies Act	Companies Act, No. 71 of 2008
• Companies Act, 1973	Companies Act, No. 61 of 1973
• Companies Regulations	Companies Regulations 2011 of the Companies Act, No. 71 of 2008
• IFAC	International Federation of Accountants
• IFRS	International Financial Reporting Standards
• IFRS for SMEs	International Financial Reporting Standards for Small and Medium-sized Entities
• Income Tax Act	Income Tax Act, No. 58 of 1962 (as amended)
• IRBA	Independent Regulatory Board for Auditors
• Minister	<ul style="list-style-type: none"> - In connection with the winding up of a close corporation – the Minister of Justice - In connection with any other matter – the Minister of Trade and Industry
• Registered office	defined by section 25(1) of the Act as “Every corporation shall have in the Republic a postal address and an office to which, subject to subsection (2), all communication and notices to the corporation may be addressed.”
• Registrar	Commissioner appointed in terms of section 189 of the Companies Act
• SA GAAP	South African Statements of Generally Accepted Accounting Practice
• SARS	South African Revenue Service
• The Act	Close Corporations Act, No. 69 of 1984 (as amended)

Words importing the male gender include the female gender.

2 Formation of a close corporation

¹*Reference: Section 13 of the Act*

Once the Companies Act became effective on 1 May 2011, no new close corporations could be formed. Section 13 of the Act was amended to state that a close corporation could still register a founding statement at any time before section 13 of the Companies Act became effective.

2.1 The founding statement (Form CK1)

Reference: Sections 15 and 16 of the Act

- 2.1.1 As no new close corporations can be registered, changes can only be made to the original founding statements.
- 2.1.2 If changes occur in any of the matters contained in the founding statement, an amended founding statement (CK2/CK2A) must be lodged with the Registrar within 28 days after the change and must be signed by or on behalf of all members. These forms should be in triplicate and should be submitted together with the prescribed fee.
- 2.1.3 The CK2A form can also be lodged electronically. Where the form is lodged electronically, a duly signed hard copy must be submitted to the Companies and Intellectual Property Commission (CIPC) before the lodgement will be complete.
- 2.1.4 The CIPC requests certified copies of the identity documents of members when the founding statement is amended and of the identity document of the person who submits the form on behalf of the members.
- 2.1.5 The close corporation must keep a copy of its founding statement and proof of its registration at its registered office. This must be available for inspection by any person.

2.2 Use and publication of names

Reference: Sections 1, 14, 22 and 23 of the Act

- 2.2.1 Upon registration of a founding statement, the Registrar would have assigned a registration number to the close corporation. The abbreviation “CC”, in capital letters, or its equivalent in any other official language (refer to [Appendix I](#)), must be added to the end of the name used by the close corporation.

¹ All references to sections are sections of the Close Corporations Act, unless otherwise stated.

2.2.2 In terms of the Act (S1), the word “name” means the full registered name of the close corporation or a registered literal translation of that name into any one other official language of the Republic or a registered shortened form of that name or any such translation thereof into any one other official language.

2.2.3 A close corporation must have its name (or the translation of its name) and registration number mentioned in legible characters in all notices and other official publications and on all bills of exchange, promissory notes, cheques and orders for money, goods or services and in all letters, delivery notes, invoices, receipts and letters of credit of the close corporation.

2.3 Registered office

Reference: Section 25 of the Act

2.3.1 The definition of a registered office in the Act has not been amended by the Companies Act and it states that every close corporation shall have a postal address and an office to which all communication and notices may be addressed. In the past, it was the practice that the registered office was the address of the auditor or accounting officer.

2.3.2 The CIPC has, however, released a notice to customers, dated 29 August 2012, which states that the CIPC requires that all postal and physical addresses of customers must be the address of the actual business premises, and not the address of the representative (refer to [Appendix II](#)).

2.4 Retention of records

Reference: Close Corporations Act, 1984, Administrative Regulations, section 14

2.4.1 The Administrative Regulations prescribe the minimum period that records need to be retained by a close corporation. Close corporations need to keep records from the date of the particular record or the date of the last entry in the particular record.

2.4.2 Regulation No. 2487 was promulgated in the *Government Gazette* No. 9503, where the various records and retention periods were published (refer to [Appendix III](#)).

3 Companies Act amendments

Reference: Companies Act, Schedule 3, Companies Act, 2008, Chapter 2, Part A and section 66 of the Act

- 3.1 The Companies Act includes Schedule 3, Amendments of Laws, which contains a list of amendments to the Act, which amendments are effective from 1 May 2011. The information in Schedule 3 has been reproduced in [Appendix IV](#). The amendments to the Act aim to bring close corporations more in line with certain requirements for companies. Changes to the Act include the following:
- 3.1.1 no new registration of close corporations (refer to section 2 of the guide);
 - 3.1.2 inclusion of the Companies Act requirements regarding undesirable names and name reservation (refer to Companies Act, 2008, Chapter 2, Part A);
 - 3.1.3 inclusion of certain sections of the Companies Act that deal with the audit of a close corporation (refer to section 13 of the guide);
 - 3.1.4 inclusion of the accountability provisions to close corporations in certain circumstances (refer to section 14 of the guide); and
 - 3.1.5 application of business rescue to close corporations (refer to section 66 of the Act).

4 Solvency and liquidity requirements

Reference: Sections 39, 40 and 51 of the Act

- 4.1 The Act requires that a close corporation meet certain solvency and liquidity requirements when making certain payments. These payments include:
- when a close corporation acquires a member's interest (S39);
 - when a close corporation provides financial assistance to a member to acquire an interest in the close corporation (S40); and
 - when a close corporation makes any payments to members by reason only of the membership (S51).
- 4.2 In order to meet these solvency and liquidity requirements:
- the close corporation's assets, fairly valued, must exceed all its liabilities, after such payment is made;
 - the close corporation must be able to pay its debts as they become due in the ordinary course of its business; and

- such payment must not in the particular circumstance, in fact render the close corporation unable to pay its debts as they become due in the ordinary course of its business.

5 Membership

Reference: Section 24, sections 28 to 31 of the Act

5.1 A close corporation must have at least one and not more than ten members (S28). The only persons qualified to become members of a close corporation are (S29(1) and (2)):

- any natural person entitled to a member's interest;
- a natural or juristic person, *nomine officii*, who is a trustee of a testamentary trust which is entitled to a member's interest provided that no juristic person is a beneficiary of the trust and that, if the trustee is a juristic person, this juristic person is not directly or indirectly controlled by a beneficiary of the trust;
- a natural or juristic person in the capacity of a trustee of an *inter vivos* trust provided that:
 - no juristic person is a beneficiary of the trust;
 - the member concerned personally has all the obligations and rights of a member;
 - the close corporation is not obliged to observe or have any obligation in respect of any other provision of or affecting the trust or any agreement between the trust and the member concerned; and
 - if at any time the number of natural persons entitled to receive benefit from the trust when added to the number of members of the close corporation at that time exceeds ten, this provision will cease to apply and does not again become applicable; and
- any natural or juristic person, *nomine officii*, who, in the case of a member who is insolvent, deceased, mentally disordered or otherwise incapable of managing or incompetent to manage his affairs, is a trustee of his insolvent estate or an administrator, executor or curator in respect of such a member or is otherwise a person who is his duly appointed legal representative.

5.2 The interest of any member in a close corporation is a single interest expressed as a percentage (S30) and constitutes movable property that is transferable in the manner provided by the Act. Each member must be issued with a certificate stating the current percentage of the member's interest in the close corporation (S31). The term "single interest" means that more than one person cannot jointly hold a member's interest in a close corporation. There is no requirement that a member's percentage interest be in proportion to his share of total members' contributions. A member's interest normally represents his

entitlement to share in the profit or loss of the close corporation. However, this entitlement may be altered by the terms of an association agreement.

- 5.3 Member's contribution – once a contribution of an asset has been made to a close corporation, the legal ownership of that asset vests in the close corporation (S24(4)). Members' contributions therefore are not apportioned to the individual members but are shown in aggregate.

6 Acquisition of member's interest

Reference: Sections 29, 33 and 40 of the Act

- 6.1 A founding member acquires his member's interest after making an initial contribution. The contribution may consist of money, property or services rendered in connection with, and for the purposes of, the formation of the close corporation.
- 6.2 After incorporation, a new member may acquire his member's interest by (S33(1)):
- purchasing it from one or more existing members or the deceased or insolvent estate of an existing member; or
 - making a contribution to the close corporation, in which case his percentage interest is determined by agreement with the existing members. In this instance, the percentage of the other members' interests would be reduced.
- 6.3 The contribution may be in money or in property at a value agreed to between the new member and the existing members (S33(2)).
- 6.4 No person can acquire a member's interest unless he qualifies for membership of the close corporation (S29).
- 6.5 A close corporation may give financial assistance to any person for the purpose of acquiring his member's interest (S40). However, the assistance to be given to a new member is governed in that the close corporation must:
- obtain the prior written consent of all existing members (S40(a)); and
 - meet the solvency and liquidity requirements of the Act (S40(b), (c) and (d)).

7 Disposal of member's interest

Reference: Sections 34 to 39 of the Act

- 7.1 The close relationship among members is recognised by the Act. If any member wishes to dispose of his interest, or a part thereof, he may do so only with the consent of all the other members or in accordance with the terms laid down in the association agreement (S37).
- 7.2 Where a member becomes insolvent, the trustee of his insolvent estate may dispose of that member's interest to the close corporation, the other members or a third party (S34(1)). If the sale is to a third party, the trustee must inform the close corporation in writing of the details of the proposed sale. The close corporation and the other members have the right, for a period of 28 days, to be substituted as purchasers of the entire interest on the same terms as those agreed with the third party. If the members or the close corporation do not exercise this right, the sale to the third party may be finalised (S34(2)).
- 7.3 The executor of the estate of a deceased member may only, unless otherwise specified in an association agreement, transfer the deceased member's interest in the close corporation to his legatee or heir if all the remaining members of the close corporation consent to the transfer (S35(a)). If such consent is not given within 28 days, the executor must sell the interest to the close corporation, the remaining members or any other third party. Where the intended sale is to a third party, the close corporation and the remaining members, as in the case of an insolvent member's interest, have right of first refusal for a period of 28 days (S35(b)).
- 7.4 As mentioned in the previous paragraphs, a close corporation may purchase a member's interest. However, for this purchase to be effective, the prior written consent of all members, other than the member whose interest is being acquired, must be obtained and the close corporation must meet the solvency and liquidity requirements of the Act (S39) (refer to section 4 of the guide).
- 7.5 From this it follows that a close corporation may not acquire a member's interest unless it has at least one other member after the acquisition.
- 7.6 It is important to note that although a close corporation may purchase a member's interest, it may not hold such an interest. Any interest so purchased must immediately be added to the interest of the other members either proportionately or as they may otherwise agree (S38(c)).

8 Internal relations between members and the close corporation

8.1 Fiduciary capacity

Reference: Sections 42 and 43 of the Act

8.1.1 Each member stands in a fiduciary relationship to the close corporation and must (S42(2)):

- act honestly and in good faith and, in particular, exercise such powers as he may have in the best interests of the close corporation and not exceed such powers; and
- avoid any material conflict between his own interest and those of the close corporation and notify all members of the nature and extent of any material interest he has in any contract of the close corporation. In particular, he may not compete with the close corporation or obtain any personal economic benefit that is in conflict with the interests of the close corporation.

8.1.2 Any member whose act or omission breaches the fiduciary relationship with the close corporation will be liable to the close corporation for any loss suffered by the close corporation or any economic benefit derived by the member as a result of such an act or omission (S42(3)).

8.1.3 Except as regards the duty of a member to exercise the powers he has to manage or represent the close corporation in the interest and for the benefit of the close corporation, the conduct of any member will not breach the fiduciary relationship if the prior or subsequent written approval of his conduct is obtained from all the members, provided they were or are aware of all the material facts (S42(4)).

8.1.4 Any member of a close corporation will become liable to the close corporation for any loss caused by his failure to act with the degree of care and skill that could reasonably be expected of him (S43(1)). This liability for negligence will not be incurred if the prior or subsequent written approval of his action is obtained from all the members, provided they were or are aware of all the material facts (S43(2)).

8.2 Association agreements

Reference: Sections 44 to 46 of the Act

8.2.1 The members of a close corporation may enter into a written association agreement. The association agreement regulates any matters that in terms of the Act may be set out or agreed upon in an association agreement. The agreement is used to regulate the internal relationship among the members, or

between the members and the close corporation, in a manner not inconsistent with the provisions of the Act. It can be useful in regulating the acquisition and disposal of members' interests and in providing greater flexibility.

- 8.2.2 The agreement must be signed by every member and kept at the registered office of the close corporation (S44(1)(2)).
- 8.2.3 In this regard it must be noted that because an association agreement is not compulsory, there is no prescribed manner relating to the format in which it must be prepared nor is there any requirement that it be filed with the Registrar. However, it is recommended that the accounting officer encourages members to enter into an association agreement, compiled in consultation with an attorney.
- 8.2.4 New members of the close corporation will be bound by an existing association agreement as if the new members had themselves signed it. Examples of items that may be dealt with in an association agreement are contained in [Appendix V](#).
- 8.2.5 The Act specifies, in so far as an association agreement does not provide otherwise, the following rules relating to internal relations (S46):
- every member is entitled to participate in the carrying on of the business;
 - every member has equal rights with regard to the power to represent the close corporation in the carrying on of its business and the close corporation's management, provided that the written consent of a member or members together holding at least 75% of the members' interests is required for any change to the close corporation's principal business; the disposal of the whole, or substantially the whole undertaking of the close corporation; the disposal of all or the greater part of the close corporation's assets; and any acquisition or disposal of immovable property by the close corporation;
 - a majority vote at a meeting of members will determine disputes among members in matters concerning the close corporation;
 - each member has the number of votes that corresponds to his interest in the close corporation;
 - a close corporation must indemnify any member in respect of expenditure incurred by him in the ordinary and proper conduct of the close corporation's business, and in regard to anything done for the preservation of the business or property of the close corporation;
 - payments to members, by reason of their membership, may be made when and for such amounts as the members may from time to time agree upon, provided that the close corporation meets the solvency and liquidity requirements of the Act. Payments must be made in proportion to the respective members' interests in the close corporation.

8.3 Disqualified persons regarding management

Reference: Section 47 of the Act read with section 69(8) to (11) of the Companies Act

- 8.3.1 S47(1) provides that certain categories of members are disqualified from taking part in the management of the business of a close corporation. These categories include people under legal disability and any person who has been disqualified from being a director of a company in terms of section 69(8) to (11) of the Companies Act subject to section 47(1B).
- 8.3.2 An unrehabilitated insolvent can only take part in the management of the close corporation if authorised by the court.
- 8.3.3 Section 69(8) to (11) of the Companies Act states that the following people are disqualified from being a director of a company:
- a person prohibited by the court from being a director, or a person that has been declared delinquent in terms of section 162 of the Companies Act or in terms of section 47 of the Act;
 - a person who
 - i. is an unrehabilitated insolvent;
 - ii. is prohibited in terms of public legislation from being a director of a company;
 - iii. has been removed from an office of trust, on the grounds of misconduct involving dishonesty; or
 - iv. has been convicted of certain crimes involving dishonesty or in connection with the formation or management of a company or close corporation and has been sentenced to imprisonment for these crimes for at least six months, without the option of a fine or fined more than the prescribed amount.
- 8.3.4 A disqualification under (iii) and (iv) will end at the later of five years after the date of removal from office, or the completion of the sentence, as the case may be, or at the end of extensions as determined by the court.
- 8.3.5 Section 47(1)(a)(ii) states that a minor older than 18 years is disqualified from taking part in the management of a close corporation unless certain requirements are met. However, other legislation in South Africa has changed and the South African Passports and Travel Documents Amendment Act, No. 49 of 1997, identifies a minor as any person who has not yet attained the age of 18. Therefore, a person aged 18 or older will no longer fall under the definition of a minor.

- 8.3.6 Despite being disqualified in terms of the above (i) to (iv), a person may participate in the management of a close corporation if 100% of the members' interests is held by that person or that person and other people who are related to the disqualified person and each of those people has consented in writing to the fact that the disqualified person can participate in the management of the close corporation (S47(1B)).

8.4 Payments and loans by the close corporation to members

Reference: Sections 51 and 52 of the Act

- 8.4.1 Payments to members by reason only of their membership may be made by the close corporation, provided that the solvency and liquidity requirements are met (S51(1)).
- 8.4.2 Payments to members by reason only of their membership include distributions of income and repayments of any contribution but exclude payments to members in the ordinary course of business (S51(3)); e.g. salaries, interest, rent or repayments of loans.
- 8.4.3 A close corporation must not, without the prior consent in writing of all members, either directly or indirectly make a loan or provide security to (S52):
- any of its members;
 - any other close corporation in which one or more of its members together hold more than 50% interest; or
 - any company controlled by one or more members of the close corporation.

9 External relations

Reference: Section 53 of the Act

9.1 General

- 9.1.1 Any pre-incorporation contract entered into by an agent or trustee of the close corporation may be ratified or adopted by the close corporation after incorporation (S53):
- by the written consent of all members; and
 - within the time specified by the contract or, if no time is specified, within a reasonable time after incorporation.

9.2 Members' authority to act for the close corporation

Reference: Sections 45 and 54 of the Act

- 9.2.1 A close corporation has no equivalent to the directors of a company. Each member is responsible for, and has an equal right to participate in, the running of the business. Every member is an agent of the close corporation in dealing with third parties in the normal course of business and has the power to bind the close corporation (S54(1) and S54(2)). Any act performed by a member not in the ordinary course of business of the close corporation will also bind the close corporation unless the member so acting has in fact no power to act for the close corporation in that particular matter and the third party with whom he deals knows, or ought reasonably to have known, of the fact that the member has no such power (S54(2)).
- 9.2.2 People who are not members of the close corporation are not entitled to inspect any association agreement and, therefore, are not deemed to have any knowledge of any particulars contained in it (S45).

10 Accounting

10.1 Accounting records

Reference: Section 56 of the Act

- 10.1.1 A close corporation must keep in one of the official languages of the Republic such accounting records as are necessary to present the state of affairs and business of the close corporation fairly and to explain the transactions and financial position of the business of the close corporation (S56).
- 10.1.2 Close corporations must keep (S56(1)):
- records showing the assets and liabilities, members' contributions, undrawn profits, revaluations of fixed assets ("property, plant and equipment") and amounts of loans to and from members;
 - a register of fixed assets showing the respective dates of acquisition and the cost thereof, depreciation (if any), the date and amount of any revaluations (if applicable), the respective dates of any disposals and the consideration received in respect of these disposals;
 - records containing daily entries of all cash received and paid out, in sufficient detail to enable the nature of the transactions and, except in the case of cash sales, the names of the parties to the transactions to be identified;
 - records of all goods purchased and sold on credit and services received and rendered on credit in sufficient detail to enable the nature

of the goods or services and the parties to the transactions to be identified;

- statements of annual stock (inventory) taking and records to enable the value of stock at financial year-end to be determined; and
- vouchers that support entries in the accounting records.

10.1.3 The accounting records relating to the following matters must contain sufficient detail of individual transactions to enable the nature and purpose of these transactions to be clearly identified (S56(2)):

- contributions by members;
- loans to and from members; and
- payments to members.

10.1.4 Records must be kept in such a manner as to provide adequate precautions against falsification and to facilitate the discovery of any falsification (S56(3)).

10.1.5 Members are accountable if accounting records are not kept in a manner required by section 56. Any close corporation or member who fails to comply with section 56 shall be guilty of an offence (S56(5)(a)).

10.1.6 In terms of S56(5)(b), if the members have assigned their responsibility with regard to the accounting records, as provided for in section 56, to a competent and reliable person and are able to prove that they had reasonable grounds for believing and did believe that the person charged with the duty was in a position to discharge that duty and the members had no reason to believe that this person had failed to discharge that duty, the members are entitled to use this as a defence.

10.1.7 Consequently, if an accounting officer is required to maintain the accounting records of a close corporation, it becomes the responsibility of the accounting officer to ensure that the accounting records are maintained as provided for in section 56.

10.2 Financial year

Reference: Section 57 of the Act

10.2.1 The financial year of a close corporation is its annual accounting period. The close corporation must state, in its founding statement, a date on which its financial year will end. The financial year-end may be changed by the registration of an amended founding statement, provided that the date is not changed more than once in any financial year (S57(2)). If the financial year has been changed, it must end not less than 3 months and not more than 18 months after the end of the previous financial year (S57(4)(b)).

- 10.2.2 A financial year normally consists of a period of 12 months. The first financial year commences on the date of registration and must consist of a period of not less than 3 months and not more than 15 months (S57(4)(a)) after the date of registration.

11 Annual financial statements and the impact of the amendments of the Companies Act

11.1 Annual financial statements

Reference: Sections 10(3) and 58 of the Act

- 11.1.1 In assessing the reporting requirements of a close corporation, and in particular the content and format of the annual financial statements (AFS), it is necessary to refer to the amendments that the Companies Act has made to the Act (refer to section 11.2 of this guide). Close corporations and companies differ in many respects. In considering how these differences affect the objectives of AFS, attention is to be given to the relationship that exists between the owners and the management of the business. The Companies Act envisages that owners and management are possibly separate and distinct groups of people, whereas the pervasive concept in the Act is that owners and management will normally be the same group of people. Section 46 also refers to the fact that unless otherwise provided every member shall be entitled to participate in the carrying on of the business and members shall have equal rights in regard to the management of the business. (Refer to section 8.2 of the guide where this is discussed.)
- 11.1.2 In general, as a consequence of the above differences, the concept of stewardship and its associated reporting functions are less relevant to the AFS of a close corporation. Since owners and management in a close corporation are presumed to be the same group of people, the AFS of a close corporation should, as a primary objective, fully meet the needs of members, both as owners and as concerned management. The AFS may be as simple and concise as is consistent with fair presentation but may also contain detailed analyses of as much financial information as the members consider necessary for managing the affairs of the close corporation effectively and efficiently.
- 11.1.3 The Act does not prohibit close corporations in which some members are separate from the operations of the close corporation. Provision is made in the Act for the internal relationship among members to be determined and recorded in an association agreement. However, because of the fiduciary position of members and the liability of members for negligence, the needs of all members, whether or not actively involved in the management of the close corporation, should be considered in the presentation of AFS.

- 11.1.4 The Act stipulates that members of a close corporation must, within a maximum period of six months after the end of the financial year, cause AFS to be made out (S58(1)). This is an amendment as a result of the Companies Act, 2008, as the Act previously required AFS to be completed within nine months. For AFS to be of benefit to members, they are to be produced on a timely basis so as to facilitate proper decision making. In addition, timely information is needed for determining whether the solvency and liquidity requirements of the Act are met before certain payments are made to members.
- 11.1.5 The Act requires that “annual financial statements of a close corporation shall, in conformity with generally accepted accounting practice, appropriate to the business of the close corporation, fairly present the state of affairs of the close corporation ...” (S58(2)(b)). It is the responsibility of the members to ensure that the AFS are in conformity with the required financial reporting standards (FRSs), appropriate to the business of the close corporation, and fairly present the state of affairs of the close corporation as at the end of the financial year concerned and the results of its operations for that year.
- 11.1.6 The Companies Act has also included the additional requirement for certain close corporations to compile their AFS using International Financial Reporting Standards (IFRS) or IFRS for Small and Medium-sized Entities (SMEs). It is the responsibility of the members to ensure that the AFS are in conformity with the required FRSs, appropriate to the business of the close corporation, and fairly present the state of affairs of the close corporation as at the end of the financial year concerned and the results of its operations for that year (S58(2)(b)) (refer to section 11.5 of the guide).
- 11.1.7 In determining what generally accepted accounting practice appropriate to the business of the close corporation is, the preparer of the AFS is to have regard for the needs of the members. It is again stressed that the primary users of AFS of a close corporation will be the members themselves. The AFS will be used to assist them not only in determining compliance with any statutory provisions but also in managing, controlling and developing the business.
- 11.1.8 The Act states that the AFS must consist of (S58(2)(a)):
- a balance sheet (statement of financial position) and notes thereon;
 - an income statement (a statement of comprehensive income) or any similar financial statement where such a form is appropriate and any notes thereon; and
 - a report of the accounting officer (S58(2)(e)).
- 11.1.9 S58(2)(d) requires that the AFS must be in agreement with the accounting records, which must be summarised in such a form that the accounting officer is enabled to report to the close corporation in terms of S62(1)(c) without it being necessary to refer to any subsidiary accounting records and vouchers

that support the entries in the accounting records. However, S58(2)(d) contains a provision that nothing contained in this subsection is to be construed as preventing the accounting officer, if he deems it necessary, from inspecting such subsidiary accounting records and vouchers. (Refer to section 12.5 of the guide, which deals with the duties of the accounting officer.)

- 11.1.10 The AFS must be approved and signed by or on behalf of a member that holds a member's interest of at least 51% or members together that hold members' interest of at least 51%, in the close corporation (S58(3)).

11.2 Companies Act application

Reference: Sections 10(3) and 58 of the Act

- 11.2.1 The Companies Act has amended the Act by the inclusion of the following sections in the Act, which affect the AFS and the audit of a close corporation's financial statements. The Act also states that where applicable the reference to a company should be replaced with a reference to a close corporation.

- Section 10, which states the following:

“Regulations made by the Minister in terms of section 29(4) and (5), and 30(7) of the Companies Act apply to a close corporation as if those regulations had been made in terms of this Act, but any reference in those regulations to a company must be read as a reference to a close corporation.”

- Section 58(2A), which states the following:

“(2A) Section 30(2)(b) and (3) to (6) of the Companies Act read with changes required by the context, apply to a close corporation that is required in terms of the Regulations made in terms of section 30(7) of the Companies Act, to have its annual financial statements audited.”

- 11.2.2 Close corporations and companies therefore now have similar requirements relating to the requirement to compile AFS using a prescribed framework as set out in section 30(7) of the Companies Act, read with Companies Regulation 27, and to provide audited financial statements, where required.
- 11.2.3 The Act does not explicitly require the inclusion of a statement of changes in equity, statement of cash flows, accounting policies and notes as part of the AFS. The impact of the aforementioned Section 10 of the Act is that Companies Regulation 27 applies to close corporations. Close corporations that are required to use IFRS or IFRS for SMEs to prepare their AFS will have to include a statement of changes in equity, statement of cash flows, accounting policies and notes as required by IFRS and IFRS for SMEs. The Act contains no explicit requirement to provide comparative information.

However, comparative information assists members in understanding performance trends. In addition, IFRS and IFRS for SMEs require comparative information to be provided.

11.2.4 In section 58 of the Act, certain requirements with regard to financial statements are outlined. With the amendment of the Act by certain Companies Act inclusions, both Acts will have to be adhered to simultaneously. Section 5(4) of the Companies Act states that, if there is an inconsistency between the Act and the provisions of other national legislation, both Acts shall apply concurrently to the extent that it is possible to apply and comply with one of the inconsistent provisions without contravening the second. To the extent that it is impossible to apply or comply with one inconsistent provision without contravening the second, the Companies Act shall prevail, with the following exceptions:

- Auditing Profession Act, No. 26 of 2005;
- Labour Relations Act, No. 66 of 1995;
- Promotion of Access to Information Act, No. 2 of 2000;
- Promotion of Administrative Justice Act, No. 3 of 2000;
- Public Finance Management Act, No. 1 of 1999;
- Securities Services Act, No. 36 of 2004;
- Banks Act, No. 94 of 1990;
- Local Government: Municipal Finance Management Act, No. 56 of 2003; and
- Section 8 of the National Payment System Act, No. 78 of 1998.

11.2.5 The sections included by the Companies Act in certain cases seem to create a conflict with the requirements for a close corporation. The Act requires a close corporation to compile a balance sheet and income statement. The names of these statements have since been amended in the financial reporting frameworks and in some cases, where applicable, the close corporation needs to use the financial reporting frameworks as required by the Companies Act. It is therefore assumed that the use of this framework meets the Act's requirements.

11.2.6 The Act also refers to the fact that a close corporation must compile financial statements using generally accepted accounting practice that is appropriate to the business of the close corporation. Where a close corporation is required to compile financial statements using a prescribed framework, the additional requirements as stated in the Close Corporations Act can be included (refer to section 11.5 of the guide). It is SAICA's assumption that unless there is specific conflict where one Act overrides another, close corporations should

strive to meet the requirements of the Act and the Companies Act, where applicable.

- 11.2.7 Section 30(2)(b) of the Companies Act, read with section 58(2A) of the Act, states that a close corporation will require an audit if the close corporation meets the public interest score as defined in Regulation 28 of the Companies Act or if the close corporation keeps assets of more than R5 million per annum in the ordinary course of business in a fiduciary capacity or a close corporation can be voluntarily audited. With regard to the AFS being independently reviewed, SAICA is of the view that the requirement for an independent review is not applicable to close corporations.²

11.3 Internally or independently compiled financial statements

Reference: Section 58(2A) of the Act read with section 30(7) of the Companies Act and Companies Regulations 26 and 27

- 11.3.1 In deciding on the appropriate financial reporting framework to be used, the close corporation needs to identify whether its financial statements were compiled internally or independently.
- 11.3.2 Regulation 27 states that financial statements may be compiled internally or independently. AFS will be considered to be compiled internally unless they have been *independently compiled and reported*. AFS are defined as being independently compiled and reported when:
- they are prepared by an independent accounting professional;³
 - they are prepared on the basis of financial records provided by the close corporation; and
 - they are compiled in accordance with any relevant FRSs.
- 11.3.3 The default position is that AFS are internally compiled unless it is asserted that they are independently compiled and reported, subject to the above criteria being met.
- 11.3.4 The preparation and compilation of financial statements using the close corporation's own financial reporting framework, which must meet the requirements of sections 56 and 58, will still require the preparation of the income statement, balance sheet, cash flow statement and notes. The financial records used for this process include the ledgers, journals, documents and trial balance.
- 11.3.5 The preparation and compilation of financial statements where IFRS or IFRS for SMEs is still the applicable reporting framework include the preparation of a statement of comprehensive income, statement of financial position, statement

² Refer to section 58(2A) of the Close Corporations Act and section 13.2 of the guide.

³ Refer to Companies Act Regulation 26(1)(d) for the definition of an independent accounting professional.

of changes in equity, statement of cash flows, accounting policies and notes. This new terminology may be replaced by the terms “income statement, balance sheet and cash flow statement” where applicable.

- 11.3.6 The distinction between independent and internal compilation may not always be clear. What would be the case, for example, where a person or entity was employed to prepare the financial/accounting records and then prepare the financial statements? Close corporations would have to evaluate whether the three requirements for financial statements to be compiled independently were met, and, if not, then the financial statements could not be considered to have been independently compiled.
- 11.3.7 The close corporation must ensure that an appropriately qualified person is appointed to act as the independent accounting professional, where required. For financial statements to be compiled independently, the close corporation will require an independent accounting professional to compile the statements. If the close corporation does not have the financial statements independently compiled and reported on, the financial statements can be compiled by any suitably qualified person.
- 11.3.8 Close corporations that choose to be audited by the alternative provisions in the Act, including a member’s decision, would not have to comply with the Act’s independence requirements but the auditor would have to apply the Rules Regarding Improper Conduct and Code of Professional Conduct for Registered Auditors.

11.4 Public Interest Score (PI Score)⁴

Reference: Section 58(2A) of the Act read with section 30(7) of the Companies Act and Companies Regulation 26

- 11.4.1 The Regulations state that every close corporation shall calculate its “public interest score” (PI Score) at the end of each financial year. Close corporations should ensure that where they foresee that the PI Score for the following year will be above the threshold for an audit to be required, they should prepare for an audit for the following year.
- 11.4.2 The PI Score is calculated as the sum of the following:
 - (a) a number of points equal to the average number of employees of the close corporation⁵ during the financial year;

⁴ Information courtesy of The SAICA Guide to the Companies Act 71 of 2008, Annexure D – Audit, review and reporting standards. For more information refer to the Guide.

⁵ Section 10(3) of the Close Corporations Act states: “Regulations made by the Minister in terms of section 29(4) and (5), and 30(7) of the Companies Act apply to a close corporation as if those regulations had been made in terms of this Act,

- (b) one point for every R1 million (or portion thereof) in third party liabilities of the close corporation at the financial year-end;
- (c) one point for every R1 million (or portion thereof) in turnover of the close corporation during the financial year; and
- (d) one point for every individual who, at the end of the financial year, is known by the close corporation to directly or indirectly have a beneficial interest in the close corporation.

11.4.3 Employees

11.4.3.1 When performing the calculation, “employee” has the meaning set out in the Labour Relations Act, Act No. 66 of 1995. In this Act, an employee is defined as:

- “a) any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to receive, any remuneration; and*
- b) any other person who in any manner assists in carrying on or conducting the business of an employer,*
- and ‘employed’ and ‘employment’ have meanings corresponding to that of ‘employee’.”*

11.4.3.2 The following additional guidance is provided in S200A of the Labour Relations Act, 1995:

- “Until the contrary is proved, a person who works for, or renders services to, any other person is presumed, regardless of the form of the contract, to be an employee, if any one or more of the following factors are present:*
- a) the manner in which the person works is subject to the control or direction of another person;*
- b) the person’s hours of work are subject to the control or direction of another person;*
- c) in the case of a person who works for an organisation, the person forms part of that organisation;*
- d) the person has worked for that other person for an average of at least 40 hours per month over the last three months;*
- e) the person is economically dependent on the other person for whom he or she works or renders services;*
- f) the person is provided with tools of trade or work equipment by the other person; or*
- g) the person only works for or renders services to one person.”*

but any reference in those regulations to a company must be read as a reference to a close corporation.” Therefore, a reference to a company can be interpreted as a reference to a close corporation in the circumstances.

11.4.3.3 When calculating the number of employees, care should be given to the various definitions in the Labour Relations Act, 1995 and, based on the various contracts of the employees and the interpretation of the definitions, the decision must be taken when to include the employees in the calculation.

11.4.4 Third party liabilities

11.4.4.1 “Third party liabilities” is not defined in the Act. These liabilities are viewed as all liabilities of a close corporation that are payable to an identifiable third party. The following practical issues need to be considered:

- items should meet the definition of a “liability” and involve a “third party”;
- all liabilities (including subordinated loans) from members are seen to be with a directly related party of the close corporation and should be excluded from the PI Score calculation;
- provisions recognised in terms of the prescribed FRSs should be included only if reasonably deemed to be payable and the third party can be clearly identified (for example, deferred tax would be excluded);
- when calculating the PI Score, only the close corporation itself should be considered and not the group. Therefore, loans from other companies/close corporations within a group should be included in the calculation of the PI Score. However, loans not provided on normal commercial terms should be excluded, as favourable terms would be deemed to compromise the “third party” status of the counterparty; examples would include loans with no specific repayment terms or interest that is charged at rates that are not market related.

11.4.4.2 If uncertainty exists as to whether a liability is a third party liability, SAICA would recommend the more conservative approach, which would be to include this in the calculation.

11.4.5 Turnover

11.4.5.1 “Turnover” is defined in Regulation 164(4) of the Companies Regulations as follows:

*“At any particular time, the annual turnover of—
(a) a company other than a holding company is the gross revenue of that company from income in, into or from the Republic, arising from*

the following transactions or events, as recorded on the company's most recent annual financial statements:

- (i) the sale of goods;*
- (ii) the rendering of services; or*
- (iii) the use by other persons of the company's assets yielding interest, royalties, or dividends; or... ”*

11.4.5.2 Regulation 164(1) states:

“For purposes of S. 175 of the Act, the assets and turnover of a company at any particular time must be calculated in accordance with

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(a) the financial reporting standards applicable to that company, as set out in regulation 27; or

(b) SA GAAP, as defined in regulation 26(1)(f), in the case of a company in respect of which no financial reporting standards have been prescribed.”

11.4.5.3 While Regulation 164 defines the term “turnover”, it states that this definition is only provided for the purpose of the calculation of administrative fines and is not extended for use in calculation of the PI Score.

11.4.5.4 The definition provided is, however, the same as the current definition provided for “revenue” in all the prescribed FRSs, whereas “turnover” is not defined in the FRSs. As general practice, turnover is determined as the revenue generated from the primary activities of a company.

11.4.6 Beneficial interest

11.4.6.1 For the purposes of this calculation, “beneficial interest” is defined as follows:

“when used in relation to a company's securities, means the right or entitlement of a person, through ownership, agreement, relationship or otherwise, alone or together with another person to—

- (a) receive or participate in any distribution in respect of the company's securities;*
 - (b) exercise or cause to be exercised, in the ordinary course, any or all of the rights attaching to the company's securities; or*
 - (c) dispose or direct the disposition of the company's securities, or any part of a distribution in respect of the securities,*
- but does not include any interest held by a person in a unit trust or collective investment scheme in terms of the Collective Investment Schemes Act, 2002 (Act No. 45 of 2002).”*

11.4.6.2 A person is also regarded as having a beneficial interest in a security if the security is held *nomine officii* by another person on that first person's behalf.

11.4.6.3 As Regulation 26 requires one point to be allocated to each individual known to the company with a direct or indirect beneficial interest, another practical issue has developed. The reference to "indirect beneficial interest" could imply that a subsidiary of a holding company could be required to include the individuals with a beneficial interest in the holding company in its public interest score, as these individuals could be seen as having an indirect interest through its shareholding in the subsidiary.

11.4.6.4 SAICA is of the view is that the shareholders of a holding company does not have the right or entitlement to distributions of the subsidiary, dispose or direct disposal of securities of the subsidiary or to direct the voting in respect of and therefore they are not seen as having a beneficial interest and should therefore be excluded from the calculation of the public interest score.

11.4.6.5 With regard to calculating the beneficial interest in a company and therefore in a close corporation whose securities are held by a trust, the CIPC has expressed the view, in a Non-Binding opinion, dated 30 June 2011, that the individual beneficiaries of the trust should be counted as the individual beneficial interest holders.⁶

11.4.7 Conclusion

11.4.7.1 Regulation 26 requires every close corporation to calculate its PI Score at the end of each financial year. This could, however, cause a practical problem for the audit process applicable to the close corporation. If a close corporation is required to be audited in terms of its PI Score calculated at the end of the financial year, certain procedures, such as an inventory count that should have been conducted on the last day of the financial year, would not have been performed.

11.4.7.2 The close corporation's PI Score will be used to determine whether or not the financial statements should be audited as well as which financial reporting standards should be applied. The requirement is effectively applied retrospectively to the year for which the PI Score is calculated, which has severe repercussions on the audit. It is thus recommended that a cautious approach is used, in which the last financial statements produced are used as the basis for estimating the PI Score and material changes to the business are used to adjust this estimate to allow for an orderly audit should it be likely to be required.

⁶ Refer to the CIPC Non-Binding opinion in terms of section 188(2)(b) of the Companies Act, 2008, dated 30 June 2011.

11.5 Financial reporting framework

Reference: Section 58(2A) of the Act read with section 30(7) of the Companies Act and Companies Regulation 27

- 11.5.1 On completion of the PI Score calculation and the decision on whether the AFS were prepared internally or independently, the close corporation needs to identify the financial reporting framework that it should use.
- 11.5.2 Regulation 27 prescribes the financial framework to be used by a close corporation. The Regulations make provision for IFRS, IFRS for SMEs and SA GAAP, and also state that the FRSs apply to every close corporation with a financial year-end starting on or after the effective date of the Act. This means that close corporations with a financial year starting on or after 1 May 2011 (year ends on or after 30 April 2012) will have to prepare financial statements in line with the following table.

Public Interest Score (PIS)	Financial Reporting Standard
PIS \geq 350	IFRS/IFRS for SMEs
PIS \geq 100 and $<$ 350 and AFS were internally compiled	IFRS/IFRS for SMEs/SA GAAP
PIS \geq 100 and $<$ 350 and AFS were independently compiled	IFRS/IFRS for SMEs/SA GAAP
PIS $<$ 100 and AFS were independently compiled	IFRS/IFRS for SMEs/SA GAAP
PIS $<$ 100 and AFS were internally compiled	The FRS as determined by the company for as long as no FRS is prescribed

- 11.5.3 Therefore, close corporations that have a PI Score of below 100 and that compile their own AFS internally can choose their own reporting standard, provided that it does “fairly present” the financial position of the close corporation. (Refer to section 11.1 of the guide.)
- 11.5.4 All other close corporations have to use IFRS or IFRS for SMEs. Although the Regulations allow the use of SA GAAP, SA GAAP has been withdrawn with effect for year-ends commencing on or after 1 December 2012.⁷
- 11.5.5 IFRS for SMEs may only be used by entities that fall within the scope of that reporting framework.⁸

⁷ Joint announcement by the Accounting Practices Board (APB) and the Financial Reporting Standards Council (FRSC) regarding SA GAAP released during March 2012.

⁸ IFRS for SMEs define small and medium-sized entities as follows: “1.2 Small and medium-sized entities are entities that: (a) do not have **public accountability**, and (b) publish **general purpose financial statements** for external users.

11.6 Disclosure in the annual financial statements

Reference: Section 58(2A) of the Act read with section 30(3) to 30(6) of the Companies Act

Section 30(3) of the Companies Act states that the AFS of a close corporation must include the following information.

11.6.1 Auditor's report, if the statements were audited

11.6.2 Director's report with regard to the state of the business and profit or loss of the company. As a close corporation does not have directors, but rather members, it is assumed that a close corporation would have to include a members report .

11.6.2.1 Section 58(2A) of the Act states that section 30(2)(b) and (3) to (6) of the Companies Act, read with the changes required by the context, apply to a close corporation that is required in terms of the Regulations made in terms of section 30(7) of the Companies Act to have its AFS audited. Section 30(3) to (6) of the Companies Act therefore applies only to close corporations that are required to be audited and a members report will then only be required by a close corporation required to be audited.

11.6.2.2 The members report is required to include a report by the members with respect to the state of affairs of the close corporation, the business and profit or loss of the close corporation. In addition, if the close corporation is part of a group, then any material matters and other prescribed information must be included.

11.6.3 Member remuneration

11.6.3.1 Financial statements that include the particulars in terms of remuneration and the amount of pensions paid or receivable by members or past members, if the close corporation's financial statements require an audit in terms of the Companies Act requirements. Irrespective of this requirement, key management compensation should be disclosed if IFRS or IFRS for SMEs are complied with.

11.6.3.2 The Companies Act requires that the financial statements of a close corporation that are required to be audited in terms of the Companies Act must include the following:

- remuneration and benefits received by each member and the amount of any pension paid;

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies."

- amount of any pensions paid by the close corporation to or receivable by past or current members or individuals who hold or have held prescribed office in the close corporation; and
- amount paid or payable by the close corporation to a pension scheme with respect to past or current members or individuals who hold or have held prescribed office in the close corporation.

11.6.3.3 The definition of “remuneration” as per the Companies Act includes:

- fees paid to members for services rendered by them to or on behalf of the close corporation;
- expense allowances, to the extent that the member is not required to account for the allowances;
- contributions paid under any pension scheme;
- the value of any option or right given directly or indirectly to a member, past members or future members, or a person related to any of them;
- financial assistance to a member, past members or future members, or a person related to any of them, for the subscription of member’s interest; and
- any loan or other financial assistance by the close corporation to a member, past members or future members, or a person related to any of them, or any loan made by a third party to any such person.

11.6.3.4 Section 30(6) contains a detailed list of potential remuneration of directors/members. SAICA is of the view that it is the intention of section 30(6) that payments and forms of reward to directors/members (and the prescribed officers) be disclosed on an individual basis (not in aggregate as per the previous Act). Furthermore, section 5 requires that any interpretation and any section of the Act must be applied in a manner that gives effect to the purpose referred to in section 7. Section 7 sets out the purpose of the Act as the promotion of the South African economy by “encouraging transparency and high standards of corporate governance”. The meaning of section 30(5) and the reference to “person” require disclosure of the identity of the member.

11.6.3.5 In section 30(5), the Act requires that the disclosure must show the amount of any remuneration or benefits paid to or receivable by persons in respect of (a) services rendered as members of the close corporation, or (b) services rendered while being members of the close corporation:

- (i) as members of any other close corporation within the same group of close corporations; or

- (ii) otherwise in connection with the carrying on of the affairs of the close corporation or any other close corporation within the same group.

11.6.3.6 The effect of these requirements is that all remuneration paid to or receivable by a member must be disclosed: thus, not only the remuneration paid to the member *by the close corporation* but also all other remuneration received by the member from any other close corporation with the group. One person's remuneration may have to be disclosed by more than one close corporation in the same group of close corporations.

11.6.3.7 *Section 58(2A) of the Act states that section 30(2)(b) and (3) to (6) of the Companies Act, read with the changes required by the context, apply to a close corporation that is required in terms of the Regulations made in terms of section 30(7) of the Companies Act to have its AFS audited. Section 30(4) of the Companies Act, which deals with the disclosure of remuneration, therefore applies only to close corporations that are required to be audited.*

11.7 Disclosure requirements as per the Act

Reference: Section 58 of the Act

11.7.1 The Act requires that the AFS must disclose separately the aggregate amounts as at the end of the financial year of each of the following:

- contributions by members;
- undrawn profits (retained earnings);
- revaluations of fixed assets – note that this is only applicable if the evaluation model in IFRS is applied and not IFRS for SMEs (IFRS for SMEs do not allow the revaluation model as a measurement basis for property, plant and equipment);
- amounts of loans to members; and
- amounts of loans from members.

These amounts must be disclosed together with the movements in these amounts during the year (S58(2)(c)).

11.7.2 These are the mandatory requirements of the Act. There are no other specific disclosure requirements in the Act, which therefore places the onus on the members to ensure that the type and amount of detail disclosed in the AFS are relevant and sufficient to achieve fair presentation. However, please note that where IFRS or IFRS for SMEs is applied, the relevant framework (including disclosure requirements) must be applied in full.

- 11.7.3 The illustrative AFS set out in [Appendix XIII](#) are intended to serve as a guideline for the preparation of AFS of close corporations that are required and permitted to compile their AFS using IFRS for SMEs.

12 The accounting officer

Reference: Sections 59 to 62 of the Act

12.1 Companies Act implications

- 12.1.1 The amendments to the Act by the Companies Act did not remove the requirement for a close corporation to appoint an accounting officer.
- 12.1.2 The requirement to appoint an accounting officer and the requirement for the accounting officer's report has not been removed. The Act still states that every close corporation must appoint an accounting officer and compile an accounting officer's report even if an audit is required. The audit requirement is in addition to the accounting officer's duties, which are included in the Act in section 62.

12.2 Appointment

Reference: Section 59

- 12.2.1 The Act requires that every close corporation must appoint an accounting officer (S59(1)). The appointment of the first accounting officer will take effect on the date of registration of the close corporation (S59(2)).
- 12.2.2 If a vacancy occurs in the office of an accounting officer, the close corporation must within 28 days appoint another accounting officer (S59(3)).
- 12.2.3 The Companies Act has not removed the requirement for a close corporation to have an accounting officer. This could therefore lead to the situation where a close corporation could have an accounting officer as per the Act and an auditor if required in the Act as per the amendments. The accounting officer and auditor may be the same person, subject to the requirements of section 90 of the Companies Act and the Rules Regarding Improper Conduct and the Code of Professional Conduct for Registered Auditors.

12.3 Removal or resignation

Reference: Section 59 of the Act

- 12.3.1 A close corporation is required to inform its accounting officer in writing of his removal from office (S59(4)). An accounting officer must inform every member

of the close corporation in writing of his resignation or removal from office. He must also send a copy of the letter to the address of the registered office of the close corporation and inform the Registrar by registered post. The letter is to contain the following information:

- the fact that he has resigned or been removed from office;
- the date of his resignation or removal from office;
- the date up to which he has performed his duties;
- whether or not at the time of the resignation or removal from office he was aware of any matters in the financial affairs of the close corporation which were in contravention of any provisions of the Act. An accounting officer who was aware of any such matters must submit the full particulars to the Registrar in writing (S59(5)(a)).

12.3.2 An accounting officer who feels that his removal was for improper reasons must inform the Registrar by registered post and must also send a copy of the letter to every member (S59(5)(b)).

12.3.3 If the office of the accounting officer is vacant for a period of six months, the members who were aware of this vacancy become jointly and severally liable for all debts incurred by the close corporation while the office was vacant (S63(h)).

12.4 Qualifications

Reference: Section 60 of the Act

12.4.1 The Act also stipulates that no person qualifies for appointment as an accounting officer unless he is a member of a recognised profession which (S60(1)):

- as a condition for membership, requires its members to pass examinations in accounting and related fields of study that in the opinion of the Minister would qualify its members to perform the duties of an accounting officer under the Act;
- has the disciplinary powers to exclude from membership those people found guilty of negligence in the performance of their duties or of conduct which is discreditable to their profession;
- has been named in a notice published in the *Government Gazette*.

12.4.2 The Minister may from time to time publish the names of other professional bodies whose members are entitled to act as accounting officers (S60(2)). The list of professional bodies that are currently recognised is set out in [Appendix VI](#).

12.4.3 The Act states in section 60(4) that a close corporation may appoint the following as an accounting officer:

12.4.3.1 any person who is a member of a recognised profession listed in the *Government Gazette*;

12.4.3.2 a firm as defined in the Public Accountants and Auditors Act, No. 80 of 1991;

12.4.3.3 any other firm, if each partner is qualified to be so appointed; and

12.4.3.4 any other close corporation, if each member of the close corporation is qualified to be an accounting officer.

12.4.4 For a firm to be appointed as an accounting officer, it must either be a common law partnership or a firm of accountants and/or auditors, as defined in the Public Accountants and Auditors Act. A firm may be appointed as an accounting officer of a close corporation provided that each partner in the firm is qualified to be so appointed. The Public Accountants and Auditors Act has been replaced by the Auditing Profession Act, No. 26 of 2005, (APA) and that Act defines a firm as follows:

***“firm”** means a partnership, company or sole proprietor referred to in section 40.*

12.4.5 A member or employee of a close corporation, and a firm whose partner or employee is a member or employee of a close corporation, may be appointed as the accounting officer of that close corporation provided that all the members of the close corporation consent in writing to such an appointment (S60(3)). The intention of this requirement is that the accounting officer should not have any interest in the close corporation or in the conduct of its business which could jeopardise his independence and objectivity in discharging the duties of the accounting officer unless all the other members are aware of, and accept, this fact. The Chartered Accountant or Associate General Accountant should also consider the Code when accepting an appointment as the accounting officer.

12.4.6 A firm can only include a company that is incorporated (a personal liability company as defined in the Companies Act) and the company must comply with the requirement of section 39(3) of the APA. A personal liability company can therefore be appointed as an accounting officer if all the directors are qualified to act as accounting officers.

12.4.7 A close corporation can also be appointed as an accounting officer, should all the members qualify to be appointed as accounting officers.

12.4.8 Should all the members not qualify to be accounting officers, then a person should be appointed in his personal capacity. A sole proprietor that conducts

his business under a business name (i.e. a name other than the name of its proprietor), therefore, cannot be appointed as a firm but will have to be appointed in his personal capacity under paragraph (i) of section 60(4)(a).

12.4.9 No requirements have been laid down by the Act as to the amount of the remuneration of the accounting officer. This matter must be agreed between the accounting officer and the members of the close corporation (S61(2)), with reference to the relevant section of the Code.

12.4.10 The CIPC requires the following in order to ensure that a firm or a close corporation qualifies for appointment as the accounting officer of a close corporation. The firm or close corporation to be appointed must furnish the following additional information in its letter of consent to its appointment:

- the names of all the partners of the firm or members of the close corporation;
- the recognised professions to which each such partner or member belongs;
- the individual membership or practice number of each such partner or member; and
- the practice number of the firm or close corporation allocated by the relevant recognised profession to the said firm or close corporation (note: the membership or practice number of individual partners or members will not be accepted, as the firm or close corporation will be appointed as the accounting officer and not the individual partners or members).

12.4.11 Prospective accounting officers must, furthermore, note that the letter of consent to their appointment must be typewritten:

- on a letterhead containing the personal particulars of the accounting officer, if the appointment is made in a personal capacity (S60(4)(a)(i));
- on the letterhead of the firm, if a firm is appointed (S60(4)(a)(ii) and (iii)); or
- on the official letterhead of the close corporation, if a close corporation is appointed (S60(4)(a)(iv)); and that it must be dated not earlier than three months prior to the date of lodgement.

12.5 Duties

Reference: Section 62

12.5.1 The duties of an accounting officer are set out in the Act. It is important that a distinction be drawn between the duties required of an auditor and those required of an accounting officer. All possible steps should be taken to ensure

that this distinction is recognised not only by the accounting officer himself but also by the members of the close corporation and, possibly, by other potential users of a close corporation's AFS.

12.5.2 The duties of the accounting officer are set out in section 62 of the Act. The Act gives the accounting officer a right of access to the accounting records and other information of the close corporation and entitles him to require necessary explanations from the members (S61(1)).

12.5.3 Duties of the accounting officer

12.5.3.1 The accounting officer is required to do the following:

- determine whether the AFS agree with the accounting records (S62(1)(a));
- review the appropriateness of the accounting policies represented to the accounting officer as having been applied in the preparation of the AFS (S62(1)(b)); and
- report to the corporation in respect of paragraphs (a) and (b) (S62(1)(c)).

12.5.3.2 Where the accounting officer is a member or employee of the close corporation, he must state this fact in this report (S62(2)(b)).

12.5.3.3 The duties in S62(1)(a) must be read subject to the limitation in S58(2)(d). S58(2)(d) provides that the AFS are required to be in agreement with the accounting records, which must be summarised in such a form that the accounting officer is enabled to report to the close corporation in terms of S62(1)(c) without its being necessary to refer to any subsidiary accounting records and vouchers to support the entries in the accounting records. However, the accounting officer's right to inspect such subsidiary accounting records and vouchers, if he deems it necessary, is not affected (S58(2)(d)).

12.5.3.4 Guidance on the work to be performed by an accounting officer in relation to his duties is provided in [Appendix VII](#).

12.5.3.5 During the performance of his duties, as outlined in section 12.5.3.1 of the guide, the accounting officer may become aware that a provision of the Act has been contravened. In this event, regardless of the materiality or significance of the contravention, he must describe the nature of such a contravention in his report to the members (S62(2)(a)).

12.5.3.6 Sometimes the accounting officer may have reason to believe that there has been a contravention of the Act, but may have insufficient evidence to confirm the exact contravention. In such circumstances,

the accounting officer is not required to extend his duties and search for detailed evidence. Where uncertainty exists about a possible contravention of the Act, the accounting officer is to describe his uncertainty, the reason for the uncertainty, and the possible contravention of the Act in his report to the members.

12.5.3.7 A checklist of possible contraventions of the Act that need to be described in the report to members is set out in [Appendix VIII](#).

12.5.3.8 While there is no statutory obligation for a Chartered Accountant or Associate General Accountant who acts as an accounting officer to ensure that his client enjoys the limited liability afforded by the Act, the matter may be discussed with the client, making the client aware that limited liability may be lost in specific circumstances. If the client agrees, the Chartered Accountant or Associate General Accountant can be engaged by the client to ensure compliance with the provisions of the Act. This additional service to be provided and the costs involved should be clarified in the engagement letter. Unless included in the engagement letter, the accounting officer's examination would not include the necessary steps to ensure continued limited liability by the client.

12.5.3.9 If an accounting officer discovers a contravention of the Act while carrying out duties other than those duties required by the Act, the obligation to report, if any, would be governed by the terms of the contract in which he was appointed to perform such other duties. In terms of such an appointment, the accounting officer may be obliged expressly or by implication to report to members on any contraventions of the Act of which he becomes aware.

12.5.4 Report to the Registrar

12.5.4.1 The accounting officer must immediately report to the Registrar by registered post (S62(3)) if, during the performance of his duties, he becomes aware that:

- the close corporation is not carrying on business and has no intention of resuming operations in the foreseeable future;
- a change to the founding statement has not been registered;
- the AFS indicate that the liabilities of the close corporation exceed its assets; or
- the AFS incorrectly indicate that the assets exceed the liabilities. The existence of a subordination agreement does not change the accounting officer's reporting responsibility.

12.5.4.2 A checklist of possible contraventions of the Act that need to be reported to the CIPC is set out in [Appendix VIII](#).

12.5.4.3 However, if the accounting officer finds that any subsequent AFS of the close corporation concerned indicate that the situation has changed or has been rectified and that the assets concerned then exceed the liabilities or that they no longer incorrectly indicate that the assets exceed the liabilities, he may report to the Registrar accordingly (S62(4)).

12.6 Engagement letters

12.6.1 The services that a Chartered Accountant or Associate General Accountant offers to a close corporation may extend beyond the duties of an accounting officer. To avoid any misunderstanding regarding the nature of the services to be provided, engagement letters should be issued to all clients. The engagement letter should be unambiguous and clearly indicate the procedures that will be performed by the accounting officer.

12.6.2 Engagement letters normally:

- describe clearly all the services to be provided;
- where applicable, state that the close corporation will be responsible for providing all the information necessary to prepare the AFS that meet the fair presentation requirements of the Act;
- unless an audit is specifically required, state that the engagement will not be sufficient in scope to enable any opinion to be expressed on the AFS;
- state that the duties of the accounting officer cannot be relied on to discover errors, fraud or other irregularities;
- state that members will be required to provide written representations; and
- indicate the basis on which fees will be charged.

12.6.3 An example of an engagement letter is provided in [Appendix IX](#).

12.6.4 Where an accounting officer is a member or employee of the close corporation, he should ensure that the above matters, suitably modified, are incorporated in the association agreement, or other similar document.

12.6.5 It is advisable for the accounting officer to request the members of the close corporation to provide a representation letter to clarify the expectations and duties of the members.

12.6.6 An example of a representation letter is provided in [Appendix X](#).

12.7 Accounting officer compiles the annual financial statements

12.7.1 The duties of the accounting officer to a close corporation will often be carried out by a Chartered Accountant or Associate General Accountant who has also been engaged to compile the AFS of the close corporation.

12.7.2 Compilation of the annual financial statements

12.7.2.1 Although there is no legislative requirement to use a specific standard when compiling financial statements, it is expected that Chartered Accountants/Associate General Accountants apply the relevant pronouncements issued by the International Auditing and Assurance Board (IAASB).⁹ International Standard on Related Services 4410 (ISRS 4410) (Revised) – *Compilation Engagements* 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. Readers of this guide should refer to ISRS 4410.3, which provides guidance on matters to consider in deciding whether a compilation engagement should be undertaken in accordance with ISRS 4410. Taking into account the capacity in which a Chartered Accountant/Associate General Accountant compiles the financial statements, whether and in what manner the practitioner's name is identified with the financial statements and how users of the financial statements will understand the practitioner's involvement with those financial statements, it is expected to be extremely rare that a Chartered Accountant/Associate General Accountant in public practice conducts a compilation engagement without applying ISRS 4410. If applicable, the practitioner should document his/her decision not to undertake a particular compilation engagement in accordance with ISRS 4410.

12.7.2.2 Compiling AFS of a close corporation will normally provide a Chartered Accountant or Associate General Accountant with most of the information that he needs to enable him to perform the duties of the accounting officer to the close corporation. He should ensure that the AFS have been approved and signed by or on behalf of a member or members holding an interest of at least 51% prior to the issuing of the AFS.

⁹ SAICA is a member of the International Federation of Accountants (IFAC). In pursuing their mission, the IFAC Board has established the International Auditing and Assurance Standards Board (IAASB) to function as an independent standard-setting body under the auspices of the IFAC. Member bodies have an obligation to support the adoption and implementation of international standards.

- 12.7.3 It is important that the accounting officer documents matters that are important in providing evidence that the engagement was carried out in accordance with the terms of engagement as well as his findings.

12.8 Reporting considerations

- 12.8.1 It is possible that a user of AFS on which a Chartered Accountant who is also a Registered Auditor has reported may expect the normal degree of assurance associated with audited AFS. The duties of an accounting officer do not include the performance of an audit. As a result, it is necessary for a Chartered Accountant who is also a Registered Auditor, acting as accounting officer, to take action to prevent this form of association. It would therefore be necessary for him to state explicitly in his accounting officer's report that no audit has been carried out and that no audit opinion is expressed.
- 12.8.2 The accounting officer's report must be issued not later than three months after completion of the AFS (S62(1)). This seems to be in addition to the requirements in section 58(1), which states that the AFS must be compiled within six months after year-end.
- 12.8.3 The report is attached to, and refers to, the AFS to which it relates (S58(2)(e)). Examples of accounting officer's reports that comply with the requirements of the Act are included in [Appendix XII](#), with illustrative AFS provided in [Appendix XIII](#). The examples are given for general guidance to illustrate the principles involved. Other forms of presentation may also comply with the requirements of the Act.
- 12.8.4 A Chartered Accountant or Associate General Accountant who signs any documents of, or in respect of, a close corporation as its accounting officer is to state "Chartered Accountant (SA)" or "Associate General Accountant (SA)" beneath his signature. Where the Chartered Accountant is also a Registered Auditor, he is not to state "Registered Auditor" beneath his name as is done for auditor's reports.

13 Audit and independent review requirements

Reference: Section 58(2A) of the Act read with section 30(7) of the Companies Act and Companies Regulation 28

13.1 General

- 13.1.1 Prior to the amendment of the Act in 2011 by the Companies Act, the Act only required a close corporation to prepare the AFS and for the close corporation to appoint an accounting officer. The accounting officer has certain duties in

terms of section 62 of the Act, which specifies that the accounting officer has to review the appropriateness of the accounting policies used in the preparation of the AFS.

- 13.1.2 The amendment to the Act by the Companies Act has also amended the audit and independent review requirements.

13.2 Independent review application

Reference: Section 58(2) of the Act

- 13.2.1 The Act has been amended in section 58(2A), which states the following:

“(2A) Section 30(2)(b) and (3) to (6) of the Companies Act read with changes required by the context, apply to a close corporation that is required in terms of the Regulations made in terms of section 30(7) of the Companies Act, to have its annual financial statements audited.”

- 13.2.2 The amendments to the Act therefore only state that the relevant sections in the Companies Act will apply to a close corporation that requires an audit. There are, however, currently two views on this issue as discussed below.

13.2.2.1 View 1

The amendment of section 58(2A) in the Act only states that the Companies Act is applicable to close corporations that require an audit. Close corporations are not incorporated in the independent review requirement.

13.2.2.2 View 2

Section 30(2)(b) which has been included in the Act, states that a close corporation can be audited, or audited voluntarily or independently reviewed.^{10.}

- 13.2.3 SAICA supports view 1, but readers should to use their own professional judgement in making this decision.

13.3 Audit

Reference: Section 58(2A) of the Act

- 13.3.1 The Companies Act has amended section 58 of the Act to include section 58(2A), which includes the requirement for close corporations to be audited when they meet the requirements set out in Regulation 28 of the Companies Act Regulations.

¹⁰ SAICA requested an advisory opinion from the CIPC regarding this interpretation, which is still outstanding at the date of publication of this guide.

13.3.2 The Regulations provide that where the audit of any close corporation is desirable in the public interest, as indicated by the meeting of the prescribed criteria in any particular financial year, the AFS of that close corporation must be audited. If any of the following prescribed criteria are met, the close corporation will require an audit:

- if in the ordinary course of its primary activities, a close corporation holds assets in a fiduciary capacity for persons who are not related to the close corporation, and the aggregate value of such assets held at any time during the financial year exceeds R5 million;
- a close corporation which was incorporated:
 - directly or indirectly by the state, an organ of state, a state-owned company, an international entity, a foreign state entity or a foreign company; or
 - primarily to perform a statutory or regulatory function in terms of any legislation, or to carry out a public function at the direct or indirect initiation or direction of an organ of the state, a state-owned company, an international entity, or a foreign state entity, or for a purpose ancillary to any such function;
- any other close corporation whose PI Score in that financial year is 350 or more; or
- any other close corporation whose PI Score in that financial year is at least 100 (but less than 350) and its AFS for that year were internally compiled. For this category of close corporation, the decision as to whether to compile the AFS internally or independently will determine whether the close corporation is subject to audit. Refer to the Requirements for close corporations to be audited in [Appendix XI](#) for a diagramme to calculate whether the close corporation requires an audit.

13.3.3 With regard to the PI Score, please refer to section 11.4 of the guide for a discussion of the PI Score calculation.

13.3.4 Close corporations would need to consider the PI Score and whether the AFS were prepared internally or independently (refer to section 11.3 of the guide) in deciding whether they require an audit or not.

Public Interest Score (PIS)	Audit
PIS ≥ 350	Yes
PIS ≥ 100 and < 350 and AFS internally compiled	Yes
PIS ≥ 100 and < 350 and AFS independently compiled	No
PIS < 100 and AFS independently compiled	No
PIS < 100 and AFS internally compiled	No

13.3.5 Ordinary course of primary activities

13.3.5.1 A close corporation will also require the AFS to be audited if the close corporation holds assets in the ordinary course of its primary activities in a fiduciary capacity for people who are not related to the close corporation, and the aggregate value of such assets held at any time during the financial year exceeds R5 million.

13.3.5.2 The terms “ordinary course of its primary activities” and “fiduciary capacity” are not defined.

13.3.5.3 Assets held in a fiduciary capacity must be held in the ordinary course of the close corporation’s primary business, not incidental thereto, on behalf of third parties not related to the close corporation. Fiduciary capacity implies decision-making capability over the application of the assets and that the third parties have the right to reclaim the assets. These assets may be financial or non-financial assets.

13.3.5.4 Whether a close corporation holds assets in the ordinary course of its primary activities depends on the nature of the close corporation; i.e. whether the activity is part of the core business or is incidental thereto. Incidental activities will not be included in a close corporation’s primary activities.

13.3.6 Conclusion

13.3.6.1 Each close corporation must evaluate whether it is required to be audited, for statutory purposes, in terms of the requirements of the Act. Close corporations should bear in mind that in a group situation where the close corporation is the holding company, an audit of certain group companies, such as significant subsidiaries or any subsidiaries as determined by the audit partner, may be required for the auditor to be able to express an opinion on the consolidated financial statements, regardless of whether such an audit is also a statutory requirement in terms of the Act. The auditor must satisfy this requirement to comply with the International Standards on Auditing (ISA 600 – *Special Considerations – Audits of Group Financial Statements* (including the *Work of Component Auditors*)).

13.3.6.2 Close corporations should also evaluate whether their PI Score could fluctuate above and below 350. If this is the case, close corporations are advised to adopt a conservative approach and opt for an audit. Where a close corporation requires an audit one year and an accounting officer’s report the following year, it will impact the audit of opening balances. This situation might possibly require

more audit work and may result in a modified audit opinion on opening balances if the opening balances cannot be substantiated.

13.4 Exemption regarding audit and independent review

Reference: Companies Act, section 30(2A) and Close Corporations Act, section 58(2A)

- 13.4.1 The Companies Amendment Act provides for an exemption with regard to audit and independent review. The exemption states:

“30 (2A) If, with respect to a particular company, every person who is a holder of, or has a beneficial interest in, any securities issued by that company is also a director of the company, that company is exempt from the requirements in this section to have its annual financial statements audited or independently reviewed, but this exemption—

(a) does not apply to the company if it falls into a class of company that is required to have its annual financial statements audited in terms of the regulations contemplated in subsection (7)(a); and

(b) does not relieve the company of any requirement to have its financial statements audited or reviewed in terms of another law, or in terms of any agreement to which the company is a party.”

- 13.4.2 As “company” also includes a close corporation, this implies that any close corporation that meets the requirement to be audited in terms of Regulations, in terms of the PI Score or activities it is engaged in, would require an audit.

- 13.4.3 Section 58(2A) states:

*“Section 30(2)(b), and (3) to (6) of the Companies Act, read with the changes required by the context, apply to a close corporation that is required by the regulations made in terms of section 30(7) of the Companies Act, **to have its annual financial statements audited.**”*

- 13.4.4 SAICA interprets this to mean that the exemption in section 30(2A) is not applicable to close corporations as section 30(2A) is not applicable to close corporations.

13.5 Voluntary audit

Reference: Companies Act, section 30(2)(b)(ii)

- 13.5.1 Even if a statutory audit is not required, a close corporation can choose to have its AFS audited, either by inclusion of the requirement in its association agreement or by the decision of the members.

- 13.5.2 A requirement to have an audit of AFS that is embedded in the association agreement will not result in some of the more onerous provisions of the

Companies Act as included in Chapter 3 of the Companies Act (refer to section 14 below) being applicable to a close corporation.

- 13.5.3 As an association agreement is a voluntary agreement between members of a close corporation, it does not have the same onerous requirements relating to the audit requirement that the inclusion of the audit requirement in the Memorandum of Incorporation (MOI) will have for a company.¹¹

14 Application of Chapter 3 of the Companies Act

Reference: Companies Act, Chapter 3; Close Corporations Act, section 62A

14.1 General

- 14.1.1 Section 62A has been inserted into the Act and it states that Chapter 3 of the Companies Act does not apply to a close corporation unless the close corporation chooses to apply Chapter 3 or is required to do so by section 84(1)(c) of the Companies Act.
- 14.1.2 Close corporations can therefore choose to apply all of, or any sections of, Chapter 3 of the Companies Act by including this in its association agreement or by a decision of the members.
- 14.1.3 However, section 84(1)(c) states that Chapter 3 applies to a close corporation that is required to have its AFS audited, except that parts B (company secretary) and D (audit committees) do not apply. However, close corporations can also choose to apply these sections.
- 14.1.4 Sections 14.2 to 14.6 of the guide will be applicable to close corporations that are required to have their AFS audited in terms of the Companies Act or Regulations or where a close corporation has included compliance with sections 90 to 93 of the Companies Act in its association agreement.
- 14.1.5 The requirements relating to the company secretary and audit committee are discussed in detail in the SAICA Companies Act Guide. For more information, please refer to the SAICA Companies Act Guide.

14.2 Auditor

Reference: Companies Act, sections 90 to 93

- 14.2.1 A close corporation that is required by the Companies Act or the Regulations to have its AFS audited or a close corporation that has included compliance with sections 90 to 93 in its association agreement must comply with the

¹¹ SAICA requested an advisory opinion from the CIPC regarding this interpretation, which is still outstanding at the date of publication of this guide.

requirements of section 90 that relate to the appointment of the auditor. A close corporation that is not required by the Companies Act, the Regulations or its association agreement to appoint an auditor, but which voluntarily chooses to do so, will not be required to comply with these requirements.

- 14.2.2 Section 90 requires a company to appoint its auditor at the annual general meeting (AGM) at which the requirement first applies to the company, and at each AGM thereafter. As close corporations are not required to have an AGM, the assumption could be made that a close corporation would have to appoint an auditor at the meeting of its members, as stated in section 48.
- 14.2.3 Section 90(6) provides that a retiring auditor may be automatically reappointed at an AGM without any resolution being passed, unless:
- (a) the retiring auditor is no longer qualified for appointment, no longer willing to accept the appointment, and has so notified the close corporation, or is required to cease serving as auditor, in terms of S92;
 - (b) an audit committee appointed by the company in terms of the Act objects to the reappointment; or
 - (c) the company has notice of an intended resolution to appoint some other person or people in place of the retiring auditor.
- 14.2.4 Vacancies in the office of the auditor should be dealt with in accordance with the procedures outlined in section 14.4 of this guide.

14.3 Independence of auditor¹²

Reference: Companies Act, section 90

- 14.3.1 The Companies Act expressly disqualifies an auditor from being validly appointed as the auditor in terms of the Companies Act, if that person provided certain prohibited services, including accounting or secretarial services, to the close corporation that requires the audit.
- 14.3.2 The Companies Act states that a person cannot be appointed as an auditor if that person has performed any of the functions listed in S90(2)(b). This list includes the following positions:
- a director or prescribed officer of the close corporation;
 - an employee or consultant involved in the maintenance of financial records or preparation of financial statements;
 - a director, officer or employee of the company secretary;
 - a person who alone or with a partner or employee performs the duties of an accountant or bookkeeper, or performs related secretarial duties;
 - a person who during the past five years has been one of the above; or

¹² Refer to the SAICA/IRBA Guidance on the provision of non-audit services by the auditor of a company, released 17 March 2015.

- a person related to any of the above.

- 14.3.3 It is SAICA's view that this prohibition *expressly* extends only to the appointment of an auditor by a close corporation that is required to be audited in terms of the Companies Act and Regulation 28 (PI Score or fiduciary assets activity test), and not to audits voluntarily agreed on by the members of the close corporation.
- 14.3.4 Following uncertainty as to whether the prohibitions extend to the firm appointed as the auditor or only apply to the individual who has been appointed as auditor, the SAICA and IRBA Boards jointly briefed Senior Counsel for a written opinion. The opinion confirms that the prohibitions contained in section 90(2)(b) apply to firms and individuals that are appointed as auditors.
- 14.3.5 For audit engagements, audits in terms of the Companies Act and the Regulations and audits voluntarily agreed on by the members of the close corporation, auditors should also consider their independence with reference to the Rules Regarding Improper Conduct and Code of Professional Conduct for Registered Auditors, with specific reference to section 290.
- 14.3.6 Auditors of close corporations that choose to be audited by inclusion of the audit requirement in the association agreement or by members' decision would not have to comply with the independence requirements in the Companies Act but would still have to apply the requirements of the APA and the Code of Professional Conduct for Registered Auditors.
- 14.3.7 Where auditors were involved in any of the work mentioned in S90(2)(b) prior to 1 May 2011, they are not disqualified from being appointed as the auditor for the year following the Effective Date of 1 May 2011, assuming the prohibited functions have not been performed on or after 1 May 2011, as constitutionally legislation may not apply retrospectively.
- 14.3.8 Section 90 is effective from 1 May 2011. The CIPC has, however, agreed to an extension of the effective date to 1 January 2014.
- 14.3.9 With the extension of the enforcement of section 90 from 1 May 2011 to 1 January 2014, the counting of the five-year period was also postponed and commenced on 1 January 2014.
- 14.3.10 The auditor will be disqualified from being appointed as the auditor with effect from 1 January 2014, if the auditor performed any of the prohibited services on 1 January 2014.¹³

¹³ Refer to the SAICA/IRBA Guidance on the provision of non-audit services by the auditor of a company, released 17 March 2015.

14.4 Resignation of auditor and filling of vacancy

Reference: Companies Act, section 91

- 14.4.1 Resignation is effective when the notice is filed. Unfortunately, there is no prescribed form for the resignation of the auditor of a close corporation. The auditor is required to give the company one month's written notice, unless the members approve a shorter notice period.
- 14.4.2 Before filling a vacancy, the members must suggest the name of at least one registered auditor to be considered for appointment to the close corporation's audit committee (if the close corporation has an audit committee) within 15 business days of the vacancy arising.
- 14.4.3 The members may proceed with appointing such a proposed person if, within five business days after delivering the proposal, the audit committee does not give notice in writing to the members in which it rejects the proposal.
- 14.4.4 A vacancy in the office of auditor must be filled by the members within 40 business days if there is only one incumbent auditor of the close corporation. The members may appoint a new auditor at any time if there is more than one incumbent but, while such a vacancy continues, the surviving or continuing auditor may act as the auditor of the close corporation.
- 14.4.5 If a close corporation appoints a firm as auditor, any change in the composition of the members of the firm does not by itself create a vacancy. However, if by comparison with the membership of the firm at the time of its latest appointment less than one-half of the members remain after such a change, that change constitutes the resignation of the firm as auditor of the close corporation, giving rise to a vacancy.
- 14.4.6 The transitional arrangements provide that a person who holds office as an auditor of a pre-existing close corporation immediately before the Effective Date continues to hold that office as from the Effective Date, subject to the close corporation's association agreement and the requirements of the Companies Act.
- 14.4.7 A person contemplated above who, in terms of the Companies Act is ineligible to be, or disqualified from being, the auditor is regarded as having resigned from every such office in any close corporation as from the Effective Date.
- 14.4.8 A vacancy in the office of auditor of a pre-existing close corporation as from the Effective Date, irrespective of how such a vacancy arises, is to be filled in accordance with the requirements of the Companies Act.
- 14.4.9 Resignations and vacancies in the office of auditor should be filled in accordance with the requirements of the Companies Act.

- 14.4.10 As mentioned, the resignation of the auditor is effective once the document containing the resignation is filed. Where the company does not want to accept the resignation of the auditor and file the notice, the auditor should notify the client and the CIPC of his resignation. According to section 91, the resignation is effective when the form containing the resignation is filed. “Filed” is defined as “to deliver a document to the CIPC in the manner and form, if any, prescribed for the document”. Therefore, where the client does not want to accept the resignation, the auditor should ensure that he delivers the letter to the client and the Commission and retains proof of the resignation and delivery.

14.5 Rotation of auditors

Reference: Companies Act, section 92

- 14.5.1 Section 92 of the Companies Act deals with the rotation of auditors and applies to the following categories of companies:
- public companies;
 - state-owned companies;
 - private, personal liability and non-profit companies if the company is required by the Companies Act or the Regulations to have its AFS audited; and
 - private, personal liability and non-profit companies that voluntarily elect to have their AFS audited to the extent that the company’s MOI so requires.
- 14.5.2 As the Act states that, where required, the reference to “a company” must be substituted with “close corporation”, the section also applies to a close corporation that is required to have its AFS audited in terms of the Companies Act or Regulations.
- 14.5.3 Section 92(1) of the Companies Act states that the same individual may not serve as the auditor or designated auditor of a close corporation for more than five consecutive financial years.
- 14.5.4 The transitional arrangements in Schedule 5 Item 7(11) of the Companies Act state that the five consecutive financial years contemplated in section 92(1) must be calculated from 1 May 2011, the Effective Date of the Act. The effect of the transitional provision is that a designated auditor (the individual) only needs to rotate off a particular audit after auditing five consecutive financial years after 1 May 2011 (or earlier, if required in terms of the International Federation of Accountants (IFAC) rules). This applies even if the audit partner had been the designated auditor for any number of financial years prior to the commencement of the Act. In the case of a first appointment after 1 May 2011,

the partner may serve a full five financial years (e.g. from June 2011 to June 2016).

14.5.5 Section 92(2) of the Companies Act states that if an individual has served as the auditor or designated auditor of a close corporation for two or more consecutive financial years and then ceases to be the auditor or designated auditor, the individual may not be appointed again as the auditor or designated auditor of that close corporation until after the expiry of at least two further financial years.

14.5.6 Section 92(3) of the Companies Act states that if a close corporation has appointed two or more people as joint auditors, the close corporation must manage the rotation required by this section in such a manner that all of the joint auditors do not relinquish office in the same year.

14.6 Accounting officer and auditor

14.6.1 The independence requirements in Section 90 also influence the duties of the accounting officer. Section 90(2)(b)(ii) states that the person who compiles the AFS cannot be appointed as the auditor. A person/firm can therefore prepare the financial statements and act as the accounting officer, but in terms of section 90(2)(b)(ii) the accounting officer would therefore be disqualified from being the auditor of the close corporation.

14.6.2 The accounting officer who only completes his duties as required in section 62 would not be involved in the preparation of the AFS and would therefore not be disqualified under section 90(2) from being appointed as the accounting officer and auditor of the close corporation.

15 Annual return required

Reference: Section 15A

15.1 A close corporation must lodge an annual return (S15A) with the prescribed payment as from 1 September 2008. This annual return must be lodged by no later than the end of the month following on the anniversary month of its date of incorporation.

15.2 The annual return must be lodged electronically with the CIPC in the format made available on the CIPC portal. The following information is required in respect of the close corporation:

- The registered name and trading name
- Registration number
- Main business

- Date of incorporation
- The end of the financial year
- The end of the period of the latest annual AFS approved by members and for which the accounting officer has issued his report
- The registered or postal address
- Location of close corporation records
- The amount of turnover (revenue) as contained in the latest AFS
- Telephone and other contact numbers and addresses
- The members
- Information regarding the accounting officer:
 - Name
 - Registration number of the accounting officer if it is either a close corporation or a firm as defined in section 1 of the APA, or the Public Accountants and Auditors Act, 1991
 - Postal address
 - Profession
 - Practice number or membership number
- Such other information relating to information to be disclosed in terms of the Act and as may be required in the annual return

15.3 A copy of the annual return must be kept at the registered office of the close corporation and shall be available for inspection.

15.4 The CIPC released a notice¹⁴ on 24 April 2013, which states the following:
“Therefore, all companies and close corporations that are required by the Companies Act, 2008 (the Act) or Companies Regulation 28 to have its audited financial statements audited must file a copy of the latest approved audited financial statements when it files its annual return in terms of Companies Regulation 30(2). Such copy of the audited financial statements must be filed on the same date that the annual return is filed by sending such to the following e-mail address: financialstatements@cipc.co.za”

15.5 Section 15A(1) requires the close corporation to file the annual return in the prescribed form. As the form must be prescribed by the CIPC, it seems that the CIPC can request the audited AFS as stated in section 15.4 of the guide.

16 Tax status of close corporations and their members

References to sections refer to the Income Tax Act, No. 58 of 1962, unless otherwise stated. Please note this is only high-level information on tax, please refer to the Income Tax Act and other relevant act for more information.

¹⁴ Notice to customer: Filing of audited financial statements for companies and close corporations, released on 24 April 2013.

- 16.1 The definition of a “company” in section 1 of the Income Tax Act, No. 58 of 1962, includes a close corporation. A close corporation is therefore taxed in the same manner as a company. A close corporation does not satisfy the requirements of a public company and is therefore classified as a private company (sections 38(2)(b) and 38(3)).
- 16.2 A close corporation does not formally declare dividends in a legal sense but sections 64E and 64EA deem a declaration to have taken place when any cash or assets are transferred or distributed to the shareholders and such distribution falls within the ambit of the dividend definition. Distributions by a close corporation to its members are therefore dividends declared and subject to withholding tax.
- 16.3 A close corporation is a “company” for purposes of the Transfer Duty Act, No. 40 of 1949. The definition of “residential property” specifically excludes any “fixed property” of a “vendor” forming part of an “enterprise” all as defined in section 1 of the Value-Added Tax Act, No. 89 of 1991.
- 16.4 Regarding securities transfer tax, the transfer of any security issued by a close corporation or company incorporated, established or formed inside the RSA is subject to the securities transfer tax at the rate of 0,25 per cent of the taxable amount of that security determined in terms of that Act. There are some transfers that will be exempt from the tax. The first is where the transfer constitutes a transaction for the acquisition of property that is subject to transfer duty and the second is a *de minimis* exemption where the close corporation had to pay tax of less than R100 in the month of transfer.

17 Deregistration and winding-up

17.1 Deregistration

Reference: Section 26, and the Companies Act, sections 81(1)(f), 81(3), 82(3) to (4), and 83

- 17.1.1 Deregistration of the close corporation will mean the cancellation of the registration of the close corporation’s founding statement (S1). The close corporation continues to exist as a juristic person notwithstanding any changes in its membership until it is deregistered or dissolved in terms of the Act or the Companies Act, if the close corporation has been converted to a company (S2(2)).
- 17.1.2 The liability of the members of the close corporation for any acts or omission that took place before the close corporation was removed from the register does not lapse once the close corporation has been deregistered.
- 17.1.3 The amendments to the Act in section 26 state the following:

“Section 81(1)(f), 81(3), 82(3) to (4), and 83 of the Companies Act, read with the changes required by the context, apply to the deregistration of a corporation, but a reference in any of the provisions to a company must be regarded as a reference to a corporation for the purposes of this Act.”

- 17.1.4 The CIPC may deregister a close corporation on the following grounds:
 - 17.1.4.1 if the close corporation has transferred its registration to a foreign jurisdiction;
 - 17.1.4.2 has failed to file an annual return for two or more years in succession and could not provide satisfactory reasons for the failure;
 - 17.1.4.3 the CIPC has determined that the close corporation has been inactive for at least seven years; or
 - 17.1.4.4 the CIPC has received a request from the close corporation that the close corporation has ceased to carry on business and has no assets, or because of the inadequacy of the assets there is no reasonable probability of the close corporation being liquidated.
- 17.1.5 The CIPC has determined in Practice Note 7 of 2012 that the following is required to apply for deregistration:
 - 17.1.5.1 a statement confirming that the close corporation is not carrying on a business and has no assets, or because of the inadequacy of the assets there is no reasonable probability of the close corporation being liquidated;
 - 17.1.5.2 if the request is made by a third party, sufficient documentary proof must be provided to substantiate the statements in the point above (17.1.5.1);
 - 17.1.5.3 a tax clearance certificate or other written confirmation by the South African Revenue Services (SARS) that no tax liability is outstanding;
 - 17.1.5.4 tax number (if possible);
 - 17.1.5.5 if the request is submitted by the close corporation, the letter must be signed by each member of the close corporation or a duly authorised representative;
 - 17.1.5.6 certified ID copy of the person signing the letter.
- 17.1.6 Where a third party requests the deregistration, the CIPC will confirm whether the close corporation has filed annual returns; where these returns were filed, the request will be returned as the CIPC will be assuming, based on the filing of the annual returns, that the close corporation is still active.
- 17.1.7 The dissolution may be set aside on the application of the liquidator or any interested person declaring the order to be void or any other order that may be just and reasonable and, if the court declares the dissolution to be void, any

proceedings may be taken against the close corporation as if the close corporation had not been dissolved.

17.2 Winding-up

Reference: Sections 66 and 67

- 17.2.1 The amendments to the Close Corporations Act that deal with the winding-up and dissolution of a close corporation state the following:

17.2.1.1 the laws mentioned in item 9 of Schedule 5 of the Companies Act, read with the relevant changes required in the context, will apply to the liquidation of a close corporation if not specified elsewhere (S66(1));

17.2.1.2 Part G of Chapter 2 of the Companies Act, read with the necessary changes, applies to solvent close corporations (S67(1)); and

17.2.1.3 this part of the Act must be administered in accordance with the laws mentioned or contemplated in item 9 of Schedule 5 of the Companies Act (S67(2)).

- 17.2.2 Dissolutions of close corporations must be administered as mentioned in item 9 of Schedule 5 of the Companies Act. This leads to the conclusion that the Companies Act, 1973, Chapter 14 applies to the dissolution of insolvent close corporations. Chapter 2, Part G of the Companies Act therefore applies to the winding-up of solvent close corporations.

17.3 Solvent close corporations

Reference: Section 67(1) and Companies Act, sections 79 to 83 (Chapter 2, Part G)

- 17.3.1 A solvent close corporation may be dissolved by a voluntary winding-up by the close corporation or the close corporation's creditors or by court order.
- 17.3.2 A solvent close corporation may be wound up voluntarily if the close corporation has adopted a special resolution or by the creditors.
- 17.3.3 The voluntary winding-up of the close corporation commences when the resolution is filed.
- 17.3.4 Where a resolution has been filed, the CIPC must deliver a copy of it to the Master who has jurisdiction in the area where the company has its registered office.
- 17.3.5 A court may order a solvent close corporation to be wound up in the following situations:

- 17.3.5.1 The close corporation has resolved by special resolution to be wound up by the court or has applied to court for the voluntary winding-up to be continued by the court;
- 17.3.5.2 The business rescue practitioner has applied for liquidation on the basis that the business rescue will not be successful;
- 17.3.5.3 One or more of the close corporation's creditors has applied to the court for the winding-up of the close corporation;
- 17.3.5.4 The close corporation or members have applied to the court on certain grounds (section 81(1)(d) of the Companies Act);
- 17.3.5.5 Members have applied with leave from the court to wind up the close corporation on the grounds that the members are acting in a fraudulent or illegal manner or the assets are being misapplied;
- 17.3.5.6 The CIPC or the Takeover Regulation Panel has applied for the close corporation to be wound up.
- 17.3.6 The winding-up by court begins when the application has been made to the court in terms of 17.3.5.1 and 17.3.5.2 of the guide or the court has made an order as applied for in terms of the 17.3.5.3 to 17.3.5.6.
- 17.3.7 The following must be filed with the CIPC:
- the special resolution providing for the winding-up of the close corporation;
 - notice of the resolution on Form CoR40.1;
 - certified copy of the ID of the member who signed the CoR40.1;
 - the prescribed fee, currently R250;
 - a certificate that acts as security for the debts (as required by section 80(3) of the Companies Act) within no more than 12 months after the start of the winding-up of the close corporation to the satisfaction of the Master or consent by the Master to disperse with the security (Form JM12 to be completed by the Chief Master).

17.4 Insolvent close corporations

Reference: Section 67(2) and Companies Act, 1973, Chapter 14

- 17.4.1 The process of "winding-up" refers to the process of ascertaining the value of the assets and liabilities of the close corporation, the realisation of some or all of the assets, and the application of the assets to the claims of creditors and thereafter to members of the close corporation.

- 17.4.2 The provisions of the Companies Act, and the Insolvency Act, No. 24 of 1936, apply to the winding-up and insolvency of a close corporation.
- 17.4.3 The following must be filed with the CIPC for the winding up of an insolvent close corporation:
- Form CM26 (special resolution) under the Companies Act, 1973;
 - the prescribed fee (currently R80 or R150 for late lodgement);
 - the special resolution stating the section of the Act in terms of which the resolution has been passed;
 - copy of the notice convening the meeting; or consent to waive the period of notice of the meeting (Form CM25); or consent to propose and pass the special resolution at a meeting of which notice has not been given (Form CM25A);
 - certified copy of the ID of the member who signed the CM26;
 - Form JM12, which is issued by the Master if the close corporation is wound up by the members;
 - Form CM100, which deals with the statement of affairs if the close corporation is wound-up by creditors;
 - the resolution must be lodged within 30 days of the passing of the resolution.
- 17.4.4 After the registration of the resolution, the CIPC must send a copy of the resolution to the Master who has jurisdiction in the area where the close corporation has its registered office.

18 Conversion of close corporation into company

Reference: Schedule 2 of the Companies Act

- 18.1 S1 of Schedule 2 of the Companies Act provides for the conversion of a close corporation into a company.
- 18.2 A Notice of Conversion must be filed (Form CoR18.1) and must be accompanied by:
- written consent signed by members of the close corporation holding, in aggregate, at least 75% of the members' interest;
 - the MOI; and
 - the fee set out in Table CR 2B.
- 18.3 As soon as practicable after the Notice of Conversion has been received, the CIPC must issue either:

- a Notice Requiring Further Information (Form CoR18.2), should the CIPC require more information; or
- a Certificate of Registration (Form CoR18.3), if the CIPC has accepted that the Notice of Conversion and the company's MOI, including the name, are consistent with the requirements of the Companies Act.

18.4 On registration of a close corporation converted into a company:

- the juristic person continues to exist;
- all the assets and liabilities of the close corporation vest in the company;
- any legal proceeding instituted against the close corporation continues to exist;
- any enforcement measures brought against the close corporation may be brought against the company on the same basis; and
- any liabilities of the members for the corporation's debts that have arisen survive the conversion.

18.5 Where a close corporation is converted into a company in accordance with the requirements of the Companies Act, the registration of the close corporation must be cancelled, the CIPC must give notice in the *Government Gazette* of the conversion of the close corporation into a company and the Registrar of Deeds must be enabled to effect the necessary changes from the conversion and name changes.

19 Documentation required to be filed with the CIPC

The prescribed documents that are required to be filed with the CIPC have been kept to a minimum. These forms are:

- CK1 Registration of Close Corporation
- CK2 Registration of an amended founding statement
- CK2A Amendment regarding Accounting Officer and addresses
- CK5 Court order for the alteration of founding statement
- CK6 Voluntary Liquidation
- CoR9.1 Application of name/translated/shortened (only for existing close corporations)
- CoR40.1 Notice of resolution to wind up solvent close corporation
- CM26 Special resolution to wind up insolvent close corporation
- CoR40.5 Application for re-instatement of deregistered close corporation
- CoR123.1 Notice of Start of Business Rescue Proceedings
- CoR123.2 Notice of appointment of Practitioner
- CoR125.1 Notice concerning status of Business Rescue Proceedings

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- CoR125.2 Notice of Termination of Business Rescue Proceedings
- CoR125.3 Notice of Substantial Implementation of a Business Rescue Plan

Appendix I – Other official language equivalents

The terms for “close corporation” listed below together with suitable abbreviations in the other official languages have been identified in consultation with the Director – State Language Services.

<i>Language</i>	<i>Term for close corporation</i>	<i>Abbreviation</i>
Afrikaans:	Beslote Korporasie	BK
English:	Close Corporation	CC
isiNdebele:	Ikampani yaba-Thileko	KT
isiXhosa:	Inkampani yabamBalwa	KB
isiZulu:	IKhamphani yabamBalwa	KB
Sepedi:	Kgwebo e Kgotlangantswego	KK
Sesotho:	Kgwebo e Lekanyeditsweng	KL
Setswana:	Dikoporasi tse di Tswaletsweng	KT
SiSwati:	LiBhizinisi leliValekile	BV
Tshivenda:	Dzikoporasie dzo valiwaliwaho	KV
Xitsonga:	Ntirhisano wa Nhlangano	NH

(Refer to Practice Note No. 4 published in Notice No. 1225 in *Government Gazette* No. 18208 dated 22 August 1997.)

Appendix II – CIPC Notification



NOTICE TO CUSTOMERS

COMPANIES AND CLOSE CORPORATIONS ADDRESS OF ACTUAL BUSINESS PREMISES REQUIRED

Pursuant to Practice note 1 of 2011 (postal and physical address requirements), **the Companies and Intellectual Property Commission (CIPC) requires that all postal and physical addresses of customers must be of the actual business premises i.e. the site from where the business operates and not the address of a representative or of a director.** The address must be structured in a specific manner in order to allow for better statistical records and data quality. In this regard the following information must be provided:

- **Physical address**
 - Street number;
 - Street name;
 - Suburb/town/city;
 - Province; and
 - Street code
- **Postal address**
 - Postal number or description
 - Suburb/town/city;
 - Province; and
 - Postal code

If the address provided is outside of the Republic, the country description must also be provided. Any form filed with the CIPC that does not comply with the above requirements will be rejected.

Your co-operation is appreciated.

Yours sincerely,

Ms Astrid Ludin
COMMISSIONER

29 / 8 / 2012

Business Address

77 Meintjes Street
the dti Campus
Sunnyside
0001

Postal Address

Companies
P O Box 429
Pretoria
0001

Contacts

National: 086 100 2472
International: +2712 394 9500
www.cipc.co.za

Appendix III – Retention of records

The various records of a close corporation must be kept for the following periods:

Founding Statements (Form CK1)	Indefinitely
Amended Founding Statement (Forms CK2 and CK2A)	Indefinitely
Minute book and resolutions passed at meetings	Indefinitely
Annual financial statements, including annual accounts for the accounting officer's report	15 years
Accounting records, supporting schedules and ancillary accounting records	15 years
The micro film image of any original record reproduced directly by the camera – the camera master	Indefinitely

(Refer to Regulation No. 2487 promulgated in *Government Gazette* No. 9503 dated 16 November 1984.)

Appendix IV – List of sections amended in the Close Corporations Act by the Companies Act, section 224 and Schedule 3

	References to Close Corporations Act	References as amended by the Companies Act
1.	Section 1 – the following definitions were inserted or substituted: Commission Companies Act company director holding company officer (to include prescribed officer) Registrar Registration Office subsidiary this Act	Inserted or substituted by section 224
2.	Section 2 – Formation and juristic personality of Close Corporations	Subsection 1 and 2 substituted by section 224
3.	Section 13 – Registration of founding statement	Substituted by section 224
4.	Section 27 repealed – no more conversion from company to close corporation	Schedule 2 of the Companies Act replaces section 27
5.	Section 19 replaced	Chapter 2 Part A – name reservation and criteria for names
6.	Section 20 replaced	Sections 14(2) and (3), 16(8) and 160 – objection to names
7.	Section 22(2) and (4) repealed	Repealed by section 224
8.	Section 23 replaced – use and publication of names	Section 32 – use of name and registration number
9.	Section 41 repealed – publication of names	Repealed by section 224
10.	Section 10 amended	Regulations made in terms of S29(4) and (5) and 30(7) apply to CC
11.	Section 47 amended	Disqualification re management of CCs in line with Companies Act
12.	Section 55 repealed – removing reference to sections 37 and 226 from Companies Act, 1973 Loans made and security provided to subsidiaries Prohibition of loans to, or security in connection with transactions by,	Repealed by section 224

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	directors and managers	
13.	Section 58 amended	AFS prepared within 6 months Section 30(2)(b) and (3)-(6) of Companies Act read with changes apply to CC that is required by Regulations made in terms of section 30(7) of Companies Act to have AFS audited
14.	Section 62 amended	Section 34(2) of Companies Act applies to CC
15.	Section 66 amended	Chapter 6 – business rescue
16.	Section 66 substituted	Winding-up and liquidation (item 9 of Schedule 5)
17.	Section 67 dissolution of CC	Chapter 2 – Part G – winding-up of solvent CC and deregistration
18.	Section 68 repealed – liquidation by the court	Repealed by section 224
19.	Section 26 substituted	Sections 81(1)(f), 81(3), 82(3)-(4) and 83 apply to CC (winding-up)
20.	Section 3(1) repealed – CC Registration Office	Repealed by section 224
21.	Section 4 amended – Registrar	Commission powers over CCs (CIPC)
22.	Sections 11 and 16(3) repealed – standing advisory committee on corporate law Access to information – offence	Repealed by section 224
23.	Sections 47(2), 49(5) and 58(4) repealed Offences removed	Repealed by section 224
24.	Section 64 amended – liability for reckless or fraudulent carrying on of business of close corporation	Business carried on recklessly, intent to defraud or with negligence – offence Criminal liability removed
25.	Section 82 amended	Chapter 7 Parts D, E and F (complaints, investigations) and Chapter 9 Part A (offences and penalties)

Appendix V – Checklist for an association agreement

Section 44 of the Close Corporations Act, 1984 provides that the members of a close corporation may enter into a written association agreement to regulate the internal relationship among themselves and/or with the close corporation.

Section 44 sets out certain provisions that relate to the internal arrangements among members, which will apply in the absence of those provisions being covered by an association agreement. In addition to the possibility of members wishing to vary those provisions, good commercial practice may require the members to regulate their affairs with regard to further details by recording them in a written agreement.

Where, therefore, there are two or more members, it is advisable for them to enter into an association agreement that provides for:

1. participation of every member or selected members in the carrying on of the business (S46(a))
2. power of members to represent the close corporation in the carrying on of its business, with specific reference to (S46(b)):
 - a change in the principal business carried on
 - disposal of the whole, or substantially the whole, undertaking
 - disposal of all, or the greater portion of, the assets
 - an acquisition or disposal of immovable property
3. resolving the differences among members as to matters connected with the business (S46(c))
4. voting rights at meetings (S46(d))
5. notice of meetings as regards (S48(2)(a)):
 - dates
 - times
 - venues
6. quorum at meetings (S48(2)(b))
7. voting at meetings (S48(2)(c))
8. distribution to members (S46(f))
9. the sale or transfer of a member's interest by a member (S33)
10. the sale or transfer of the interest of a deceased member (S35)
11. the sale or transfer of the interest of an insolvent member (subject to the provisions of S34)
12. procedures to be followed in circumstances where a member becomes permanently incapable of performing his part in the carrying on of the business (S36(1)(a))
13. the arrangements on the admission of a new member (S33)
14. service conditions (salary, leave, etc.) of members

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15. terms applicable to loans from members and obligations of members to fund the close corporation
16. the basis for valuing a member's interest
17. indemnification for expenditure incurred on behalf of the close corporation (S48(2)(e))
18. capital commitments
19. working capital arrangements
20. matters relating to bank overdrafts
21. the furnishing of securities by members
22. matters relating to insurance
23. arbitration clauses
24. requirements to have AFS audited (please refer to section 13.5 in the guide regarding the inclusion of the audit requirement in the association agreement)
25. financial reporting requirements

Appendix VI – Accounting officer: professional bodies whose members qualify in terms of section 60 of the Close Corporations Act (1984)

The Registrar of Close Corporations has advised that members of the professional bodies listed in the table below are qualified to perform the duties of an accounting officer in terms of S60(2) of the Close Corporations Act.

	Institute	Abbreviation	Member designation
1.	The South African Institute of Chartered Accountants	SAICA	<ul style="list-style-type: none"> • A Chartered Accountant (SA) – CA(SA) or • An Associate General Accountant (SA) – AGA(SA)
2.	Independent Regulatory Board for Auditors Auditors registered in accordance with the provisions of the Auditing Profession Act, No. 26 of 2005	IRBA	<ul style="list-style-type: none"> • Registered Auditor (RA)
3.	Chartered Secretaries Southern Africa (formerly known as “The Southern African Institute of Chartered Secretaries and Administrators”)	CSSA	<ul style="list-style-type: none"> • Company Secretary
4.	The Chartered Institute of Management Accountants	CIMA	<ul style="list-style-type: none"> • Chartered Global Management Accountant
5.	The South African Institute of Professional Accountants	SAIPA	<ul style="list-style-type: none"> • Professional Accountant (SA)
6.	The Chartered Association of Certified Accountants	ACCA	<ul style="list-style-type: none"> • Chartered Certified Accountant
7.	Institute of Accounting and Commerce (formerly “The Institute of Administration and Commerce of Southern Africa”)	IAC	<p>Members who have obtained the following IAC diplomas:</p> <ul style="list-style-type: none"> • Diploma in Accountancy • Diploma in Cost and Management Accounting • Diploma in Company Secretary
8.	The South African Institute of Business Accountants	SAIBA	<ul style="list-style-type: none"> • Senior members
9.	The Members of the Chartered Institute for Business Management	MCIBM	<ul style="list-style-type: none"> • Members
10.	The South African Institute of Government Auditors	SAIGA	<ul style="list-style-type: none"> • Registered Government Auditor

Appendix VII – Duties of the accounting officer

The purpose of this appendix is to provide guidance on the work to be performed by an accounting officer in relation to his duties.

Any person acting as an accounting officer of a close corporation should include at least the following as part of his duties before issuing the report of the accounting officer.

Minimum procedures as per the Act

S62(1)(a) read with S58(2)(d)	Agree the trial balance at the end of the current financial year with the current year's AFS. (Note: where a trial balance was not prepared, the above step is omitted and the current year's AFS are agreed to the closing balances of the general ledger accounts.)
S62(1)(a) read with S58(2)(d)	Where perpetual inventory records were not kept and, as a result, no closing inventory balance is reflected in the trial balance or in the general ledger, agree the summary of physical inventory count sheets at the end of the current financial year with the current year's AFS.
S62(1)(b)	With reference to financial reporting standards considered to be appropriate to the business of the close corporation and the requirements of the Act, consider the appropriateness of the accounting policies represented as having been applied in the preparation of the AFS.
S58(2)(d)	Based on the outcome of the above procedures, consider whether or not it is necessary to inspect any of the subsidiary accounting records and vouchers to enable you to comply with your duties as accounting officer. (If considered necessary, perform and document such procedures and their outcome.)
S62(2)(a)	Include in your report to the members on the AFS any contraventions of the Act that you became aware of during the performance of your duties as accounting officer (refer to Appendix VIII).
S62(2)(b)	Consider whether any partner or employee of your firm is a member or employee of the close corporation and report accordingly to the members in your report on the AFS.
S62(3)(a)	Consider whether or not the close corporation is carrying on business or is in operation and, where it is not carrying on business or is not in operation, consider whether or not it has the intention of resuming operations in the foreseeable future. If not, report accordingly to the Registrar.
S62(3)(b)	Consider any of the following that you became aware of during the performance of your duties as accounting officer: <ul style="list-style-type: none"> (i) any change during the financial year, in respect of any particulars mentioned in the founding statement, that has not been registered (refer to the CK1, or the last CK1); (ii) the AFS indicate that as at the end of the financial year the close

	<p>corporation's liabilities exceed its assets;</p> <p>(iii) the AFS incorrectly indicate that as at the end of the financial year the assets of the close corporation exceed its liabilities.</p> <p>Report the above accordingly to the Registrar.</p>
--	--

Additional agreed-upon procedures

The members of the close corporation may require the accounting officer to perform procedures in addition to the above. Such procedures may include the following:

- Agree the opening balances of the general ledger accounts with the comparative financial information in the current year's AFS.
- Agree the trial balance at the end of the current financial year with the closing balances in the general ledger accounts.
- Scrutinise income, expenditure and asset accounts for correct allocation between capital and trading items.
- Check the correctness of the bank reconciliation.
- Obtain a certificate of balance from the close corporation's bankers in order to verify the balance per the reconciliation, and to identify contingent liabilities, securities provided and bank facilities.
- Scrutinise transactions after the financial year-end in order to ascertain whether all accruals are recorded.
- Scrutinise income and expenditure accounts in order to ascertain whether there are any prepayments.
- Scrutinise the depreciation calculations for the year and verify that the rates and methods conform to the accounting policies in the notes to the AFS.
- Agree the receivables and payables lists to the trial balance, general ledger control account, subsidiary accounting records and/or vouchers.
- Check existence, ownership and valuation of inventory.
- Check or complete the tax returns and accompanying schedules.
- Check that the income tax liability reflected in the AFS agrees with the calculation in the tax return.
- Reconcile the turnover (revenue) per the AFS to the close corporation's VAT returns.

Where the accounting officer is required to perform additional procedures, it is recommended that reference is made to the International Standards on Related Services applicable to agreed-upon procedures regarding financial information (ISRS 4400). These agreed-upon procedures should be included in the engagement letter and a separate section on factual findings should be included in the accounting officer's report to the members of the close corporation.

Appendix VIII – Checklist of possible contraventions of the Act that need to be reported

Contraventions to be reported to the CIPC

1. Have the changes to the founding statement (if any) been filed with the Registrar?
2. Do the AFS indicate that the liabilities of the close corporation exceed its assets?
3. Do the AFS incorrectly indicate that the assets of the close corporation exceed its liabilities?
4. Is the close corporation carrying on business (in operation)? If not, is it likely to resume operations in the foreseeable future?

Contraventions to be included in the report to members

If during the performance of his duties an accounting officer becomes aware of any contraventions of a provision of the Act, he must describe the nature of such a contravention in his report. A “no” answer to any of these questions indicates a contravention of the Act.

1. Accounting

Has the close corporation maintained the following records:

a general ledger that gives details of:

- assets?
- liabilities?
- members' contributions?
- undrawn profit/retained earnings?
- revaluations of property, plant and equipment? (note that this is only applicable if IFRS is applied and not IFRS for SMEs)
- loans to and from members?

a register of property, plant and equipment that gives details of:

- dates of acquisition?
- costs?
- depreciation and accumulated depreciation?
- revaluation date and amount? (note that this is only applicable if IFRS is applied and not IFRS for SMEs)
- dates of disposal?
- consideration received on disposal?

records of cash receipts and payments showing:

- the nature of the transaction?
- the names of the parties involved?

records of purchases and sales and of services rendered or received on credit showing:

- the nature of goods or services?
- the names of the parties involved?

vouchers in support of the entries in the accounting records?

annual inventory count schedules, including the valuations of inventory?

records of contributions, distributions, loan payments to and receipts from members sufficient to explain the nature and purpose of individual transactions?

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2. Have the AFS been prepared within six months of the year-end?
3. Has the report of the accounting officer been prepared within three months after the completion of the AFS?
4. Are there ten members or fewer?
5. Are none of the members a juristic person?
6. Are any of the members a trustee of an *inter vivos* trust?
7. Has each member been issued with a certificate of membership?
8. Have all changes in membership been made in accordance with the association agreement and with the consent of all the members?
9. Has written consent been obtained from all the members for loans made by the close corporation to:
 - any member/s?
 - any other close corporation in which one or more of its members together hold more than 50% interest?
 - any company or other juristic person controlled by one or more members of the close corporation?
10. Are all the accounting policies appropriate to the business?
11. Where required and permitted by Companies Regulation 27, has the close corporation used IFRS or IFRS for SMEs in the preparation of its financial statements?
12. In terms of the founding statement:
 - was the initial or any additional contribution by members paid or delivered to the close corporation within 90 days?
 - is the close corporation carrying on business as described?
13. Are the name and registration number of the close corporation displayed:
 - on all documents, including letterheads, invoices, delivery notes, receipts, cheques etc.?
14. Are there reasonable grounds for believing that the solvency and liquidity requirements have not been breached in each of the following circumstances:
 - payment to a member for the acquisition of his interest?
 - financial assistance to a member in connection with the acquisition of his interest?
 - payment to any member by reason only of his membership (e.g. a distribution of money)?
15. Has written consent been obtained from all members regarding the payment by the close corporation in respect of:
 - the acquisition by the close corporation of the interest of a member?
 - financial assistance to a member in connection with the acquisition of his interest?
16. The Act provides for the AFS, in conformity with the financial reporting standards appropriate to the business of the close corporation, to present the state of affairs of the close corporation fairly as at the end of the financial year concerned, and the results of its operations for that year. Do any circumstances exist that could affect the fair presentation of the AFS?
17. Have proceedings of the meetings of members been recorded in a minute book?
18. Have people who are disqualified from membership been excluded from management of the close corporation?

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19. Has access to all accounting records, books and documents been granted?
20. Have all the information and satisfactory explanations necessary for the completion of the duties of the accounting officer been obtained?
21. Has the annual return as contemplated in section 15A been lodged with the Registrar?

Appendix IX – Specimen letter of engagement

This appendix illustrates the form that a letter of engagement might take for a close corporation using IFRS for SMEs, subject to variation for individual requirements and circumstances. The contents are designed to assist the Chartered Accountant or Associate General Accountant and not necessarily to be reproduced in a letter of engagement.

NOTE: This engagement letter does not address a situation where the financial statements of the close corporation are audited (compulsory or voluntary). An audit engagement will require a separate engagement letter in accordance with International Standard on Auditing (ISA) 210, *Agreeing the terms of Audit Engagements*.

Date

[Name] CC

[Address]

Dear Sirs

Following our appointment as accounting officer to the close corporation and in confirmation of our recent discussion with we set out below our responsibilities as accounting officer and our understanding of the further services which it was agreed we should perform.

Accounting officer

In terms of the Close Corporations Act, 1984, we are required to determine that the annual financial statements agree with the accounting records of the close corporation, summarised in the manner required by section 58(2)(d) of the Act, to review the appropriateness of the accounting policies represented to us as having been applied in the preparation of the annual financial statements and to report to the members of the close corporation in respect of these matters. Written representations on certain matters will be requested from the members. We are also required to take certain action if, during the performance of our duties as accounting officer, we become aware that:

- a provision of the Close Corporations Act, 1984 has been contravened;
- a change to the particulars in the founding statement has not been registered with the CIPC;
- the annual financial statements indicate that the liabilities of the close corporation exceed its assets; or
- the annual financial statements incorrectly indicate that the assets exceed the liabilities.

The Act does not require an audit or review to be carried out and no audit or review will be conducted. Accordingly, we will not imply or express an opinion or any other form of

assurance on the annual financial statements in our report. In addition, our work should not be expected to disclose fraud, errors or other irregularities. Should you, at any time, require a specific investigation for this purpose, this would be undertaken separately at your request.

Compilation of financial statements

(If any such work is required, specific agreement should be reached with the members of the close corporation. Appropriate subject matter should be incorporated in the engagement letter from the statement of International Standard on Related Services (ISRS) 4410 (Revised) *Compilation Engagements* and other consequential amendments made to this letter.). ISRS 4410 (Revised), Appendix 1 provides an illustrative engagement letter for a compilation engagement.)

Agreed-upon procedures

(If any such work is required, specific agreement should be reached with the members of the close corporation. Appropriate subject matter should be incorporated in the engagement letter from the International Standards on Related Services (ISRS) 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information* and other consequential amendments made to this letter. (Refer to Appendix VII.))

Taxation services

It was also agreed that we would assist with the following taxation services:

- preparation of tax returns (specified) and the submission thereof to the South African Revenue Service (SARS);
- preparation of provisional tax returns and the submission thereof, together with your payments, where necessary, to SARS;
- checking of assessments and agreement of liabilities with SARS; and
- acting as taxation advisers on all matters that you may specifically refer to us.

Other services

(as appropriate)

Contraventions of the Close Corporations Act

If during the performance of any services in addition to the statutory duties of an accounting officer we become aware of any contraventions of the Close Corporations Act, we will report them to you immediately.

Fees

Our fees are computed on the basis of the time spent on your affairs by partners and staff. Unless otherwise agreed, our fees will be charged separately for each of the main classes of work mentioned above and will be billed at appropriate intervals during the course of the year.

Agreement of terms

Once it has been agreed, this letter will remain effective until it is replaced. We would be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy or by letting us know if the terms of our engagement are not in accordance with your understanding.

Yours faithfully

[Accounting Officer]

[Chartered Accountant (SA)/Associate General Accountant (SA)]

[Date]

[Address]

Appendix X – Illustrative letter of representation

This appendix illustrates the form that a letter of representation might take, subject to variation for individual requirements and circumstances. The contents are designed to assist the accounting officer and not necessarily to be reproduced in a letter of representation.

[Letterhead of close corporation]

Date

Accounting Officer

[Address]

Dear Sirs

In connection with your duties as accounting officer of CC for the year ended we confirm that, to the best of our knowledge and belief, the annual financial statements fairly present the state of affairs, the results of operations and cash flows of CC in conformity with [framework], which is appropriate to the business of the close corporation, and there has been no contravention of the Close Corporations Act, 1984. We acknowledge that the information in these annual financial statements is the responsibility of the members.

We confirm, to the best of our knowledge and belief, the following representations relating to your engagement:

1. The close corporation's financial statements have been appropriately prepared using[insert framework] on the going concern basis.
2. The close corporation's accounting policies and the methods followed in applying them are as disclosed in the annual financial statements and there have been no changes during the year in the close corporation's accounting policies except as described below...
3. We have made available to you all accounting records and minutes.
4. We have advised you of all actions taken at meetings of members or managers (or other similar bodies as applicable) that may affect the annual financial statements.
5. We are not aware that there have been any violations of laws or regulations the effects of which should be considered for disclosure in the annual financial statements or as a basis for recognising a contingent liability.
6. Except as disclosed in the annual financial statements, there are no:
 - unasserted claims or assessments that our legal adviser had advised us are probable of assertion;
 - material liabilities or contingent liabilities;
 - material transactions or events that have not been properly recorded in the accounting records; or
 - events that have occurred subsequent to the reporting date that would require adjustment to, or disclosure of, in the annual financial statements.

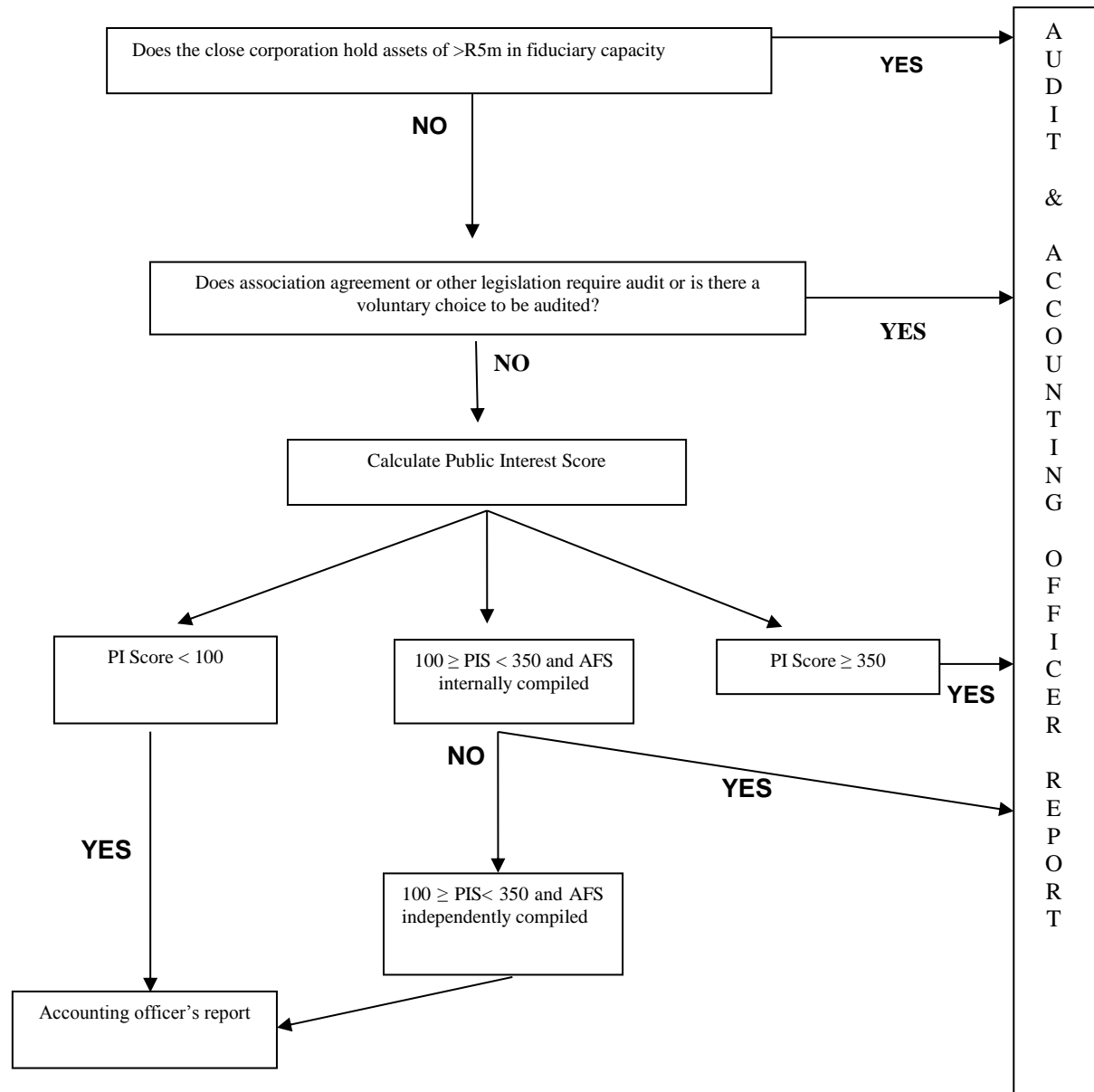
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7. The close corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. The close corporation has satisfactory title to all owned assets and, except as disclosed in the annual financial statements, there are no liens or encumbrances on such assets or pledges of any assets.
9. The close corporation has complied with all aspects of contractual agreements that would have a material effect on the annual financial statements in the event of non-compliance.
10. The founding statement that has been made available to you is a copy of the (latest amended) founding statement, which has been lodged with the CIPC, and there have been no changes thereto which have not been registered.

Yours faithfully

(The letter is to be signed by, or on behalf of, all members.)

Appendix XI – Requirements for close corporations to be audited



Appendix XII – Accounting officer's report

Example of a report of the accounting officer when no audit was carried out

Circumstances include:

- Close corporation
- Accounting officer's report on financial statements for a close corporation using Financial Reporting Framework as required by the Companies Regulations 2011
- Options include:
 - Matters related directly to the duties of the accounting officer pertaining to the annual financial statements (section 62(1))
 - Reporting on contraventions of the Close Corporations Act in terms of section 62(2)(a)
 - Instances where the accounting officer is a member or employee of a close corporation, or is a firm of which a partner or employee is a member or employee of the close corporation (section 62(2)(b))

Report of the accounting officer to ABC CC

We have performed the duties of accounting officer to [name of close corporation] for the year ended [date] as required by section 62 of the Close Corporations Act, 1984. The annual financial statements set out on pages ... to ... are the responsibility of the members. No audit or review is required to be carried out by the Act and no audit or review was conducted. Accordingly, we do not imply or express an opinion or any other form of assurance on the annual financial statements.

Duties of accounting officer

We report, as required in terms of section 62(1) of the Close Corporations Act of South Africa, having performed such procedures and conducted such enquiries in relation to the accounting records as we considered necessary in the circumstances, that:

- the annual financial statements [are/are not]¹⁵ in agreement with the accounting records, summarised in the manner required by section 58(2)(d) of the Act; and
- the accounting policies presented to us as having been applied in the preparation of the annual financial statements are [appropriate/not appropriate]¹⁶ to the business as per the reasons set out below.

¹⁵ Delete option not applicable.

¹⁶ Delete option not applicable.

Emphasis of matter/s

We wish to draw attention to (Refer **Note A** hereunder)

[Accounting Officer]

[Chartered Accountant (SA)/Associate General Accountant (SA)]

[Date]

[Address]

NOTE A

The following are examples of matters that the accounting officer may include in his report, as appropriate to the circumstances:

- Matters related directly to the duties of accounting officer pertaining to the annual financial statements:

“We wish to draw attention to the fact that the annual financial statements are not in agreement with the accounting records. [Continue to explain in what respects the annual financial statements do not agree with the accounting records.]”

“We wish to draw attention to a matter relating to the appropriateness of the accounting policies applied. As stated in note x to the financial statements, the close corporation has valued inventory at cost less anticipated selling costs. It is appropriate to the business of the close corporation to value inventory at the lower of cost and net realisable value.”

- Reporting on contraventions of the Close Corporations Act in terms of section 62(2)(a):

“We wish to draw attention to a contravention(s) of the Close Corporations Act which came to our knowledge during the performance of our duties as accounting officer. We are not required to perform specific procedures to identify contraventions of the Act. [Refer to the relevant section(s) contravened and explain the nature of the contravention.]”

- Instances where the accounting officer is a member or employee of a close corporation, or is a firm of which a partner or employee is a member or employee of the close corporation:

“We wish to draw attention to the fact that a member/partner/employee of our firm is also a member of the close corporation and all the members have consented in writing to our appointment as accounting officer under these circumstances.”

Example of a report where the accounting officer has also compiled the annual financial statements

Circumstances include:

- Close corporation
- Compilation of financial statements for a close corporation using Financial Reporting Framework as required by the Companies Regulations 2011. For the use of other frameworks, please refer to ISRS 4410 (Revised) for additional guidance / examples.
- Accounting officer's report on financial statements for a close corporation

Report of the accounting officer to ABC CC

We have performed the duties of accounting officer to [name of close corporation] for the year ended [date] as required by section 62 of the Close Corporations Act, 1984. The annual financial statements set out on pages ... to ... are the responsibility of the members. No audit or review is required to be carried out by the Act and no audit or review was conducted. Accordingly, we do not imply or express an opinion or any other form of assurance on the annual financial statements.

Compilation engagement

In addition to our duties as accounting officer and on the basis of information provided by the members, we have compiled, in accordance with the International Standards on Related Services (ISRS 4410 (Revised)) applicable to compilation engagements, the financial statements set out on pages [X] to [Y] for the year ended [date]. These financial statements comprise¹⁷ the [statement of financial position/balance sheet] as at [date], and the [statement of comprehensive income/income statement], statement of changes in members' funds and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information [and the members' report].¹⁸

We have applied our 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/International Financial Reporting Standards for Small and Medium Enterprises/Financial Reporting Standards as determined by the close corporation] and the requirements of the Close Corporations Act of South Africa. We have complied with the 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.

¹⁷ Adapt as appropriate to the entity.

¹⁸ Delete if not required.

Since compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with [International Financial Reporting Standards/International Financial Reporting Standards for Small and Medium Enterprises/Financial Reporting Standards as determined by the close corporation].

Duties of accounting officer

We report, as required in terms of section 62(1) of the Close Corporations Act of South Africa, having performed such procedures and conducted such enquiries in relation to the accounting records as we considered necessary in the circumstances, that:

- the annual financial statements are in agreement with the accounting records, summarised in the manner required by section 58(2)(d) of the Act; and
- the accounting policies presented to us as having been applied in the preparation of the annual financial statements are appropriate.

[We became aware of the following contravention(s) of (a) provision(s) of the Close Corporations Act of South Africa during the performance of our duties as accounting officer. We are not required to perform specific procedures to identify contraventions of the Act:

(Describe nature of the contravention and refer to the relevant section(s) contravened).]¹⁹

Restriction of distribution

Our report is intended solely for your use in your capacity as members of [name of close corporation] and shall not be distributed to other parties.

[Accounting Officer]

[Chartered Accountant (SA)/Associate General Accountant (SA)]

[Date]

[Address]

¹⁹ Delete if not applicable.

Appendix XIII – Illustrative Annual Financial Statements – Close Corporation

The illustrative AFS set out below are not intended to be comprehensive and cannot be expected to deal with every circumstance pertaining to all close corporations. This illustration can be used by close corporations that are required to or elect to apply IFRS for SMEs, subject to meeting the scoping requirements of IFRS for SMEs.

The AFS of a close corporation are prepared primarily for the benefit of the members of the close corporation and should assist them in managing and controlling the business of the close corporation. For this reason, it is recommended that the transactions with individual members that have been included in arriving at the profit or loss for the year, and that are often discretionary, should be highlighted. This disclosure will assist in proper decision making and in any assessment of the future prospects of the close corporation. In addition, such disclosures would ordinarily be required in terms of IFRS for SMEs Section 33 – Related Party Disclosures.

It should be emphasised that, while one of the purposes of this appendix is to illustrate the presentation of AFS, in all cases the terms used should be appropriate and add to the understanding of the information presented. While brevity is preferable, it is to be avoided if it has the effect of departing from clarity or of failing to achieve fair presentation. The AFS should be presented in a manner that enables the affairs of the close corporation to be readily understood.

The format of these illustrative AFS is in conformity with the requirements of IFRS for SMEs as issued in 2009. The illustrative AFS have been prepared on the basis of the transactions a typical micro entity would engage in; therefore, not all sections of the IFRS for SMEs have been assumed to be applicable. In addition, the numbers used in the financial statements are fictitious; thus, in some instances it may be difficult to reconcile certain of the numbers.

SAICA Illustrative CC

SAICA's National Small and Medium Practice Committee and the Accounting Practices Committee jointly established a working group to address concerns and needs of members who function in the micro entity financial reporting arena. On the basis of survey results and discussions with members, the working group was tasked with producing an illustrative set of financial statements for a close corporation (CC) that would comply with IFRS for SMEs.

The working group developed a scenario that it felt would cover the typical transactions that exist in a micro or small CC. The illustrative annual financial statements (AFS) were then created on this basis. The working group, in collaboration with CQS,

produced the illustrative AFS on CaseWare™. The working group together with CQS adapted the CQS template, while ensuring that it complied with relevant parts of IFRS for SMEs and the Close Corporations Act, No. 69 of 1984, and endeavoured to provide an illustrative set of financial statements that would be comprehensive, concise and useful to preparers of CC financial statements in the context of a micro entity.

This publication has been kindly provided by CQS and produced on CaseWare™. It is a part of the content contained in CQS's SME template. Visit www.cqs.co.za for more details.

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Background information regarding SAICA Illustrative CC

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General information

The SAICA Illustrative CC is a close corporation with a year-end of 28 February 2014 and is not part of a group. The CC has two members, who hold the following membership percentages:

T Blake	70%
M Mandla	30%

The CC is owner-managed, has a Public Interest (PI) Score of between 100 and 350 points and the financial statements have been independently compiled. It therefore does not require a statutory audit in terms of the CC Act as amended by the Companies Act. However, the members have resolved to have a voluntary audit conducted on the entity, in line with their previous practice.

The financial statements have been prepared by an Independent Accounting Professional – Tom Jones CA(SA) of Nkosi and Kessel Chartered Accountants. It is a Companies Act requirement for the name and profession of the compiler to appear on the first page of the financial statements; there are various views as to whether this is the cover page or page 1 of the financial statements. Please note this is not a requirement of the Close Corporation Act, and thus need not be presented for a close corporation's financial statements; however, it has been disclosed in this illustrative example as it is believed to be good practice.

The duties of an accounting officer have been performed by Karun Naidoo CA(SA), and the auditor is John Sanders RA, CA(SA) of ProfAudit.

The CC is a retailer of software and computer hardware in the accounting and auditing industry; it also has investment properties. The CC operates in South Africa.

The financial statements are prepared in accordance with IFRS for SMEs, and have been prepared on the historical cost basis, modified for the fair valuation of investment property and certain financial instruments. (AP1)

Please note that the detailed income statement and tax computation do not form part of the financial statements and are merely supplementary information.

For the purpose of the document the following abbreviations are used:

AP – Accounting Policy notes

B/S – Balance Sheet/Statement of financial position

C/F – Cash Flow Statement/Statement of cash flows

E/S – Statement of Changes in Equity

I/S – Income Statement/Statement of comprehensive income

N – Notes to financial statements

Information relating to transactions, balances and disclosure of SAICA Illustrative CC for the year ended 28 February 2014

1. Investment property

The CC measures investment property at fair value when this can be measured reliably without undue cost/effort. Where it has not been able to apply fair value, it classifies the investment property as property, plant and equipment (PPE) and measures and presents it as such.

The CC owns investment property valued at R155,000 at 1 March 2013 and purchased additional investment property for R1,250,000 during the 2014 year.

The investment properties were valued by an independent valuer at 28/2/2014 at a total value of R1,412,000. This valuation resulted in a fair value adjustment of R7,000 to investment properties.

The CC leases these properties under a non-cancellable lease for five-year periods (i.e. it is a lessor). In terms of the agreements, rentals escalate annually based on CPI, and have therefore have not been straight lined. The leases provide for a renewal period of a further five-year term.

(B/S; I/S; C/F; AP1.1; N3; N21; N26)

2. Property, plant and equipment

Plant & machinery (P&M)

P&M are depreciated using the straight-line method over five years. The residual values are insignificant.

The P&M values were as follows:

	2014	2013
	Rands	Rands
Cost @ 28 February	6,765,299	3,759,299
Accumulated depreciation @ 28 February	-3,023,840	-2,750,494
Carrying amount @ 28 February	3,741,459	1,008,805
Depreciation for the year	-238,469	
Additions – cost	3,106,000	
Disposals – cost	-100,000	
Disposals – accumulated depreciation	-6,877	
Impairment loss	-30,000	
Impairment reversal	2,000	
Carrying amount of plant and machinery under finance lease	3,000,000	

P&M was purchased during the year for R3,106,000 of which a total of R3,000,000 was purchased through a finance lease (see finance lease information below for further details).

There was a significant decline in the efficiency of a major piece of P&M, which resulted in a review of its recoverable amount. This has led to the recognition of an impairment loss of R30,000.

There was an increase in the recoverable amount of another item of P&M which had been previously impaired, resulting in a reversal of impairment of R2,000.

On 10 February, the CC entered into a binding sale agreement for the sale of an item of machinery. The sale took place in March 2014, which is when the risks and rewards of ownership were transferred to the purchaser. The carrying value of the machinery is R110,472. The agreed selling price exceeded the carrying amount and therefore no impairment was recognised. This is a non-adjusting event after the end of the reporting period.

Furniture & fittings (F&F)

F&F are depreciated using the straight-line method over ten years. The residual values are insignificant.

The F&F values were as follows:

	2014	2013
	Rands	Rands
Cost @ 28 February	90,140	90,140
Accumulated depreciation @ 28 February	-70,140	-45,140
Carrying amount @ 28 February	20,000	45,000
Depreciation for the year	-25,000	

There were no additions or disposals in respect of F&F.

Motor vehicles (MVs)

MVs are depreciated using the straight-line method over four years. The residual values are insignificant.

Certain MVs were purchased under finance leases (see finance lease information below for further details).

The MV values were as follows:

	2014	2013
	Rands	Rands
Cost @ 28 February	256,865	338,264
Accumulated depreciation @ 28 February	-119,241	-179,521
Carrying amount @ 28 February	137,624	158,743
Depreciation for the year	-27,994	
Additions – cost	26,875	
Disposals – cost	-108,274	
Disposals – accumulated depreciation	88,274	
Carrying amount MV under finance lease	137,624	158,743

(B/S; I/S; C/F; AP1.2; N4; N11; N20; N22)

3. Intangible assets

The CC owns computer software, with a carrying amount of R61,321.

During the period, the CC purchased additional software for R46,876 and disposed of software with a carrying amount of R40,000.

The CC owns MaterialSoft, which it considers a material intangible asset; its carrying amount is R32,500 (2013: R65,000) and in 2014 it had one period of amortisation remaining.

The CC incurred research and development costs of R50,779 (2013: R11,133) during the year.

There were no impairment losses on any of the intangible assets, nor are there any intangible assets under restricted title or pledged as security. There are no contractual commitments for the acquisition of intangible assets during the current/prior year.

(B/S; C/F; AP1.3; N5; N22)

4. Other financial assets

Other financial assets at fair value and equity instruments at cost less impairment are as outlined below.

Fair value

The CC holds JSE-listed shares valued at R40,000 (2013: R59,331) based on the quoted price. During the year, the CC disposed of shares to the value of R32,150 (sold at their quoted price).

The CC also acquired an investment in PSC (Pty) Ltd during the year. The fair value of the investment has been derived by using an adjusted PE multiple model. The investment is valued at R23,830 at year-end, which was the acquisition price.

The fair value adjustment to the portfolio of shares for the year amounted to R12,819, being the fair value adjustment on JSE-listed shares; there were no other fair value movements for the year.

Equity instruments at cost less impairment

The CC holds the following unlisted shares at cost less impairment as the fair value cannot be reliably determined:

30,000 shares in Pyramid (Pty) Ltd – R20,000; and
15,000 shares in Realtrade (Pty) Ltd – R10,000.

(B/S; I/S; C/F; AP1.4; N6; N21; N34; N35)

5. Inventory

Inventory is measured at the lower of cost and estimated selling price, on a FIFO basis.

The CC has both component parts and finished goods as inventory.

The CC has written down inventory by R440,000 (2013: R230,000) to net realisable value (NRV). There is also a reversal of a previous write-down of inventory of R125,729 (2013: R150,293).

The CC has pledged its inventory as security for the overdraft facility of R2,000,000. At year-end, the overdraft amounted to R Nil (2013: R720,412).

(B/S; I/S; AP1.7; N8; N19)

6. Trade and other receivables

The CC's trade receivables amount to R2,533,173 (2013: R3,658,537) after an impairment of R158,500 (2013: R128,500). None of the above amounts were receivables from related parties.

In addition there are other receivables (accrued income) of R17,190 (2013: R17,190).

(B/S; AP1.4; N9; N34; N35)

7. Cash and cash equivalents

The CC carries R700 petty cash on hand. The bank balance was R463,898 at year-end (2013: R328,571). None of its overdraft facility of R2,000,000 had been used at year-end (2013: overdraft balance R720,412).

(B/S; C/F; N10)

8. Transactions with members

Members' contributions consist of cash contributions: T Blake R70 and M Mandla R30. Movement on members' loans is as follows:

	T Blake	M Mandla
	Rands	Rands
Balance owing to member @ 1 March 2013	294,295	1,057,639
Loans advanced to CC	0	1,434,019
Repayments by CC	(104,129)	(27,099)
Balance owing to member @ 28 February 2014	190,166	2,464,559

Loans are unsecured, interest free and payable on demand and are therefore classified as current liabilities.

The members shared in the CC's loss of R118,418 in proportion to their members' interest.

The salary and bonuses of members for the 2014 year-end were as follows:

	Salary	Bonus
T Blake	R 771,790	R 25,000

M Mandla R 752,122 R 28,000

There is no restriction on distribution of reserves as dividends.

(B/S; C/F; AP1.9; N12; N15; N32; N33)

9. Transition reserve

The CC has applied IFRS for SMEs for the first time for the 2014 year-end. In principle this standard has been applied retrospectively and the 2013 comparatives contained in these financial statements differ from those previously published in the financial statements for the year ended 28 February 2013. The standard outlines certain mandatory exemptions from this principle of retrospective restatement, and certain optional exemptions as explained below have been chosen. All adjustments were made to the opening comparative statement of financial position; i.e. at the date of transition to IFRS for SMEs.

The date of transition to IFRS for SMEs was determined as 01 March 2012, being the earliest date in the comparative period, and the effect of the transition was as shown below.

Reconciliation of equity at 1 March 2012 (date of transition to the new standard)

	Note	As reported under IFRS	Effects of transition to IFRS for SMEs	IFRS for SMEs
		Rands	Rands	Rands
Investment property	2	120,000	30,000	150,000
Property, plant and equipment	3	1,775,140	1,000,000	2,775,140
Total non-current assets		1,895,140	1,030,000	2,925,140
Deferred tax liability	6	-	284,200	284,200
Total assets less total liabilities		1,895,140	745,800	2,640,940
Transition reserve	11	-	720,000	720,000
Retained earnings		-	25,800	25,800
Total equity		-	745,800	745,800

Reconciliation of equity at 28 February 2013

The CC elected to measure certain items of plant and machinery at fair value and to use that fair value as the deemed cost at the date of transition. This resulted in an adjustment compared to the SA GAAP net carrying amount of the assets on the date of transition to the IFRS for SMEs as well as to the depreciation charge recognised in 2013 through profit or loss. The impact of the adjustment at the date of transition was an increase in the value of plant and machinery by R1,000,000, the recognition of a deferred tax liability of R280,000 and the creation of a transition reserve of R720,000, being the net of the revaluation and the deferred tax (refer to note 10). The creation of a transition reserve for the revaluation of investment property is not required, as this can

be recognised in opening retained earnings at the date of transition together with other transitional adjustments.

The CC accounted for investment property using the cost model under IFRS. IFRS for SMEs requires investment property to be measured at fair value with changes recognised in profit or loss. The CC therefore measured investment property at the fair value on the date of transition to the IFRS for SMEs. The impact of the adjustment at the date of transition was an increase in the value of investment property by R30,000, the recognition of a deferred tax liability of R4,200 and a credit to retained earnings of R25,800, being the net of the fair value movement and the deferred tax.

(B/S; E/S; N13; N31)

10. Finance leases

Certain motor vehicles and plant and machinery are leased under finance leases. (See PPE information above.)

Finance lease obligations are as follows (in total):

Minimum lease payments due:	2014	2013
	Rands	Rands
within 1 year	487,731	72,550
within 2 – 5 years	2,063,664	212,819
after 5 years	2,074,702	157,471
Future finance charges	1,335,113	49,331
Present value of minimum lease payments	3,290,984	393,509
Liability classification		
Non-current liabilities	3,018,886	334,178
Current liabilities	272,098	59,331

(B/S; I/S; AP1.6; AP2; N4; N14)

11. Operating leases

The CC is the lessor because some of its investment property is rented under an operating lease (see information under investment property). The minimum lease payments receivable are as follows:

within one year: R79,380 (2013: R75,600)
 2 – 5 years inclusive: R83,349 (2013: R162,729)

The CC is also a lessee as it has entered into operating leases on certain of its office properties. These leases are negotiated for an average seven-year term, with no renewal clauses, purchase options or contingent rent or subleases. The lease payments escalate at a fixed 10% per annum; therefore, the CC is required to straight line the lease payments. The resulting lease liability is classified as non-current, as the

lease is still in its early stages and there is therefore no current portion at this stage. The lease liability due to straight lining is R60,370 (2013: R36,907).

The minimum lease payments due under the above lease are as follows:

within one year: R205,438 (2013: R191,998)

2 – 5 years inclusive: R975,979 (2013: R912,130)

over 5 years: R Nil (2013: R269,287)

(B/S; I/S; AP1.6; N4; N22; N26; N29)

12. Taxation

The CC had R12,000 tax due at the end of the 2013 year and this was settled in the 2014 year. No taxation is due for the current year due to the loss incurred.

(I/S; C/F; AP1.5; N25; N28)

13. Deferred tax

The following amounts were utilised in arriving at the deferred tax value:

	2014		2013		2012 (Revised on IFRS for SMEs)	
	Carrying amount	Tax base	Carrying amount	Tax	Carrying amount	Tax base
	Rands	Rands	Rands	Rands	Rands	Rands
Investment property	1,412,000	1,400,000	155,000	150,000	150,000	120,000
Property plant & equipment – owned	761,459	558,000	1,053,805	858,000	1,948,310	900,000
Intangible assets	61,321	61,321	78,543	78,543	39,271	39,271
Other financial assets	93,830	43,576	89,331	51,896	44,665	25,948
Inventory	2,526,695	2,526,695	2,011,771	2,011,771	1,005,885	1,005,885
Receivables	2,550,363	2,669,238	3,675,727	3,772,102	1,837,864	1,886,051
Operating lease liability	-60,370	0	-36,905	0	-18,452	0
Provisions	-626,675	0	-200,460	0	-100,230	0
Payables	-2,287,840	-2,347,593	-2,585,204	-2,682,635	-1,292,602	-1,341,317
Finance lease obligation	-3,290,984	0	-393,509	0	-196,754	0
Leased assets	3,137,624	0	158,743	0	79,371	0

In terms of IFRS for SMEs, all deferred tax assets and liabilities should be recognised. If there is a net deferred tax asset, this should be recognised in full. However, a valuation allowance may be required to be recognised against the deferred tax asset so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit (as can be seen in note 25).

(B/S; I/S; AP1.5; N7; N25)

14. Provisions

The credit note provision is based on historical trends and sales volumes. The provision is based on historical trends, but the exact amount that will be paid is unclear. The provision in the prior year was R200,460, of which R116,000 of the provision was utilised during the year, while R20,585 was reversed. An additional R242,800 was provided for during the current year.

The CC also has a warranty provision for repairs of hardware components of R320,000 (2013: R Nil). The estimate is based on prior experience of defective products.

(B/S; AP1.11; N16)

15. Trade and other payables

The CC had trade payables of R2,162,965 (2013: R2,291,395) at year-end; none of these parties were related parties.

The CC had received amounts in advance of R59,753 (2013: R97,431) and had accrued expenses of R53,000 (2013: R50,000).

The CC made a foreign exchange loss on a trade payables transaction during the year of R1,500; this transaction was settled before year-end. The CC had no foreign creditor balances at year-end.

The CC's VAT liability at year-end was R12,122 (2013: R146,378).

(B/S; AP1.14; N17)

16. Revenue

Revenue is recognised when risks and rewards of ownership have transferred, and is measured at the fair value of the consideration receivable, net of trade discounts, settlement discount and volume rebates.

The CC has earned R21,178,178 (2013: R18,431,754) from sale of goods and R75,600 (2013: R72,000) from rental income under the operating lease as a lessor (refer to operating lease notes above).

(I/S; AP1.12; AP2; N18)

17. Cost of sales

The cost of sales figure comprises the following:

	2014	2013
	Rands	Rands
Cost of goods sold	15,773,150	13,376,676
Write-down of inventory to NRV	440,000	230,000
Reversal of previous write-down of inventory to NRV	(125,729)	(150,293)

(I/S; N19)

18. Interest income and expenses

The CC earned bank interest of R422,036 in the current year (2013: R281,532).

The interest incurred on the finance leases for the year amounted to R92,936 in the current year (2013: R12,942). The CC also incurred interest on its overdraft facility of R192,794 (2013: R83,926).

All interest was fully settled or received at year-end.

(I/S; C/F; AP1.12; AP1.13; N23; N24)

Appendix XIV – SAICA Close Corporation Illustrative CC



SAICA Close Corporation Illustrative CC
(Registration number 1974/00531/23)
Financial statements
for the year ended 28 February 2014

These financial statements were prepared by:
Tom Jones CA (SA)
Nkosi and Kessel Chartered Accountants

The financial statements are audited.

Issued 10 April 2014

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Retail sale of software and computer hardware in the accounting and auditing industry as well as property investment
Members	T Blake M Mandla
Registered office	123 Houghton Drive Dunkeld 2000
Business address	17 Nelson Mandela Drive Dunkeld 2121
Postal address	P O Box 441 Dunkeld 2121
Bankers	Gold Limited
Auditors	ProfAudit Chartered Accountants (SA) Registered Auditors
Close Corporation registration number	1974/00531/23

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Index

The reports and statements set out below comprise the financial statements presented to the members:

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The following supplementary information does not form part of the financial statements and is unaudited:	
Detailed Income Statement	37 - 38
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SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Members' Responsibilities and Approval

Member

Member

Johannesburg

10 April 2014



Independent Auditor's Report

To the members of SAICA Close Corporation Illustrative CC

We have audited the financial statements of SAICA Close Corporation Illustrative CC as set out on pages 8 to 36, which comprise the statement of financial position as at 28 February 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, the notes, comprising a summary of significant accounting policies and other explanatory information.

Members' Responsibility for the Financial Statements

The close corporation's members are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Close Corporations Act, 1984 (No. 69 of 1984), and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the close corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the close corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SAICA Close Corporation Illustrative CC as at 28 February 2014, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Close Corporations Act, 1984 (No. 69 of 1984).

Other reports required by the Close Corporations Act, 1984 (No. 69 of 1984)

As part of our audit of the financial statements for the year ended 28 February 2014, we have read the members' report for the purpose of identifying whether there are material inconsistencies between that report and the audited financial statements. The members' report is the responsibility of the members. Based on reading that report we have not identified material inconsistencies between it and the audited financial statements. However, we have not audited the members' report and accordingly do not express an opinion thereon.

Independent Auditor's Report

John Sanders CA (SA)
Partner
Chartered Accountants (SA)
Registered Auditors

Johannesburg
17 Judges Avenue
Randburg
2000

10 April 2014
Per:
Additional description
Additional description



Accounting Officer's Report

To the members of SAICA Close Corporation Illustrative CC

I have performed the duties of accounting officer to SAICA Close Corporation Illustrative CC for the year ended 28 February 2014 as required by Section 62 of the Close Corporations Act, 1984. The financial statements of SAICA Close Corporation Illustrative CC set out on pages 7 to 36 are the responsibility of the members. No audit is required by the Act to be carried out and no audit was conducted. Accordingly I do not imply or express an opinion or any other form of assurance on the financial statements.

I have determined that the financial statements are in agreement with the accounting records, summarised in the manner required by section 58(2)(d) of the Act and have done so by adopting such procedures and conducting such enquiries in relation to the accounting records as I 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 financial statements, and I consider that they are appropriate to the business.

In terms of Section 60(3) of the Close Corporations Act, 1984, I wish to draw your attention to the fact that a member/partner/employee of my firm is also a member of the close corporation and all the members have consented in writing to my appointment as accounting officer under these circumstances.

Professional Accounting Incorporated
Karun Naidoo
Registered Auditor

Parktown

Randburg
2000

10 April 2014

Per:

Additional description

Additional description

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Members' Report

The members have pleasure in submitting their report on the financial statements of SAICA Close Corporation Illustrative CC and its associates for the year ended 28 February 2014.

1. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Close Corporations Act, 1984 (No. 69 of 1984). The accounting policies have been applied consistently compared to the prior year.

The close corporation recorded a loss after tax for the year ended 28 February 2014 of R(188,418). This represented an increase of -% from the loss after tax of the prior year of R98,106.

Close Corporation revenue increased by -% from R18,503,754 in the prior year to R21,253,778 for the year ended 28 February 2014

Close Corporation cash flows from operating activities increased by -% from R(2,608,414) in the prior year to R900,428 for the year ended 28 February 2014.

2. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

3. Members

The members in office at the date of this report are as follows:

Members	Office	Designation	Nationality
T Blake	Chairperson	Executive	South African
M Mandla	Chairperson	Executive	South African

In terms of the close corporation's Memorandum of Incorporation Member, Member and Member retire by rotation at the AGM and are eligible for re-election.

Member resigned as a non-executive director effective , and Member resigned as a non-executive director effective . Member was appointed on to succeed Member. The board expressed its sincere appreciation to the outgoing members for their contributions during their respective periods of office.

Additional text

4. Events after the reporting period

On , the close corporation entered into an agreement with JK (Pty) Ltd to acquire the entire asset base of their Trawler operations for R120 million.

The members are not aware of any other material event which occurred after the reporting date and up to the date of this report.

5. Secretary

The company secretary is .

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Statement of Financial Position as at 28 February 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Non-Current Assets			
Property, plant and equipment	4	3,899,083	1,212,548
Investment property	3	1,412,000	155,000
Intangible assets	5	61,321	78,543
Other financial assets	6	93,830	89,331
Deferred tax	7	146,917	170,866
		5,613,151	1,706,288
Current Assets			
Inventories	8	2,526,695	2,011,771
Trade and other receivables	9	2,550,363	3,675,727
Cash and cash equivalents	10	464,598	329,271
		5,541,656	6,016,769
Total Assets		11,154,807	7,723,057
Equity and Liabilities			
Members' interest and reserves			
Transition reserve		720,000	720,000
Accumulated profit		1,514,113	1,702,531
		2,234,213	2,422,631
Liabilities			
Non-Current Liabilities			
Finance lease liabilities	14	3,018,886	334,178
Operating lease liability		60,370	36,907
		3,079,256	371,085
Current Liabilities			
Trade and other payables	17	2,287,840	2,585,204
Finance lease liabilities	14	272,098	59,331
Current tax payable		-	12,000
Provisions	16	626,675	200,460
Bank overdraft	10	-	720,412
		5,841,338	4,929,341
Total Liabilities		8,920,594	5,300,426
Total Equity and Liabilities		11,154,807	7,723,057

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Statement of Comprehensive Income

Figures in Rand	Note(s)	2014	2013
Revenue	18	21,253,778	18,503,754
Cost of sales	19	(16,087,421)	(13,456,383)
Gross profit		5,166,357	5,047,371
Other income	20	9,599	117,233
Fair value adjustments	21	19,819	42,435
Operating expenses		(5,496,552)	(5,636,004)
Operating loss	22	(300,777)	(428,965)
Interest income	23	422,036	281,532
Finance costs	24	(285,730)	(96,872)
Loss before taxation		(164,471)	(244,305)
Taxation	25	(23,947)	342,411
(Loss) profit for the year		(188,418)	98,106

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Statement of Changes in Equity

Figures in Rand	Members' contributions	Transition reserve	Accumulated profit	Total equity
Opening balance as previously reported	100	-	1,578,625	1,578,725
Adjustments				
Transition to IFRS for SMEs	-	720,000	25,800	745,800
Balance at 1 March 2012	100	720,000	1,604,425	2,324,525
Profit for the year	-	-	98,106	98,106
Balance at 1 March 2013	100	720,000	1,702,531	2,422,631
Loss for the year	-	-	(188,418)	(188,418)
Balance at 28 February 2014	100	720,000	1,514,113	2,234,213
Note(s)	12	13 & 31		

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Statement of Cash Flows

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Cash receipts from customers		20,841,500	18,602,003
Cash paid to suppliers and employees		(20,065,378)	(21,395,077)
Cash generated from (used in) operations	27	776,122	(2,793,074)
Interest income		422,036	281,532
Finance costs		(285,730)	(96,872)
Tax paid	28	(12,000)	-
Net cash from operating activities		900,428	(2,608,414)
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(132,875)	-
Sale of property, plant and equipment	4	136,476	1,067,134
Purchase of investment property	3	(1,250,000)	-
Purchase of other intangible assets	5	(46,876)	-
Sale of intangible assets	5	40,000	-
Purchase of financial assets		(23,830)	(89,331)
Sale of financial assets		32,150	37,435
Net cash from investing activities		(1,244,955)	1,015,238
Cash flows from financing activities			
Finance lease payments		(129,400)	-
Net cash from financing activities		1,173,391	1,351,934
Total cash movement for the year		828,864	(241,242)
Cash at the beginning of the year		(391,141)	(149,899)
Total cash at end of the year	10	437,723	(391,141)

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Accounting Policies

1. Presentation of financial statements

The financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Close Corporations Act, 1984 (No. 69 of 1984). The financial statements have been prepared on the historical cost basis, except for biological assets at fair value less point of sale costs, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period, except for the changes set out in note 31 First-time adoption of the International Financial Reporting Standard for Small and Medium-sized Entities.

1.1 Investment property

Investment property is initially recognised at cost and subsequently at fair value with changes in fair value recognised in profit or loss. If the fair value of investment property cannot be measured reliably without undue cost or effort, then it is included in property, plant and equipment.

1.2 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Cost include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment as follows:

Item	Average useful life
Plant and machinery	5 years
Furniture and fixtures	10 years
Motor vehicles	4 years

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, the cost of the asset is allocated to its major components and each such component is depreciated separately over its useful life.

Land is not depreciated.

The residual value, depreciation method and useful life of each asset are reviewed only where there is an indication that there has been a significant change from the previous estimate.

1.3 Intangible assets

Intangible assets are initially recognised at cost and subsequently at cost less accumulated amortisation and accumulated impairment losses.

Research and development costs are recognised as an expense in the period incurred.

Amortisation is provided to write down the intangible assets, on a straight-line basis, as follows:

Item	Useful life
Computer software	2 years

If the close corporation is unable to make a reliable estimate of the useful life of an intangible asset, the life is presumed to be 10 years.

The residual value, amortisation period and amortisation method for intangible assets are reassessed when there is an indication that there is a change from the previous estimate.

SAICA Close Corporation Illustrative CC

(Registration number 1974/00531/23)

Financial Statements for the year ended 28 February 2014

Accounting Policies

1.4 Financial instruments

Initial measurement

Financial instruments are initially measured at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction in which case it is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement - Financial instruments at amortised cost

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 amounts 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.

Subsequent measurement- Financial instruments at cost less impairment

Equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably are measured at cost less impairment.

Subsequent measurement - 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, are measured at fair value through profit and loss.

1.5 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 a review by the tax authorities.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences and for the carry forward of unused tax losses and unused tax credits.

Deferred tax assets and liabilities are measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting period, are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax asset balances are reviewed at every reporting date. When necessary, a valuation allowance is recognised against the deferred tax assets so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit.

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.

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Accounting Policies

1.6 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.

Finance leases – lessee

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

The lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest method.

Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term unless:

- another systematic basis is representative of the time pattern of the benefit from the leased asset, even if the receipt of payments is not on that basis, or
- the payments are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis 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 structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell, on the first-in, first-out (FIFO) basis.

1.8 Impairment of non-financial assets

The close corporation assesses at each reporting date whether there is any indication that property, plant and equipment or intangible assets or goodwill may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its 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.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

1.9 Share capital and equity

If the close corporation reacquires its own equity instruments, those instruments are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the close corporation's own equity instruments. Consideration paid or received shall be recognised directly in equity.

1.10 Members' contributions

Members' contributions consist of items that meet the definition of equity, being any contract that evidences a residual interest in the net assets of the close corporation.

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Accounting Policies

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.12 Provisions

Provisions are recognised when the close corporation has an obligation at the reporting date as a result of a past event; it is probable that the close corporation 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 increase in the provision due to the passage of time is recognised as interest expense.

Provisions are not recognised for future operating losses.

1.13 Revenue

Revenue is recognised to the extent that the close corporation 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 close corporation. 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.

1.14 Borrowing costs

All borrowing costs are recognised in profit or loss when incurred.

1.15 Foreign exchange

Foreign currency transactions

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise.

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2. Significant judgments and sources of estimation uncertainty

Critical judgments in applying accounting policies

Management is required to make critical judgments in applying accounting policies from time to time. The judgments, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements are outlined below.

Lease classification

The close corporation is party to leasing and leasing arrangements, both as a lessee and as a lessor. The treatment of leasing transactions in the financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgment about whether substantially all of the risks and rewards of ownership are transferred.

The corporation entered into a 7 year lease of plant and machinery with annual rentals of R436 779. Significant judgment was applied by management in concluding the correct lease classification. The present value of future minimum lease payments is 70% of the fair value of the plant and machinery at the inception of the lease, but the close corporation is exposed to the changes in the residual value of the asset. Management therefore concluded that it is a finance lease.

Revenue recognition

Hardware was delivered to customers between December 2013 and February 2014. Defects were identified by the customers shortly afterwards.

Following negotiations, a schedule of works was agreed, which involves expenditure by the close corporation until July 2014. In the light of the problems identified, management was required to consider whether it was appropriate to recognise the revenue from these transactions of R3 million in the current year, in line with the close corporation's general policy of recognising revenue when goods are delivered, because that is when the risks and rewards of ownership typically transfer, or whether it was more appropriate to defer recognition until the rectification work was complete.

In making its judgment, management considered the criteria for the recognition of revenue from the sale of goods set out in the Standard and, in particular, whether the close corporation had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the close corporation's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs (refer to note 16).

Key sources of estimation uncertainty

The key assumption concerning the future which has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is set out below.

Impairment testing

Management reviewed the recoverable amount of major equipment during the current period because increasing competitive forces indicated that there may have been a decline in the value in use of the equipment. An impairment test was performed and the highest recoverable amount of the equipment was assessed to be the value in use. Sales forecasts were applied in this calculation and management estimated an annual sales volume reduction of 3% per annum for the following 2 years. This calculation resulted in an impairment loss of R30 000 being recognised. Management also determined that if the annual sales volume reduction should differ by 1% from the estimate per annum the impairment loss would have changed by R5 000.

3. Investment property

Reconciliation of investment property - 2014

	Opening balance	Additions	Fair value adjustments	Total
Investment property	155,000	1,250,000	7,000	1,412,000

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Details of valuation

The effective date of the valuation was 28 February 2014. The valuation was performed by an independent valuer, Mr. Botha, of Rudd and Botha Inc. Mr. Botha holds an advanced diploma in property valuation and management. Rudd and Botha Inc. is not connected to the close corporation and has recent experience in the location and category of the investment property being valued.

The valuation was performed by applying a market comparison approach using price per square meter for buildings derived from observable market data. An average price of R1 800 per square metre has been derived from market data.

Subject to operating lease

Refer to note 26 for details of related operating lease.

4. Property, plant and equipment

	2014			2013		
	Cost	Accumulated depreciation and impairments	Carrying amount	Cost	Accumulated depreciation and impairments	Carrying amount
Plant and machinery	6,765,299	(3,023,840)	3,741,459	3,759,299	(2,750,494)	1,008,805
Furniture and fixtures	90,140	(70,140)	20,000	90,140	(45,140)	45,000
Motor vehicles	256,865	(119,241)	137,624	338,264	(179,521)	158,743
Total	7,112,304	(3,213,221)	3,899,083	4,187,703	(2,975,155)	1,212,548

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Impairment reversal	Closing balance
Plant and machinery	1,008,805	3,106,000	(106,877)	(238,469)	(30,000)	2,000	3,741,459
Furniture and fixtures	45,000	-	-	(25,000)	-	-	20,000
Motor vehicles	158,743	26,875	(20,000)	(27,994)	-	-	137,624
	1,212,548	3,132,875	(126,877)	(291,463)	(30,000)	2,000	3,899,083

During 2014 the close corporation noticed a significant decline in the efficiency of a major piece of equipment and therefore carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of R30 000.

The value of plant that was previously impaired increased during the current year which resulted in a reversal of the impairment, to the extent of R2 000.

On 10 February 2014 the members resolved to dispose of a machine. The machine's carrying amount of R110 472 is included in plant and machinery at 28 February 2014. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset, no impairment loss has been recognised. Refer to note 11 for details of the binding sale agreement.

Carrying amount of assets subject to finance lease

Plant and machinery	3,000,000	-
Motor vehicles	137,624	158,743
	3,137,624	158,743

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4. Property, plant and equipment (continued)

Reconciliation of additions and disposals in the statement of cash flows

Additions to property, plant and equipment

- Additions of owned assets	106,000	-
- Additions of leased assets	3,026,875	-
- Less assets acquired under finance lease	(3,026,875)	-
	106,000	-

Disposals of property, plant and equipment

- Disposal of owned assets	126,877	949,901
- Profit on sale of assets	9,599	117,233
	136,476	1,067,134

5. Intangible assets

	2014			2013		
	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount
Computer software	158,291	(96,970)	61,321	190,050	(111,507)	78,543

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Closing balance
Computer software	78,543	46,876	(40,000)	(24,098)	61,321

Material intangible assets

	2014		2013	
	Carrying Amount	Remaining amortisation period (years)	Carrying Amount	Remaining amortisation period (years)
MaterialSoft	32,500	1	65,000	2

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6. Other financial assets		
At fair value		
Listed shares	40,000	59,331
Unlisted shares	23,830	-
	63,830	59,331
Equity instruments at cost less impairment		
Unlisted shares	30,000	30,000
Total other financial assets	93,830	89,331
Non-current assets		
At fair value	63,830	59,331
Equity instruments at cost less impairment	30,000	30,000
	93,830	89,331

All of the investments in listed shares are listed on the Johannesburg Stock Exchange. The fair values of these investments are based on the quoted price at the end of the reporting period.

The fair value of the investment in PSC (Pty) Ltd has been derived by using an adjusted PE ratio model. The PE ratio for a listed entity in the same industry is 8. This ratio has been adjusted to 7 as a result of risk factors specific to PSC (Pty) Ltd, of which the following are significant:

- Growth - PSC has a growth of 10% as compared to 5% for the industry resulting in an upward adjustment.
- Size of company - PSC is smaller than similar listed companies resulting in a downward adjustment.
- Negotiability - Transfer of shares is restricted by the memorandum of incorporation resulting in a downward adjustment.

Details of investments

Listed - at fair value		
Telnet SA Ltd	40,000	59,331
Unlisted - at fair value		
PSC (Pty) Ltd	23,830	-
Unlisted - at cost less impairment		
Pyramid (Pty) Ltd - 30 000 ordinary shares	20,000	20,000
Realtrade (Pty) Ltd - 15 000 ordinary shares	10,000	10,000
	93,830	89,331

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7. Deferred tax

Deferred tax liability

Property, plant and equipment	(56,969)	(54,825)
Deferred income	(16,731)	(27,281)
Other deferred tax liability - 1	(3,360)	(1,400)
Other deferred tax liability - 2	(14,071)	(10,482)
Total deferred tax liability	(91,131)	(93,988)

Deferred tax asset

Prepaid expenses	33,285	26,985
Lease liabilities	(10,156)	76,068
Provisions	175,469	56,129
Deferred tax balance from temporary differences	198,598	159,182
Tax losses available for set off against future taxable income	39,450	105,672
Total deferred tax asset	238,048	264,854

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	(91,131)	(93,988)
Deferred tax asset	238,048	264,854
Net deferred tax asset	146,917	170,866

Reconciliation of deferred tax asset

At beginning of year	170,866	(183,545)
Movements in tax losses available for set off against future taxable income	(66,222)	48,000
Increase in valuation allowance against deferred tax asset	(70,000)	-
Temporary difference on property, plant and equipment	(2,143)	238,701
Temporary differences on leases	(16,225)	38,034
Temporary differences on other financial assets	(3,589)	(5,241)
Temporary difference on valuation of investment property	(1,960)	7,000
Temporary difference on impairment of trade receivables	6,300	13,493
Temporary difference on provisions	119,340	28,064
Temporary differences on deferred income	10,550	(13,640)
	146,917	170,866

Applicable tax rates

The deferred tax rate applied to the fair value adjustments of assets is determined by the expected manner of recovery.

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8. Inventories

Components	145,492	276,851
Finished goods	2,775,181	1,814,627
	<u>2,920,673</u>	<u>2,091,478</u>
Inventories write-down - finished goods	(393,978)	(79,707)
	<u>2,526,695</u>	<u>2,011,771</u>

Inventory pledged as security

Inventory pledged as security	2,000,000	2,000,000
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Inventory was pledged as security for overdraft facilities of R 2,000,000 (2013: R 2,000,000) of the close corporation. At year end the overdraft amounted to R - (2013: R 720,412).

9. Trade and other receivables

Trade receivables	2,533,173	3,658,537
Accrued income	17,190	17,190
	<u>2,550,363</u>	<u>3,675,727</u>

Included in trade receivables is an impairment of R158 500 (2013: R128 500).

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	700	700
Bank balances	463,898	328,571
Bank overdraft	-	(720,412)
	<u>464,598</u>	<u>(391,141)</u>
Current assets	464,598	329,271
Current liabilities	-	(720,412)
	<u>464,598</u>	<u>(391,141)</u>

11. Major assets and liabilities subject to binding sale agreement

The close corporation has entered into a binding sale agreement for the disposal of machinery with a carrying value of R110,472.

The machine used to manufacture hardware components no longer forms part of the main operations of the corporation and it is more profitable to sell the machine than to continue using it. The sale will take place in March 2014 and proceeds from the sale will exceed the carrying amount.

Assets and liabilities

Major assets subject to binding sale agreement

Machine	<u>110,472</u>	<u>147,296</u>
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12. Members' net investment

2014

	Percentage interest	Members' contributions	Transition reserve	Accumulated profit	Loans	Total
T Blake	70%	70	504,000	1,059,879	190,166	1,754,115
M Mandla	30%	30	216,000	454,234	2,464,559	3,134,823
	100 %	100	720,000	1,514,113	2,654,725	4,888,938

2013

	Percentage interest	Members' contributions	Transition reserve	Accumulated profit	Loans	Total
T Blake	70%	70	504,000	1,191,772	294,295	1,990,137
M Mandla	30%	30	216,000	510,759	1,057,639	1,784,428
	100 %	100	720,000	1,702,531	1,351,934	3,774,565

Members' contributions consist of cash contributions. There is no restriction on distribution of reserves as dividends.

Reconciliation of changes in members' net investment - 2014

13. Transition reserve

Plant and machinery with a carrying amount of R258 805 was adjusted by R1 million to its fair value of R1 258 805 on 29 February 2012 as part of the transition to IFRS for SMEs. The close corporation chose to use the fair value as the deemed cost on transition in accordance with paragraph 35.10 (c) of the IFRS for SMEs. The fair value adjustment was recognised as part of the transition reserve net of deferred tax. Refer to note 31 for details of the transition.

The reserve will be realised and transferred to retained earnings on disposal of the related assets.

Property, plant and equipment valuation adjustment	1,000,000	1,000,000
Deferred tax	(280,000)	(280,000)
	720,000	720,000

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14. Finance lease liabilities		
Minimum lease payments which fall due		
- within one year	487,731	72,550
- in second to fifth year inclusive	2,063,664	212,819
- later than five years	2,074,702	157,471
	<u>4,626,097</u>	<u>442,840</u>
Less: future finance charges	-	(49,331)
Present value of minimum lease payments	<u>4,626,097</u>	<u>393,509</u>
 Non-current liabilities	 3,018,886	 334,178
Current liabilities	272,098	59,331
	<u>3,290,984</u>	<u>393,509</u>

It is close corporation policy to lease certain motor vehicles and equipment under finance leases.

The average lease term is - years (2013:- years) and the average effective borrowing rate is 8% (2013: 7%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for renewal clauses, purchase options, escalation clauses, contingent rent or subleases. There are no restrictions imposed by the leases.

The close corporation's obligations under finance leases are secured by the leased assets. Refer note .

15. Loans from members

T Blake	(190,166)	(294,295)
M Mandla	(2,464,559)	(1,057,639)
	<u>(2,654,725)</u>	<u>(1,351,934)</u>

Loans from members are unsecured, interest free and are payable on demand. They are therefore classified as current.

16. Provisions

Reconciliation of provisions - 2014

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Credit note provision	200,460	242,800	(116,000)	(20,585)	306,675
Provision warranty repairs	-	320,000	-	-	320,000
	<u>200,460</u>	<u>562,800</u>	<u>(116,000)</u>	<u>(20,585)</u>	<u>626,675</u>

The provision for credit notes is based on historical trends.

The warranty provision represents management's best estimate of the close corporation's liability under one year warranties granted on hardware components, based on prior experience for defective products. Refer to note 2.

17. Trade and other payables

Trade payables	2,162,965	2,291,395
Amounts received in advance	59,753	97,431
VAT	12,122	146,378
Other accrued expenses	53,000	50,000
	<u>2,287,840</u>	<u>2,585,204</u>

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18. Revenue		
Sale of goods	21,178,178	18,431,754
Rental income	75,600	72,000
	21,253,778	18,503,754
19. Cost of sales		
Sale of goods		
Cost of goods sold	15,773,150	13,376,676
Write down of inventories to net realisable value	440,000	230,000
Reversal of write down of inventories to net realisable value	(125,729)	(150,293)
	16,087,421	13,456,383
20. Other income		
Profit on sale of property, plant and equipment	9,599	117,233
21. Fair value adjustments		
Investment property	7,000	5,000
Other financial assets	12,819	37,435
	19,819	42,435

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22. Operating loss		
Operating loss for the year is stated after accounting for the following:		
Operating lease charges - premises		
• Straight-line expense	222,963	199,705
Profit on sale of property, plant and equipment	(9,599)	(117,233)
Impairment on property, plant and equipment	30,000	-
Reversal of impairment on property, plant and equipment	(2,000)	-
Foreign exchange loss on trade payables	1,500	-
Amortisation of intangible assets	24,098	35,980
Depreciation on property, plant and equipment	291,463	231,001
Employee costs	3,395,229	3,260,698
Defined contribution fund expense	428,950	395,671
Research and development costs	50,779	11,133
	285,730	96,872
23. Interest income		
Bank	422,036	281,532
	422,036	281,532
24. Finance costs		
Finance leases	92,936	12,946
Bank overdraft	192,794	83,926
	285,730	96,872
25. Taxation		
Major components of tax		
Current		
Local income tax - current period	-	12,000
Deferred		
Temporary differences on property plant and equipment	2,143	(238,701)
Arising from tax losses	66,222	(48,000)
Temporary differences on investment property	1,960	(7,000)
Temporary difference on other financial assets	3,589	5,241
Trade receivables	(6,300)	(13,493)
Valuation allowance	70,000	-
Temporary differences from leases	16,223	(38,034)
Temporary differences on provisions	(119,340)	(28,064)
Temporary differences arising from deferred income	(10,550)	13,640
	23,947	(354,411)
	23,947	(342,411)

No provision has been made for 2014 tax as the close corporation has no taxable income. The estimated tax loss available for set off against future taxable income is R 140,893 (2013: R 377,401).

There are no significant differences between amounts presented in the statement of comprehensive income and amounts reported to SARS, apart from those outlined above.

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26. Operating lease - as lessor

The investment property is leased under a non-cancellable operating lease with a term of five years. Rentals escalate based on CPI and the lease is renewable for another five year term. There are no contingent rentals receivable. The future minimum lease payments receivable under the contract are based on the most recently published CPI. For this reason the lease is not accounted for on the straight line basis.

Minimum lease payments receivable

- within one year	79,380	75,600
- in second to fifth year inclusive	83,349	162,729
- later than five years	-	-
	162,729	238,329

27. Cash generated from (used in) operations

Loss before taxation	(164,471)	(244,305)
Adjustments for:		
Depreciation	291,463	231,001
Amortisation	24,098	35,980
Profit on sale of property, plant and equipment	(9,599)	(117,233)
Interest income	(422,036)	(281,532)
Finance costs	285,730	96,872
Fair value adjustments	(19,819)	(42,435)
Impairment loss	30,000	-
Reversal of impairments	(2,000)	-
Movements in operating lease accruals	23,465	36,907
Other non-cash items 2	426,215	200,460
Changes in working capital:		
Inventories	(514,924)	(2,011,771)
Trade and other receivables	1,125,364	(3,675,727)
Trade and other payables	(297,364)	2,978,709
	776,122	(2,793,074)

28. Tax paid

Balance at beginning of the year	(12,000)	-
Current tax for the year recognised in profit or loss	-	(12,000)
Balance at end of the year	-	12,000
	(12,000)	-

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29. Commitments

Investment properties

The close corporation has no contractual obligations to purchase, construct or develop investment property. It is obligated to maintain the investment property, as yet no contract has been entered into regarding this obligation.

Operating leases – as lessee

Minimum lease payments due

- within one year	205,438	191,998
- in second to fifth year inclusive	975,979	912,130
- later than five years	-	269,287
	1,181,417	1,373,415

Operating lease payments represent rentals payable by the close corporation for certain of its office properties. Leases are negotiated for an average term of seven years. There are no renewal clauses, purchase options, contingent rent or subleases. The lease escalates at 10% per annum, and has been accounted for on the straight line basis. The liability that results from straight lining is presented as an operating lease liability in the statement of financial position. There was no current liability at reporting date as it is still in its early stages. No restrictions are imposed by the leases.

30. Contingent liabilities

The close corporation has a dispute with a competitor who alleges that the close corporation has infringed patents and who is seeking damages of R1,200,000. The close corporation's lawyers and management consider the possibility of the action against the close corporation being successful as unlikely, and the case should be resolved within the next two years.

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31. Transition to the International Financial Reporting Standards for Small and Medium-sized Entities.

The close corporation has applied the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), for the first time for the 2014 year end. In principle this standard has been applied retrospectively and the 2013 comparatives contained in these financial statements differ from those previously published in the financial statements for the year ended 28 February 2013. The standard outlines certain mandatory exemptions from this principle of retrospective restatement, and certain optional exemptions as explained below have been chosen. All adjustments were made to the opening comparative statement of financial position i.e. at the date of transition to IFRS for SMEs.

The date of transition was 01 March 2012 and the effect of the transition was as follows.

Reconciliation of equity at 1 March 2012 (Date of transition to the new standard)

	Note	As reported under SA GAAP	Effects of transition to IFRS for SME	IFRS for SME
Investment property	3	120,000	30,000	150,000
Property, plant and equipment	4	1,393,450	1,000,000	2,393,450
Total non-current assets		1,513,450	1,030,000	2,543,450
Deferred tax (asset) liability	7	(100,655)	284,200	183,545
Total assets less total liabilities		1,614,105	745,800	2,359,905
Transition reserve	13	-	720,000	720,000
Retained earnings		1,578,625	25,800	1,604,425
Total Equity		1,578,625	745,800	2,324,425

Reconciliation of equity at 28 February 2013

	Note	As reported under SA GAAP	Effects of transition to IFRS for SME	IFRS for SME
Investment property	3	120,000	35,000	155,000
Property, plant and equipment	4	312,548	900,000	1,212,548
Total non-current assets		432,548	935,000	1,367,548
Deferred tax (asset) liability	7	(237,578)	66,712	(170,866)
Total assets less total liabilities		670,126	868,288	1,538,414
Transition reserve	13	-	720,000	720,000
Retained earnings		1,554,243	148,288	1,702,531
Total Equity		1,554,243	868,288	2,422,531

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31. Transition to the International Financial Reporting Standards for Small and Medium-sized Entities. (continued)

Reconciliation of profit or loss for 2013

	Note	As reported under SA GAAP	Effects of transition to IFRS for SME	IFRS for SME
Depreciation	22	(131,001)	(100,000)	(231,001)
Fair value adjustments	21	37,435	5,000	42,435
Net loss before tax		(93,566)	(95,000)	(188,566)
Taxation	25	124,923	217,488	342,411
Net profit		31,357	122,488	153,845

Notes

The close corporation elected to measure certain items of plant and machinery at fair value and to use that fair value as the deemed cost at the date of transition. This resulted in an adjustment compared to the SA GAAP net carrying amount of the assets on the date of transition to the IFRS for SME's and to the depreciation charge recognised in 2013 through profit or loss.

The impact of the adjustments at the date of transition was to increase the value of plant and machinery by R1000 000, to create a deferred tax liability of R280 000 and to create a revaluation reserve of R720 000, being the net of the revaluation and the deferred tax (refer to note 13).

The close corporation accounted for investment property using the cost model under SA GAAP. IFRS for SMEs requires investment property to be measured at fair value with changes recognised in profit or loss. The close corporation therefore measured investment property at the fair value on the date of transition to the IFRS for SMEs.

The impact of the adjustments at the date of transition was to increase the value of investment property by R30 000, to create a deferred tax liability of R4 200 and to create a credit to retained earnings of R25 800, being the net of the fair value movement and the deferred tax.

32. Related parties

Related party balances and transactions with key management personnel of the close corporation

Related party balances

Related party transactions

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33. Transactions with members

The following transactions took place between the corporation and the members during the year. There are no other employees who meet the definition of key management.

2014

	Salary	Bonus	Loan advances	Loan repayments	Total
T Blake	771,790	25,200	-	104,129	901,119
M Mandla	752,122	28,000	(1,434,019)	27,099	(626,798)
	1,523,912	53,200	(1,434,019)	131,228	274,321

2013

	Salary	Bonus	Loan advances	Loan repayments	Total
T Blake	684,443	18,670	(294,295)	-	408,818
M Mandla	674,885	24,589	(1,221,314)	163,675	(358,165)
	1,359,328	43,259	(1,515,609)	163,675	50,653

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Notes to the Financial Statements

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Notes to the Financial Statements

	Note(s)	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
Equity and Liabilities								
Members' interest and reserves								
Transition reserve		-	-	-	-	-	720,000	720,000
Accumulated loss		-	-	-	-	-	1,514,113	1,514,113
Total members' interest and reserves		-	-	-	-	-	2,234,213	2,234,213
		-	-	-	-	-	2,234,213	2,234,213
Liabilities								
Non-Current Liabilities								
Finance lease obligation	14	-	-	-	-	3,018,886	-	3,018,886
Operating lease liability		-	-	-	-	60,370	-	60,370
		-	-	-	-	3,079,256	-	3,079,256
Current Liabilities								
Finance lease obligation	14	-	-	-	-	272,098	-	272,098
Trade and other payables	17	-	-	-	2,335,466	(47,631)	-	2,287,835
Provisions	16	-	-	-	-	-	626,675	626,675
		-	-	-	4,990,191	224,467	626,675	5,841,333

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	Note(s)	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
Total Liabilities		-	-	-	4,990,191	3,303,723	626,675	8,920,589
Total Equity and Liabilities		-	-	-	4,990,191	3,303,723	2,860,888	11,154,802

Categories of financial instruments - 2013

Assets

Non-Current Assets

Investment property	3	-	-	-	-	-	155,000	155,000
Property, plant and equipment	4	-	-	-	-	-	1,212,548	1,212,548
Intangible assets	5	-	-	-	-	-	78,543	78,543
Other financial assets	6	59,331	-	30,000	-	-	-	89,331
Deferred tax	7	-	-	-	-	-	170,866	170,866
		59,331	-	30,000	-	-	1,616,957	1,706,288

Current Assets

Inventories	8	-	-	-	-	-	2,011,771	2,011,771
Trade and other receivables	9	-	3,675,727	-	-	-	-	3,675,727
Cash and cash equivalents	10	-	329,271	-	-	-	-	329,271
		-	4,004,998	-	-	-	2,011,771	6,016,769
Total Assets		59,331	4,004,998	30,000	-	-	3,628,728	7,723,057

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	Note(s)	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
Equity and Liabilities								
Members' interest and reserves								
Transition reserve		-	-	-	-	-	720,000	720,000
Accumulated profit		-	-	-	-	-	1,702,531	1,702,531
Total members' interest and reserves		-	-	-	-	-	2,422,631	2,422,631
		-	-	-	-	-	2,422,631	2,422,631
Liabilities								
Non-Current Liabilities								
Finance lease obligation	14	-	-	-	-	334,178	-	334,178
Operating lease liability		-	-	-	-	36,907	-	36,907
		-	-	-	-	371,085	-	371,085
Current Liabilities								
Current tax payable	14	-	-	-	-	-	12,000	12,000
Finance lease obligation	17	-	-	-	-	59,331	-	59,331
Trade and other payables	16	-	-	-	2,536,253	48,947	-	2,585,200
Provisions	10	-	-	-	-	-	200,460	200,460
Bank overdraft		-	-	-	720,412	-	-	720,412
		-	-	-	4,608,599	108,278	212,460	4,929,337

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	Note(s)	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
Total Liabilities		-	-	-	4,608,599	479,363	212,460	5,300,422
Total Equity and Liabilities		-	-	-	4,608,599	479,363	2,635,091	7,723,053

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35. Gains and losses on financial instruments		
Total income, expenses, gains and losses, including fair value adjustments on:		
Financial assets measured at fair value through profit or loss	12,819	37,435
Financial assets measured at amortised cost	33,136	55,667
	45,955	93,102
Financial instruments not measured at fair value through profit or loss:		
Total interest income	422,036	281,532
Total interest expense (excludes finance leases)	(192,794)	(83,926)
	229,242	197,606
Impairment losses on financial assets:		
Trade receivables	33,136	55,667

36. Events after the reporting period

The members are not aware of any matter or circumstance arising since the end of the financial year that has a material impact on the financial statements, except for a binding sale agreement of assets as set out in note 11.

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Detailed Income Statement

Figures in Rand	Note(s)	2014	2013
Revenue			
Sale of goods		21,178,178	18,431,754
Rental income		75,600	72,000
	18	21,253,778	18,503,754
Cost of sales			
Opening inventory		(1,814,627)	-
Purchases		(17,047,975)	(15,271,010)
Closing inventory		2,775,181	1,814,627
	19	(16,087,421)	(13,456,383)
Gross profit		5,166,357	5,047,371
Other income			
Interest income	23	422,036	281,532
Profit on sale of property, plant and equipment	20	9,599	117,233
Fair value adjustments	21	19,819	42,435
		451,454	441,200
Expenses (refer to page 38)		(5,496,552)	(5,636,004)
Operating profit (loss)	22	121,259	(147,433)
Finance costs	24	(285,730)	(96,872)
Loss before taxation		(164,471)	(244,305)
Taxation	25	(23,947)	342,411
(Loss) profit for the year		(188,418)	98,106

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Detailed Income Statement

Figures in Rand	Note(s)	2014	2013
Operating expenses			
Accounting fees		72,011	85,152
Advertising		27,048	30,067
Bad debts		63,136	184,167
Bank charges		58,654	43,698
Computer expenses		75,406	80,819
Debt collection		-	5
Depreciation, amortisation and impairments		343,561	266,981
Employee costs		3,395,229	3,260,698
Entertainment		23,054	61,470
Gifts		-	4,321
Insurance		202,358	475,050
Lease rentals on operating lease		222,963	199,705
Legal expenses		33,508	2,941
Motor vehicle expenses		21,454	15,355
Municipal expenses		216,649	266,279
Petrol and oil		65,832	48,460
Printing and stationery		48,043	44,832
Foreign exchange loss		1,500	-
Protective clothing		9,086	3,229
Repairs and maintenance		85,108	187,049
Research and development costs		50,779	11,133
Royalties and licence fees		29,773	35,173
Security		116,674	66,292
Staff welfare		50,594	63,993
Subscriptions		47,699	50,451
Telephone and fax		147,328	130,751
Training		7,084	2,853
Travel - local		82,021	15,080
		5,496,552	5,636,004