TOPIC 2

RECORDS REQUIRED BY COMPANIES

TOPIC OVERVIEW

This topic deals with the records that should be kept by companies. It also covers the requirements to compile financial statements, as well as the audited or independently reviewed.

We will also discuss the calculation of the public interest score in this topic, which is used in determining whether a company's financial statements should be audited or independently reviewed.

Topic 2 is dealt with in one learning unit:

Learning unit	Title
2.1	**Company records**
2.1.1	Form and standards of company records (sec 24) , financial year of a company (sec 27) and accounting records (sec 28) and regulations 25(3)-(6) and 26(1)(b) & (c)
2.1.2	Record keeping and financial statements (sec 29–30 and regulation 26-29(1)-(10))

TEXTUAL AMENDMENTS AND ADDITIONS

Before proceeding with the study of this topic, please refer to Tutorial Letter 102 for this module to acquaint yourself with any textual amendments and additions that may have been indicated.

LEARNING OUTCOMES

Learning unit	**In this topic, we will focus on the following learning outcomes:**	Level
2.1 Company records	Give advice, discuss concerns, and apply the requirements of the Act regarding • the form and standards of company records • record keeping and financial statements	 2 2

LEARNING UNIT 2.1

COMPANY RECORDS

INTRODUCTION

Company records refer to any documentation, accounting records or any other books or written documents that a company should keep. These include, for example, the Memorandum of Incorporation of a company. Company records are a very important source to the auditor/accountant, as they form the basis for the financial statements of a company.

2.1.1 FORM AND STANDARDS FOR COMPANY RECORDS (SEC 24), FINANCIAL YEAR OF A COMPANY (SEC 27) AND ACCOUNTING RECORDS (SEC 28) – ALSO REGULATIONS 25(3)–(6) AND 26(1)(b) & (c)

STUDY

Study sections 24, 27 and 28 of the Companies Act as well as Regulations 25(3)–(6) and 26(1)(b) & (c). See if you can make a list of all the records that a company should keep.

All companies must keep accurate and complete accounting records, as well as all documents set out in **section 24** of the Act. These documents should be kept in written form for a minimum period of seven years.

Profit companies must also maintain a securities register and a register of its company secretary and auditors (if any).

2.1.2 RECORD KEEPING AND FINANCIAL STATEMENTS (SEC 29–30 AND REGULATION 26–29(1)-(10))

STUDY

Study sections 29 and 30 of the Companies Act as well as Regulation 26 to 29(1)-(10).

Each year, a company must prepare annual financial statements within six months after year-end ***[sec 30(1) to (7)]***.

Financial statements provided to any person must (*section 29* and Regulation 27)

- satisfy financial reporting standards;
- represent the state of business and affairs of the company fairly;
- explain the transactions and financial position of the company;
- indicate whether the statements have been audited/independently reviewed/neither;

- state the name and designation of the preparer of the statements; and
- not be incomplete, false or misleading.

To determine whether a company should be audited or independently reviewed, please refer to table 2.1.2.1 below.

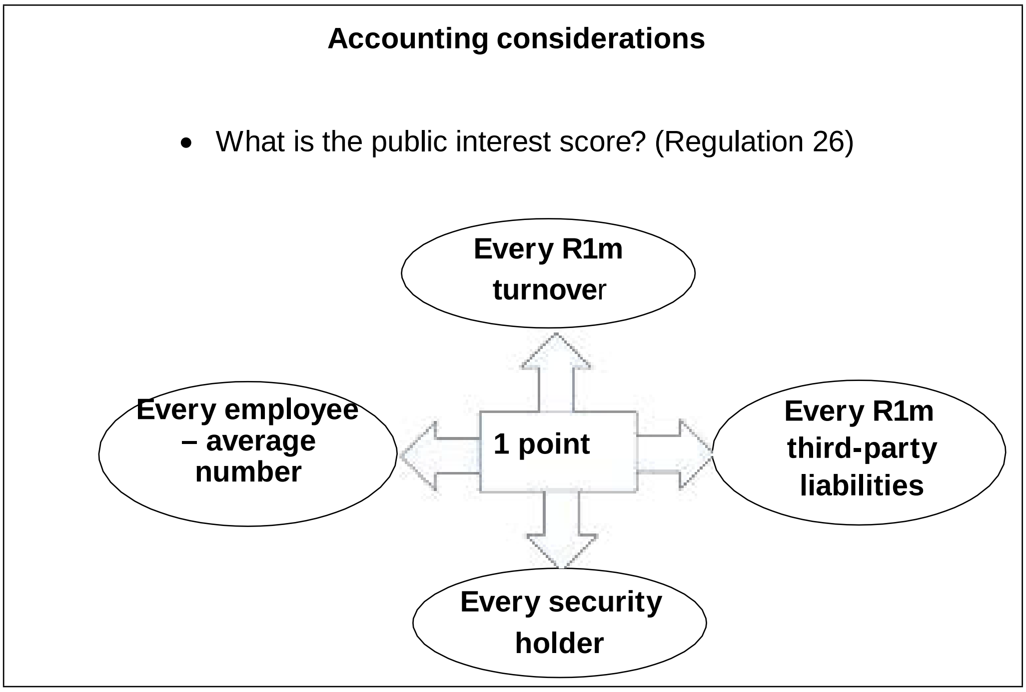
Table 2.1.2.1
Requirements to be audited or independently reviewed

	Category of company	**Audit/Review**
1	Public companies and state-owned companies	Audit (by a registered auditor)
2	Non-profit companies (incorporated by state)	Audit (by a registered auditor)
3	Profit companies non-profit companies and close corporations that hold assets in a fiduciary capacity, which exceed R5 million at any time in the financial year	Audit (by a registered auditor)
4	Other companies or close corporations with public interest scores of • 350 or higher; or • at least 100 but less than 350 and with financial statements that are internally compiled	Audit (by a registered auditor)
5	Other companies with a public interest score of at least 100 but less than 350 and with financial statements not internally compiled (that is, compiled independently)	Review (by a registered auditor or chartered accountant (SA))
6	Other companies with a public interest score of less than 100	Review (by a registered auditor or chartered accountant (SA) or accounting officer)
7	Other companies where the directors of the company hold or have all of the beneficial interests in the securities issued by the company and close corporations, if not subject to a "public interest audit" as per categories 3 and 4 above ***[sec 30(23A)]***.	No audit or review
8	Other companies that fall within categories 5, 6 and 7 above can elect to have a voluntary audit as per • MOI requirement • shareholders' resolution or • board resolution	Audit (by a registered auditor)

The public interest score (Regulation 26) is important for accounting considerations. Refer to diagram 2.1.2.2 below to understand what comprises the public interest score.

Diagram 2.1.2.2

Accounting considerations for the calculation of public interest score



In terms of diagram 2.1.2.2 above, a company is awarded one point for every:

- R1 million of turnover or part thereof;
- employee (based on the average number of employees employed during the year);
- security holder of the company (such as the company's shareholders); and
- R1 million or part thereof, owed to a third party (such as finance providers, banks, and creditors).

All these points added will give the total public interest score of the company.

ACTIVITY 1

You are an accountant. Mr Joe Soap and Mr John Doe have made an appointment to see you about a private company they want to form.

The two of them will be the only shareholders and directors of the company, but it is expected that over time, a few new shareholders will be found as well as one or two additional directors appointed.

They want to know the following:

1. As the company did not require an auditor, is it necessary to produce annual financial statements?
2. What company records must they keep and for how long do they have to keep these records? (8)

(*Adapted – Gowar & Jackson 2010*)

FEEDBACK ON ACTIVITY 1

Reference: Sections 24, 28 and 30 of the Companies Act

1. Yes. The company must prepare annual financial statements (usually) within six months after the end of its financial year **(*sec 30*)**. (1)
   This is a specific requirement of the Companies Act, which has nothing to do with whether or not the annual financial statements are audited. (1)
2. With regard to company records, **sections 24 and 28** of the Companies Act state that the company must keep or maintain:

   2.1 accurate and complete accounting records in one of the official languages (1)

   2.2 a copy of the memorandum of incorporation (and any amendments, etc, thereto) (1)

   2.3 a record of its directors' details (1)

   2.4 copies of all

   - reports presented at an annual general meeting (for seven years)
   - annual financial statements (for seven years)
   - accounting records (for the current year and the seven years prior to the current year)
   - notices and minutes of all shareholders' meetings (for seven years)
   - copies of all communications to shareholders (for seven years)
   - minutes of all meetings and resolutions of directors' meetings (for seven years)

   Max (3)

   2.5 a register of shareholders (security register) of the company <u>(1)</u>

Maximum of <u>8</u>

ACTIVITY 2

Answer the following questions

1. What is a public interest score? (3)
2. State three matters that will be affected by a company's public interest score. (3)
3. Which of the following do ***not*** affect a company's public interest score?
   - location of the company
   - number of non-executive directors
   - number of directors
   - turnover
   - assets held in trust by the company
   - number of years in operation (3)
4. Public companies, both listed and unlisted, must calculate their public interest score. True or false? (1)
5. The Memorandum of Incorporation can stipulate other criteria for calculating the public interest score. True or false? (1)

6. Calculate the public interest scores for Tech (Pty) Ltd and Master (Pty) Ltd:

	Tech (Pty) Ltd	**Master (Pty) Ltd**	
Turnover Directors Average employees for the year Amounts owed to third parties Individuals with direct or indirect interest in each company's shares	R7.25m 4 62 R1.6m 9	R135.75m 11 201 R19.2m 22	(3)

7. What are the various thresholds (categories) set by the Regulations for public interest scores? (2)

FEEDBACK ON ACTIVITY 2

Solution to questions 1 to 7

1. (i) A public interest score is the sum of the points allocated to certain attributes applicable to all companies, for example, one point is allocated to every one million rand, or part thereof, of turnover.
   (ii) The public interest score is used as a gauge of the interest the public at large (society) has in the company.
   (iii) The company will be required to satisfy various conditions, dependent upon its public interest score, for example, a company with a score of at least 350 points will have to be audited externally.
2. (i) Whether the company is audited or reviewed and who must carry out the independent review.
   (ii) Which financial reporting standard the company must use to prepare its annual financial statements.
   (iii) The level of the financial rescue practitioner who would be engaged if the company needed financial rescue.
3. Location of the company, the number of directors (executive and non-executive), and the number of years in operation do not affect the public interest score.
4. True. **All** companies must calculate their public interest score, regardless of whether they are public or private, listed companies.
5. False. Public interest score criteria are set in Regulation 26 of the Companies Act.
6. Calculation of the public interest scores:

	Tech (Pty) Ltd	**Master (Pty) Ltd**
	8	136
	N/A	N/A
	62	201
	2	20
	9	22
Total	81 points	379 points

7. Equal to or above 350 points.
   Equal to 100 or above, but less than 350 points.
   Below 100 points.

SUMMARY

In this learning unit, we explained and applied the requirements regarding the form and standards of company records, record keeping, and financial statements in terms of the Companies Act.

After having worked through the learning unit and the references to the prescribed study material, determine if you are able to:

Give advice, discuss concerns, and apply the requirements regarding company records including: • The form and standards of company records. • Record keeping and financial statements.

CONCLUSION

In this topic about **company records**, we explained and applied the requirements regarding company records (including accounting records and financial statements to company records) in terms of the Companies Act and certain Regulations. In the next topic we will be discussing shareholders, which are the owners of companies, as well as the shares issued by companies.