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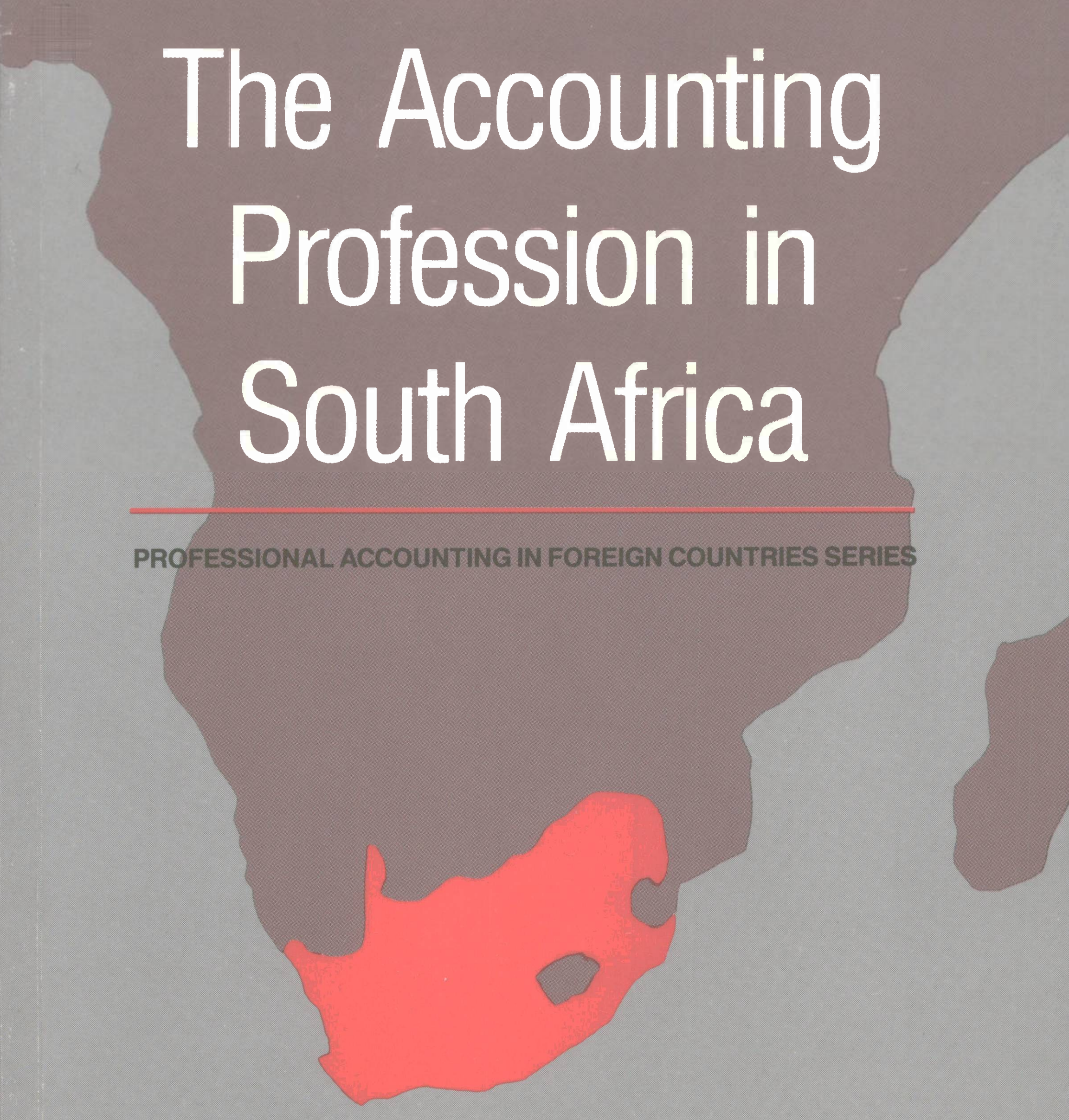
South African Institute of Chartered Accountants

Steven F. Moliterno

The Accounting Profession in South Africa

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA
American Institute of Certified Public Accountants

The Accounting Profession in South Africa
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The Accounting Profession in South Africa

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

The South African Institute of Chartered Accountants

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of June 1991. Changes after this date in the standards of either the United States or South Africa may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in South Africa. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing South African auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in South Africa but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President—Technical
Standards and Services

Contents

1

The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The Public Accountants' and Auditors' Act (the PAA Act) governs the practice of public accounting and auditing in South Africa. Its administration is carried out by the Public Accountants' and Auditors' Board (PAAB). The PAA Act prohibits persons not registered with the PAAB from practicing as public accountants and auditors; however, anyone may provide accounting and tax services.

2. The Chartered Accountants Designation Act confers on the members of the four provincial societies the sole right to use the designation *chartered accountant (SA)*, and all members of the provincial societies are automatically members of The South African Institute of Chartered Accountants (SAICA), which can be reached at the following address:

The South African Institute of Chartered Accountants
Integritas
7 Zulberg Close
Burma Lake, 2198
P.O. Box 59875
Kengray 2100

The membership of SAICA consists of two broad categories: (*a*) members who are registered with the PAAB (registered accountants) and who may engage in public accounting and auditing, and (*b*) nonregistered members, who may not. Other professional bodies whose members may carry out accounting functions but may not engage in public accounting and auditing are the Chartered Institute of Management Accountants, the Institute of Municipal Treasurers and Accountants, the Institute of Accounting Technicians, and the South African Institute of Chartered Secretaries and Administrators.

3. Each year, every company formed under the provisions of the Companies Act of 1973 (the Companies Act) or its predecessors must appoint or reappoint a registered accountant to serve as an auditor.

4. In South Africa registered accountants often engage in activities that are not customary for CPAs in the United States. For example, a registered accountant may act as a liquidator or as a trustee of a company, personal estate, or any other enterprise in bankruptcy. The registered accountant may act as a secretary of a company, a registrar and transfer agent of its shares and debentures, or an appraiser of shares for sale or other purposes. In certain circumstances, however, the Companies Act places some restrictions on the nonaudit services that a registered accountant may perform for his or her audit client.

Foreign Reciprocity

5. Any foreign accountant may apply to a provincial society for admission as a chartered accountant and to the PAAB for certification as a registered accountant. The minimum requirement for such an application to be considered is the successful completion of examinations in law, tax, and accounting and auditing standards. The provincial societies and the PAAB then review the backgrounds of foreign applicants carefully to determine which, if any, additional courses they need to complete before their applications can be accepted.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

6. The Companies Act requires that company financial statements fairly present financial information in accordance with

generally accepted accounting practice. In 1973, when the Companies Act was promulgated, SAICA—together with the Johannesburg Stock Exchange, other professional bodies, and chambers of commerce—set up the Accounting Practices Board (APB) with the objective of establishing "generally accepted accounting practice." The Statements of Generally Accepted Accounting Practice are drafted by SAICA and approved by the APB. These statements are recognized as constituting generally accepted accounting practice as required by the Companies Act.

7. The Auditing Standards Committee (ASC) of SAICA develops generally accepted auditing standards, which are issued from time to time. These standards codify preferable practices concerning particular aspects of auditing. The ASC supplements the auditing standards with statements on auditing standards, which provide guidance on the implementation of standards.

8. SAICA also issues audit and accounting guidelines. These guidelines are designed to assist accountants and auditors in dealing with the accounting and auditing aspects of specialized industries or with subjects that arise infrequently and that require special guidance. An accounting issues task force has been established to provide a forum for the timely review of accounting issues that could be subject to divergent or unsatisfactory treatment and to issue opinions where appropriate.

9. SAICA is a member of the International Federation of Accountants and of the Board of the International Accounting Standards Committee (IASC), and it supports the objectives of those bodies. SAICA publishes all international accounting standards and endeavors to ensure that local standards are in compliance with international accounting standards. SAICA has also agreed to incorporate the principles of international auditing guidelines into its own auditing standards and guidelines.

Ethics Requirements

10. SAICA and the PAAB have each issued a code of professional conduct. The two codes are similar, but unlike the PAAB code, the SAICA code deals with matters relating to members not involved in public practice. The codes cover a wide range of matters, including

integrity, objectivity, independence, fees for professional work, publicity and advertising, and responsibilities to colleagues. These codes are comprehensive and set high ethical standards.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

11. To become eligible to join a provincial society (and, therefore, SAICA), to register with the PAAB as a registered accountant, or both, candidates have to pass a professional examination set by the PAAB. In addition, each candidate has to serve a minimum of three years as a trainee accountant at a training office registered with the PAAB. The length of the training period varies depending on whether the trainee accountant possesses a university degree.

Rights of Membership

12. Only registered accountants associated with the PAAB are permitted to perform audits of companies or any other business operations. Nonprofit organizations may be audited by persons not registered with the PAAB, provided those persons are members of the organization and do not receive a fee or any other consideration.

Number of Members

13. As of December 1990, there were approximately 13,100 members of SAICA, of whom approximately 2,100 resided outside South Africa. Approximately 3,300 members were registered with the PAAB as registered accountants at that time.

CPE Requirements

14. Although continuing professional education is not compulsory, all chartered accountants are expected and encouraged to keep informed regarding the changing requirements of the profession. For its members, SAICA provides a broad program of courses ranging from core courses on accounting, auditing, and taxation to courses on industrial relations, information technology, and marketing. This program is supplemented by courses conducted by regional associations.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

15. The purpose of the audit is to enable the auditor to express an opinion on whether the annual financial statements fairly present the results of operations and the financial position of the company.

Entities Required to Be Audited

16. The Companies Act requires that the directors of every company registered in South Africa present audited annual financial statements before each annual general meeting. The financial statements consist of a directors' report, an auditor's report, an income statement, a balance sheet, a cash flow statement, and notes to the financial statements. Other entities (such as cooperatives and mutual associations, which are governed by specific legislation) are also required to have audits performed.

Appointment and Qualifications of Auditors

17. The directors of a company are required to appoint an auditor within twenty-one days of incorporation. Normally, the Registrar of Companies will not register a company unless the application is accompanied by an auditor's signed acceptance of the appointment. At every annual general meeting, a company must appoint an auditor to hold office until the next annual general meeting. The auditor is deemed to be reappointed if no new appointment is made.

18. Special notice must be given for a resolution concerning the removal of an auditor, or the appointment of an auditor other than the present auditor, to be brought before the annual general meeting. An auditor appointed at an annual general meeting may only be removed in this manner at the next annual general meeting. An auditor appointed by the directors or the Registrar of Companies to fill a vacancy may be appointed at a general meeting provided special notice has been given.

19. According to the codes of professional conduct, an auditor should not accept an appointment until he or she has requested and received from the preceding auditor a letter stating any reasons why he or she should not accept the appointment.

Auditing and Reporting Responsibilities

20. The directors, not the auditors, are responsible for ensuring that a company keeps proper accounting records and that its annual financial statements fairly present the company's affairs and the results of its operations for the period. The auditor is responsible for reporting to the shareholders on whether these obligations have been fulfilled.

21. In carrying out his or her statutory duties, the auditor has a right of access at all times to the accounting records of the company, as well as to its books and documents. The auditor may require such information, together with any explanations deemed necessary, from any director or officer of the company.

22. A company's annual report may include other financial information, such as five-year summaries, but such information is not normally covered by the auditor's report and is the sole responsibility of the directors. The chairman's statement, which frequently contains highlights of the company's financial results and the chairman's thoughts concerning the future prospects of the company, is also not subject to audit under South African law.

Filing of Reports

23. The statutory auditor's report is addressed to the shareholders, and it forms part of the annual financial statements. The annual financial statements of public companies are filed with the Registrar

of Companies. Any member of the public may inspect these financial statements by applying to the Registrar.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

24. Auditing requirements in South Africa are set out in the PAA Act, the Companies Act, and auditing standards issued by SAICA. The PAA Act and the Companies Act address the qualifications of auditors and statutory requirements concerning audits, whereas the professional standards deal with how the audit should be planned and executed and with reporting standards.

25. Auditing standards, statements on auditing standards, and guides are issued by the Auditing Standards Committee (ASC) of SAICA. Auditing standards are contained in Auditing Statement No. AU 010, *Generally Accepted Auditing Standards.* Guides do not carry the same authority as auditing standards or statements on auditing standards, but in the event of significant deviation from the guidance given, an auditor may be required to demonstrate that such deviation did not result in failure to comply with GAAS.

26. Although the wording of auditing standards in South Africa differs from the wording of GAAS in the United States, the substance is generally similar. However, there are certain substantive differences between South African and U.S. auditing standards and procedures. A major difference is that South African auditing standards are not codified to the same extent as U.S. standards, with the result that South African procedures require more judgment on the part of the auditor (see appendix D for a checklist for comparing U.S. GAAS with auditing standards in South Africa). Other ways in which South African auditing standards and procedures differ from those in the United States are described in paragraphs 27 through 32.

27. In South Africa the auditor is not required to obtain confirmation of receivables; however, it is the dominant practice to obtain such confirmation.

28. AU 259, *Management Representations,* states that obtaining written representations from management is not considered

mandatory; however, it is the dominant practice to obtain such representations.

29. Legal representations are not required. AU 257, *Enquiries of Attorneys*, states that the solicitation of an independent opinion from attorneys is frequently considered necessary by auditors.

30. Although it is currently implied that the auditor should plan the audit so that he or she has a reasonable expectation of detecting material misstatements in the financial statements arising from illegal acts, other irregularities, and errors, this is not yet a codified requirement. The ASC recently published an exposure draft of a proposed statement, *The Auditor's Responsibility to Detect and Report Illegal Acts, Other Irregularities and Errors*, which is intended to clarify and codify this procedure.

31. The PAA Act requires that any material irregularity (defined as an irregularity that has caused or is likely to cause financial loss to the company or to any of its members or creditors) that is identified by the auditor should be reported to the person in charge of the enterprise. Thereafter, if the matter is not resolved to the auditor's satisfaction, he or she is obliged to report it to the PAAB. The PAAB may disclose this situation to the Attorney General or to other government officials.

32. Although it is the dominant practice in South Africa for the auditor to identify and disclose related-party transactions, no auditing statement currently exists requiring the auditor to do so. The Companies Act requires disclosure of certain transactions with specified related parties (for example, subsidiaries and directors).

General Standards

33. AU 010 sets out three general standards. These standards, which are in principle the same as the U.S. general standards, are as follows:

a. The examination must be performed by or under the supervision of a person or persons having adequate technical training and proficiency as auditors.

b. In all matters relating to the assignment, an independent mental attitude must be maintained by the auditor.

c. Due professional care must be exercised during the examination and in the preparation of the report.

Further guidance on the application of these standards is provided in the Statements on General Standards and in the *Code of Professional Conduct.*

Standards of Fieldwork

34. AU 010 also lists the following standards of fieldwork:

a. The auditor should obtain audit evidence sufficient to draw conclusions to support the content of the report.
b. The work is to be adequately planned, and audit staff are to be properly supervised.
c. The auditor should obtain an understanding of the entity's accounting system and related internal controls to assess their adequacy as a basis for the preparation of financial information and to assist in designing audit procedures. If the auditor intends to rely on any internal controls, he or she should study and evaluate those controls.

35. Further guidance on the application of these standards of fieldwork is provided in the Statements on Fieldwork (see appendix A).

36. The standard concerning internal control will be reviewed in the near future by the ASC.

Standards of Reporting

37. AU 010 also provides the following standards of reporting:

a. The report should clearly present the name of the person to whom it is addressed, the information to which it refers, and the purpose for which it has been prepared.
b. The report should convey—either explicitly or implicitly—the scope of the examination and should state any limitations on it.
c. The report shall contain either an expression of opinion, qualified or unqualified, regarding the financial information or a clear statement that an opinion cannot be expressed.

38. Further guidance on the application of these standards is provided in the Statements on Reporting (see appendix A).

Standard Form of Report

39. The format of the auditor's report used in South Africa is similar to that in the United States. AU 321, *The Auditor's Report on*

Annual Financial Statements, provides the standard wording for auditors' reports in South Africa. (See appendix C for an example.)

40. The standard audit report is modified when the opinion is qualified, when a disclaimer of opinion is issued, or when an adverse opinion is expressed.

Qualifications in Audit Reports

41. AU 321 both outlines the circumstances in which a qualified report is issued and explains the form of qualification required. An uncertainty that is considered material, but not so fundamental as to undermine fair presentation in the financial statements as a whole, requires an "except for" opinion. If the uncertainty is fundamental, a disclaimer should be issued.

42. If the auditor disagrees with the client on the accounting treatment of a particular item, but the matter is not considered so fundamental as to undermine fair presentation in the financial statements as a whole, an "except for" opinion should be issued. If the disagreement is fundamental, an adverse opinion should be given.

43. AU 321 also provides illustrations of the various types of auditors' reports.

Dating of Audit Reports

44. AU 321 requires that the audit report be dated either the day on which the financial statements are approved by the client or upon completion of the fieldwork, whichever is later.

Other Auditors

45. In South Africa, the auditors of a parent company are considered to be fully responsible for their opinion on the consolidated financial statements and, accordingly, need not refer to the fact that certain subsidiaries or associates have been audited by other auditors. AU 225, *Reliance on Other Auditors*, states: "Such a reference in an unqualified opinion might be misconstrued as a qualification of the principal auditor's opinion or a division of responsibility, neither of which is intended."

46. If the principal auditor is unable either to obtain sufficient evidence that the work of the other auditor can be relied on or to

perform other procedures, the principal auditor should qualify his or her opinion or disclaim an opinion where appropriate.

47. The practice of appointing joint auditors is used in South Africa (for example, in audits of financial institutions for which legislation requires it) as well as in certain other circumstances. When joint auditors are appointed, each auditor is jointly and severally responsible for the audit and for the content of the audit report, which is signed by both auditors.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

48. Accounting principles and practices derive both from the Companies Act and from the series of Statements of Generally Accepted Accounting Practice (GAAP).

49. GAAP is approved by the Accounting Practices Board (APB) following a process of drafting and exposure by the Accounting Practices Committee of SAICA. The APB comprises representatives from SAICA, other accounting bodies, chambers of commerce, the Johannesburg Stock Exchange, and other groups representing users of financial statements.

50. Codification of GAAP is not as extensive in South Africa as it is in the United States. The emphasis in South Africa has been on the use of professional judgment in determining what constitutes fair presentation or good practice. In August 1990 the APB adopted the IASC's *Framework for the Preparation and Presentation of Financial Statements.* This framework sets out the objectives and concepts that will underlie future financial statements.

FORM AND CONTENT OF FINANCIAL STATEMENTS

51. The directors of a company are required by the Companies Act to prepare annual financial statements and to present them at the annual general meeting. Public companies are required to file

copies of annual financial statements with the Registrar of Companies when the financial statements are sent to shareholders. The annual general meeting is required to be held within six months of the financial year end. For listed companies, the Johannesburg Stock Exchange requires that financial statements be published within six months of the company's financial year end.

52. Consolidated financial statements are required for a company with subsidiaries unless the parent company is a wholly owned subsidiary of another company incorporated in South Africa.

53. Schedule 4 of the Companies Act prescribes matters that need to be considered in the directors' report. The more important matters include—

- A general review of the business and operations of the company during the accounting period. In this review, the directors should deal with every fact or circumstance that is material to the understanding of the company's affairs, including the estimated profit-and-loss proportion attributable to the various classes of the company's business.
- The principal activities of the company and its subsidiaries, and any significant changes in these activities.
- The names of the directors and secretary.
- Details concerning the dividends paid, declared, or proposed.
- The name of the holding company, the ultimate holding company, and the countries of incorporation.
- If appropriate, confirmation that the business of the company or a subsidiary is managed by a third party.
- Major changes in the nature of fixed assets.
- Information regarding shares or debentures issued and the purposes for which they were issued.
- Any material fact or circumstance that has occurred between the year end and the date of the report.
- Reasons why the year end of any subsidiary does not coincide with that of the parent company, as well as the accounting period for which information is provided.
- The aggregate amounts of profits and losses of subsidiaries.
- Any matter that is not prescribed but is material to the understanding of the group's state of affairs.

54. Wholly owned subsidiaries of companies incorporated in South Africa do not need to present directors' reports in their financial statements.

55. The Companies Act does not prescribe formats for the balance sheet, income statement, or cash flow statement. However, Schedule 4 prescribes minimum disclosure requirements for each of these statements. In addition, Accounting Statements AC 118, *Cash Flow Information,* prescribes the minimum disclosure for cash flow statements.

Types of Statements Prepared

56. The annual financial statements presented to shareholders must comply with the Companies Act and fairly present the results of operations and the financial position in accordance with GAAP.

57. There are no provisions in the Companies Act for presenting abridged financial statements. However, there are certain provisions in the Companies Act that permit companies to omit certain disclosures.

58. Section 15A of the Companies Act authorizes the Minister of Trade and Industry and Tourism, acting on his or her own initiative or at the request of the company involved, to exempt a company from disclosing particular information concerning the business of the company or its subsidiary, if nondisclosure is in the national or public interest or in the company's own interest.

59. A company with subsidiaries is required by the Companies Act to present group financial statements. Normally, group annual financial statements take the form of consolidated financial statements; however, group financial statements may be presented in one, or a combination, of the following alternative forms:

- The financial statements of one or more subsidiaries and the financial statements of the parent company
- Consolidated financial statements covering the parent and certain subsidiaries, and one or more sets of consolidated financial statements covering the other subsidiaries

Separate parent-company financial statements are required to be presented with the group financial statements.

60. A company is a subsidiary of another company (the parent) if—

- The parent is a shareholder and controls the composition of the board of directors of the company or holds more than 50 percent of its equity share capital.
- The company is a subsidiary of a subsidiary of the parent.
- Subsidiaries of the parent together hold more than 50 percent of the company's equity share capital.
- The parent and one or more of its subsidiaries together hold more than 50 percent of the company's equity share capital.

61. In the following circumstances, the Companies Act allows information concerning subsidiaries to be omitted from group financial statements:

- The inclusion of such information would be impractical or of no real value to shareholders because of the insignificant amounts involved, or it would entail undue expense or delay.
- The inclusion of such information would be misleading or harmful to the business of the parent or any of its subsidiaries.
- The business of the parent and that of a subsidiary are so different that they cannot reasonably be treated as a single entity.

62. If a subsidiary is omitted from group financial statements and the subsidiary is material to the financial position or the operating results of the parent, Schedule 4 of the Companies Act requires disclosure of the cost of the investment, the parent company's share of reserves, and the subsidiary's profit or loss. In practice, these investments are normally accounted for by the equity method of accounting. Disclosure of the reasons for not including the subsidiaries in the group financial statements is also required. If the required information is not available, that fact must be disclosed.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Historical Cost

63. Although the recording of assets and liabilities at historical cost is not required, it is the dominant practice for most enterprises.

However, certain assets (mainly land and buildings) are frequently recorded at fair value, with a corresponding increase in a non-distributable reserve account.

Interest Costs During Construction of an Asset

64. AC 114, *Capitalization of Borrowing Costs*, permits the capitalization of borrowing costs incurred on assets that require a substantial period of time to be prepared for sale or intended use. Capitalization of borrowing costs is not mandatory, but it is widely applied.

Revaluations

65. Because the inflation rate over the past decade has consistently been above 10 percent, enterprises frequently revalue land and buildings to more realistic levels. AC 202, *Accounting for Fixed Asset Revaluations*, and Schedule 4 of the Companies Act require that the surplus arising on such revaluations be transferred to a nondistributable reserve. In the year in which a valuation takes place, disclosure is required of the dates on which the assets were revalued; disclosure must also be made of the name and qualifications of the appraiser, as well as the method used. If a downward revaluation occurs, the deficit is charged against a revaluation surplus previously created for the particular asset or, if none exists, the deficit is charged to the income statement. If assets have been revalued and they are depreciable, the depreciation is based on the revalued amount.

Application of the Equity Method

66. In South Africa companies may apply equity accounting either when they exercise significant influence over the financial and operating policies of the investee or when they hold 20 percent or more of the equity share capital of the investee. Recently, an exposure draft was issued that, if adopted, would require enterprises to apply the equity method only when they have the power to exercise significant influence over the financial and operating policies of the investee.

Business Combinations

67. In South Africa business combinations are accounted for under the purchase method. The Companies Act prohibits the use of the pooling-of-interests method.

Goodwill

68. South Africa does not have an accounting standard regarding goodwill. Purchased goodwill arising from business acquisitions is recognized, but the recognition of inherent or internally generated goodwill is not generally accepted. A variety of accounting policies for dealing with goodwill are followed. Goodwill is most frequently treated as a permanent intangible asset. Another common practice is to write goodwill off against reserves or to offset it against share premium. Some companies amortize goodwill over a defined period, and some write it off at the time of acquisition as an extraordinary item. A few companies show goodwill as a deduction from shareholders' equity.

Related-Party Disclosure

69. South Africa does not have an accounting standard for related-party transactions. Schedule 4 of the Companies Act does require certain related-party information to be disclosed, and AC 110, *Accounting for the Results of Associated Companies and Non-consolidated Subsidiaries Under the Equity Method,* requires certain information about associate companies to be disclosed.

Segment Reporting

70. AC 115, *Reporting Financial Information by Segment,* requires listed companies and other economically significant enterprises whose financial statements are widely available to disclose the following information for each reported industry and geographical segment: (*a*) sales or other operating revenues, (*b*) the segment result, and (*c*) the segment assets employed.

71. The activities of each reported industry segment should be described and the composition of each reported geographical area should be indicated. However, if management believes that the disclosure of any required information would seriously prejudice the interests of the enterprise, that information need not be disclosed but the fact must be stated.

Inflation Accounting

72. Several attempts have been made to find a suitable way of disclosing the effects of changing prices. In 1978 the APB issued

AC 201, *Disclosure of Effects of Changing Prices in Financial Results*, which recommends the disclosure of the following adjustments in a supplementary current-cost income statement:

a. Depreciation

b. The cost of sales

c. The financial gearing adjustment, which reflects the extent to which the equity shareholders' investment in the enterprise is insulated by debt from the effects of changing prices

There has been limited compliance with these recommendations. Subsequent to AC 201, two exposure drafts dealing with current value accounting have been issued, but neither has received wide support. Because inflation seriously distorts financial statements prepared on a historical cost basis, the standard-setting bodies in South Africa are continuing to search for an acceptable way of accounting for the effects of changing prices.

Receivables

73. Revenue from sales or service transactions is recognized only after performance and measurement requirements have been satisfied and collectibility is reasonably ensured, or after uncollectible amounts can be reasonably estimated. For revenue to be recognized from a transaction involving the sale of assets, the buyer must have assumed from the seller the significant risks and rewards of ownership. Receivables are recorded net of trade and quantity discounts. Cash discounts are recognized at the time of payment. There is no required method to calculate the allowance for doubtful amounts. Specific assessment of each account or a formula based on previous experience are commonly used methods. Receivables are shown separately from other current assets. Noncurrent receivables are also shown separately. The allowance for doubtful accounts does not need to be referred to or disclosed.

Inventory

74. Inventory is required by AC 108, *Valuation and Presentation of Stock in the Context of the Historical Cost System*, to be valued at the lower of historical cost or net realizable value. Historical cost is the aggregate of the cost of purchases, the cost of conversion, and other costs incurred in bringing inventories to their present location and

condition. Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling. Historical cost of inventory (frequently referred to as "stock") is determined using the first-in, first-out (FIFO) basis or the weighted average basis. The last-in, first-out (LIFO) basis may be used provided there is disclosure of the difference between the carrying amount and the lower of (*a*) the FIFO basis or (*b*) the weighted average value and net realizable value. The use of the LIFO basis is uncommon, since the tax authorities banned its use for tax purposes in 1984.

Depreciation Accounting

75. AC 106, *Depreciation Accounting*, requires that when an asset is classified as a depreciable asset, a charge for depreciation should be made to income. The depreciable amount of a depreciable asset is allocated on a systematic basis to each accounting period during the useful life of the asset. AC 106 provides for certain land and buildings to be classified as "investment properties." These properties are not required to be depreciated but should be revalued at least every five years.

Leases

76. AC 105, *Accounting for Leases in the Financial Statements of Lessees*, defines a finance lease as one that, in effect, transfers substantially all the risks and rewards associated with ownership of an asset from the lessor to the lessee whether or not title to the leased asset is transferred. All other leases are operating leases.

77. Assets held under finance leases are required to be capitalized in the financial statements of the lessee, distinguished between the major asset categories. In addition, a related liability is recorded. The amount capitalized is the market value of the asset, which is normally the cash price stated in the lease agreement.

78. Operating lease disclosure is only made for lease payments charged to income on a systematic basis related to the benefit derived from the leased asset, also distinguished between the major asset categories.

79. The liabilities related to capitalized leased assets are also disclosed, along with details of interest rates and the amounts and dates of repayment. In addition, current and long-term portions of lease liabilities are disclosed.

80. The amounts of depreciation on capitalized leased assets, as well as finance charges, are included as part of the total depreciation and interest charges, respectively.

81. The requirements of AC 105 became effective on April 1, 1989; however, the statement permitted a three-year phase-in period. During the phase-in period, some companies will not capitalize finance leases but rather will disclose the commitments associated with such leases.

Construction Contracts

82. AC 109, *Accounting for Construction Contracts,* permits companies to use both the percentage-of-completion method and the completed contract method simultaneously for different contracts, but all contracts that meet similar criteria should be accounted for by the same method.

83. The percentage-of-completion method may be used for fixed-price contracts only if both of the following conditions are satisfied:

a. The stage of completion of the contract at the reporting date can be estimated with reasonable assurance.

b. Costs attributable to the contract can be clearly identified so that actual experience can be compared with prior estimates.

84. For cost-plus contracts, the following conditions must be satisfied for the percentage-of-completion method to be used:

a. The costs attributable to the contract can be clearly identified.

b. The costs that will not be specifically reimbursable under the contract can be estimated with reasonable assurance.

85. Under the percentage-of-completion method, profit may be recognized only when the outcome of the contract can be estimated with reasonable assurance.

Research and Development Costs

86. South Africa does not have any pronouncement on research and development costs. Most companies write off such costs when they are incurred. Some companies in the computer industry capitalize research and development costs and amortize them to

income over the estimated life of the product, which normally does not exceed three years.

Extraordinary Items

87. Extraordinary items, less related taxation and amounts attributable to outside owners' interests, are aggregated and shown separately in the income statement after net income derived from ordinary operations. Extraordinary items are defined as material items of income and expense resulting from occurrences whose underlying nature is not typical of the ordinary trading or operating activities of the enterprise. Extraordinary items are excluded from the earnings-per-share calculation.

Abnormal Items

88. In determining net income before extraordinary items, abnormal items are considered and disclosed separately. Abnormal items are defined as material items of income and expense that, in the current period, are abnormal in amount and result from occurrences whose underlying nature is typical of the ordinary trading or operating activities of the enterprise. Unlike extraordinary items, abnormal items are included in the earnings-per-share calculation.

Retirement Benefit Costs

89. AC 116, *Disclosure of Retirement Benefit Information in Financial Statements*, only prescribes disclosure of retirement benefit information. The APB recognized that accounting for retirement benefit costs involves problems of estimation and measurement. Therefore, it was decided that the statement should not prescribe which accounting methods to use but should describe the various methods and some of their advantages and disadvantages. The APB will likely revise AC 116 in the future and codify acceptable accounting practices.

90. The Pension Funds Act governs most contractual retirement benefit plans in South Africa and sets out rules regarding the funding and frequency and the method of the valuation of plans. Under this act, a pension fund is a legal entity and has assets, rights, liabilities, and obligations of its own.

91. The following are principal disclosure requirements of AC 116:

- Provide information concerning the nature of the retirement benefit plan, whether it is governed by the Pension Funds Act, and whether it is actuarily valued.
- State the accounting policies for current service costs, experience adjustments, past service costs, and the cost of supplementary benefits to retired employees.
- Provide information concerning any significant changes in the rate of contributions by the company or any significant effects on the financial statements of changes in the retirement plan.
- If the fund is actuarily valued, state whether it is in a sound position. If the fund is in an unsound position, state whether any steps are being taken to rectify the situation and whether the company has made any commitment to meet unfunded benefits.
- If the accounting policy is different from the funding policy, disclose any provisions or prepayments in the balance sheet resulting from the different policies.
- If the amount charged to income in any period with respect to retirement benefit costs is abnormal, provide information about the abnormal item.

Taxation

92. Provision is made for deferred taxation using the liability method. Under this method, the expected tax effects of current timing differences are determined and reported, either as liabilities for taxes payable in the future or as assets representing advance payment of future taxes. Deferred tax balances are adjusted for changes in tax rates or for new taxes imposed. The amount may be determined using either the comprehensive basis, in which the tax effects of all timing differences are recognized, or the partial basis. The partial basis is the method whereby the tax effects of timing differences are accounted for to the extent that it is probable that a liability or asset will be realized in the foreseeable future, and may only be used if—

- The enterprise is a going concern.
- Management is able to make a reasonable estimate of the taxation that will become payable as a result of reversing timing differences and that will not be replaced by recurring timing differences for some considerable period (at least three years).
- It is not probable that after this period the situation is likely to change so that the tax liabilities will become clearer.

93. Financial statements should disclose the following information concerning taxation relating to the income statement:

- The accounting policy used to determine deferred taxes
- Amounts provided for current and deferred taxes
- Significant adjustments to prior-period tax provisions
- Adjustments to deferred taxes arising from changes in the standard tax rate
- Any significant amount for other categories of income tax
- If the partial basis is used, the effect that using the comprehensive basis instead would have had on the amounts provided for taxation for the period
- If the effective tax rate is different from the standard tax rate, separate disclosure and quantification of the significant reconciling items

94. The financial statements should also disclose the following information in relation to the balance sheet:

- The liability for income tax payable
- The liability for the deferred taxes or the deferred tax asset, analyzed by major category of timing difference
- The amount of the contingent liability (items that, due to uncertainty, do not result in the recording of a deferred tax), analyzed by major category of timing difference
- The estimated tax effect of tax losses available for setoff against future taxable income before and after they have been applied to reduce the deferred tax balance

95. When the tax effects of timing differences (including those arising from tax losses) give rise to a tax asset, the asset is recognized only if there is assurance beyond a reasonable doubt that future taxable income will be sufficient to allow the tax benefit of the loss to be realized.

Foreign Currency Translation

96. AC 112, *Accounting for the Effects of Changes in Foreign Currency*, outlines the accounting and disclosure requirements for foreign currency translations and transactions. A transaction in a foreign currency is normally recorded in the reporting currency at the rate applicable on the date of the transaction. If a related or matching

forward exchange contract is entered into prior to the transaction date, the forward rate is used to record the transaction.

97. At the balance-sheet date, monetary items denominated in foreign currencies are reported at the closing rates, except if these amounts are covered by forward exchange contracts, in which case the forward rates are used. Exchange differences arising from the settlement of monetary items or unsettled short-term items are recognized in income for the period.

98. Transaction gains or losses on long-term monetary items are recognized as income in the appropriate economic period. If, however, the gains or losses are considered to be an integral part of the financing cost, they are deferred and recognized in the income of current and future periods on a systematic basis over the remaining terms of the monetary items to which they relate.

99. The treatment of foreign operations depends on whether the foreign operation is an integral part of the reporting entity. If a foreign operation is considered an integral part of the entity's operations, nonmonetary items are translated at the exchange rates that existed when the transactions occurred. Monetary items are translated at the closing rate. Differences arising from translation are dealt with as if they arose from the monetary items of the reporting entity itself. If a foreign operation is not considered to be an integral part of the reporting entity, it is referred to as a "foreign entity." The financial statements of foreign entities are translated at the closing rate. Differences arising on translation are excluded from income and booked directly to owners' interests.

100. If foreign currency transactions are designated as and provide an effective hedge against a net investment in a foreign entity, exchange differences arising from the transactions are booked to the owners' interests to the extent that they are covered by exchange differences arising from the translation of the net investment.

101. If a monetary item is covered by an effective hedge that is—

- Itself a monetary item, any exchange difference arising from the hedge is offset against the corresponding exchange difference arising from the hedged item.
- A nonmonetary item, any exchange difference is included in the cost of the nonmonetary item or deferred until the settlement date of the monetary item.

- A future revenue stream, the exchange differences on the translation of the monetary item are recognized in the income statement in the periods in which the related revenue stream is recorded.

Disclosure of Foreign Currency Restrictions

102. AC 110, *Accounting for the Results of Associated Companies and Nonconsolidated Subsidiaries Under the Equity Method,* requires that the restrictions on the distribution of the accumulated earnings and reserves of associated companies and nonconsolidated subsidiaries be disclosed. The Companies Act requires reserves to be split into distributable and nondistributable reserves. If foreign currency restrictions exist, these provisions should ensure that suitable disclosures are made.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

103. The forms of business organization existing in South Africa include public and private companies, close corporations, partnerships, joint ventures, sole proprietorships, and trusts.

Entities With Corporate Attributes

104. The formation, operation, and dissolution of companies are regulated by the Companies Act.

105. Companies may be registered in the following ways:

- *A company limited by shares*—The liability of a member (shareholder) is limited to the amount paid in to acquire shares in the company. (All shares except those issued prior to the enactment of the Companies Act must be fully paid upon issue.)
- *A company limited by guarantee*—The liability of the member is limited to the amount the member has agreed to contribute in the event the company goes out of business.

106. The Companies Act distinguishes between private and public companies. The principal restriction on a private company is the prohibition against offering shares for public subscription. A public company is not necessarily listed on a stock exchange (many public companies are not listed), but any company with listed shares or debentures (loan stock) will always be a public company. A public company must have the word *Limited* or the abbreviation *Ltd.* added to the end of its name.

107. The public company most closely resembles the publicly held corporation in the United States. It must be formed with a minimum of seven shareholders, but there is no limit on the total number of shareholders. There is a requirement that a public company must have at least two directors who must deliver to the Registrar of Companies their written consent to act as directors. A public company is also required to file its annual financial statements with the Registrar of Companies, where they will be available for public inspection.

108. A company must hold an annual general meeting of members no later than six months after the end of each financial year, at which time the annual financial statements must be presented. Copies of the financial statements have to be sent to shareholders and debenture holders at least twenty-one days before the meeting. The shareholders must approve the statements before the company can proceed with certain matters, including an increase in authorized share capital, a change in the company's name, or alterations to the memorandum or articles of association.

109. If the number of shareholders of a public company falls to six or below, any shareholder who is aware of this situation may become fully liable for certain of the company's debts. Directors and officers are generally not liable for their actions if they act honestly, in good faith, and for the benefit of the company. A director can be liable for prescribed penalties if the director fails to carry out his or her duties as set out in the Companies Act (such as the keeping of proper books and records and the presentation of audited financial statements to members at an annual general meeting). Directors may incur unlimited liability if a company, to their knowledge, trades recklessly or with the intent to defraud creditors.

110. According to the Companies Act, a private company can be set up whereby the directors are liable jointly and severally with the company for debts incurred. In such a case, the company includes the word *Incorporated* or the abbreviation *Inc.* in its name in place of *Limited.* This form of organization is sometimes used by associations of professionals.

111. The Companies Act requires a company to set up a share premium account (for shares issued at a premium) and a capital redemption reserve (for shares redeemed out of income). These reserves are not available for distribution (dividends). In addition,

a company's memorandum and articles may specify that profits arising in certain circumstances are not available for distribution.

Close Corporations

112. A close corporation is an entity designed to provide a means of conducting business through a simple, easily administered separate legal entity. A close corporation enables small businesses to acquire corporate status with a legal personality distinct from that of its members and provides limited liability and perpetual succession. Close corporations are regulated by the Close Corporations Act of 1984, which is administered by the Registrar of Close Corporations. The Close Corporations Act provides for the avoidance of much of the administrative complexity associated with a limited company. Close corporations are intended to be largely self-regulating. Members may lose limited liability and may become jointly and severally liable for the close corporation's debts if they violate certain provisions of the act. Close corporations can only have one to ten members, and these members must be either "natural persons" or trustees of certain forms of trusts, although they need not be citizens or residents of South Africa.

Branch of a Foreign Company

113. A foreign corporation must register as an external company within twenty-one days after establishing a place of business in South Africa. The following documents need to be filed with the Registrar of Companies:

- A certified copy of its memorandum of association or equivalent document, as well as copies of any subsequent amendments
- A notice specifying the registered office and postal address of the company
- The name and address of the auditor of the company's branch in South Africa, and the auditor's consent to act
- A notice stating the financial year end of the company
- A list of the company's directors, local manager, and local secretary
- The name and address of a person residing in South Africa who is authorized to accept legal documents on behalf of the company
- Proof of payment of registration duty

114. Within six months after the end of the financial year, an external company must file with the Registrar a copy of the annual financial statements of both the South African branch and the company as a whole. The branch financial statements must include a report by a South African auditor. In general, an external company is subject to the same regulations that govern a South African company.

Partnership Entities and Joint Ventures

115. A partnership is an unincorporated body of persons that carries on a business for their joint benefit. Except in the case of designated professional partnerships, the number of partners may not exceed twenty. Partnerships are not recognized as separate legal entities in South African law. Accordingly, the partners themselves are joint owners of the partnership's assets and they are jointly and severally liable for all debts. Partnership agreements do not need to be in writing, and the financial statements do not need to be audited or publicly disclosed.

116. A joint venture is an agreement between venturers whereby the partners jointly control specific business undertakings. It may be conducted through any of the business organizations described in this section.

Other Forms of Business Organization—Sole Proprietor

117. A sole proprietor is an individual engaged in a business or profession. A sole proprietor is subject to the registration requirements common to all forms of business organizations. There is no legal requirement that books be kept, although it is predominant practice. The financial statements of a sole proprietor need not be audited or publicly disclosed.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

Registration Requirements for Public Sale

118. An offer to sell new securities must be accompanied by a prospectus that complies with Schedule 3 of the Companies Act.

There is no requirement to have a public offer for sale underwritten. The prospectus must also be filed with the Registrar of Companies.

Requirements for Listing Securities on the Stock Exchange

119. For securities to be listed on the Johannesburg Stock Exchange (JSE)—either on the Main Board or the Development Capital Market (whose listing requirements are less stringent than the Main Board's)—the JSE must approve the prospectus, which must comply with the JSE's additional rules and regulations. These rules and regulations governing the listing of securities and listed securities are set out in the listing requirements of the JSE.

120. When a listing is sought, the application must be accompanied by a prospectus. The prospectus should include the following:

- General information about the issuer, its activities, and its management
- A reporting accountant's report concerning financial information, including income statements (for five years) and balance sheets (for two years)
- Details of the various classes of shares, authorized share capital, the number of shares to be issued, and the issue price
- Details concerning contracts and agreements entered into by the company
- Expenses relating to the issue
- Recent developments and prospects of the issuer

121. Once a company is listed, it must regularly publish information about its activities, including annual audited financial statements, unaudited interim (semiannual) and unaudited preliminary annual profit announcements, and details of major transactions (such as a major acquisition or disposal of a company). Mining companies are required to report on a quarterly basis. The JSE encourages full disclosure by listed companies. If the JSE considers the information to be inadequate, it has the right to suspend the listing.

Impact on Accounting Requirements

122. The JSE listings requirements set out the information that should be disclosed in interim reports and the financial statements that should be included in the prospectus.

SELECTED ECONOMIC DATA

123. Key demographics and economic data as of 1989 (unless otherwise indicated) are as follows:

Area (in millions of square miles):	
Including self-governing states	.475
Not including self-governing states	.435
Population—1988 (in millions):	
Including self-governing states	35.8
Not including self-governing states	29.7
Annual population increase (as of 1988)	2.1%
Labor force (in millions)	11.1
Birth rate (per population of 1,000)	4.8%
Life expectancy (in years)	64
Gross domestic product (in U.S. $ billions)	89.0
Internal debt (in U.S. $ billions)	30.2
Per-capita income (in U.S. dollars)	2,445
Inflation rate (%)	14.7
Devaluation of currency in relation to U.S. dollar (%)	(13.2)

124. Major South African trading partners as of 1988 are as follows:

Country	*Imports (U.S. $ millions)*	*Exports (U.S. $ millions)*
Japan	1,726	1,680
Germany	2,903	1,570
United Kingdom	2,108	1,273
United States	2,399	1,805
Italy	501	1,966
Other	7,754	13,362
	17,391	21,656

125. South African primary import and export products as of 1989 are as follows:

	Imports (U.S. $ millions)	
	1989	*1988*
Machinery and equipment	5,207	6,147
Vehicles and transport equipment	2,697	2,465
Chemicals	1,792	1,847

	Imports (U.S. $ millions)	
	1989	1988
Mining products	1,347	1,233
Agricultural products	924	929
Unclassified (including oil and arms)	2,102	2,073
Other	3,358	2,697
	17,427	17,391

	Exports (U.S. $ millions)	
	1989	1988
Base metals	3,564	2,995
Mineral products	2,585	2,218
Diamond and precious stones	2,132	1,756
Agricultural products	1,797	1,134
Chemicals	773	712
Unclassified (mainly gold, platinum, and arms)	9,629	10,727
Other	2,453	2,114
	22,933	21,656

TAXES

Principal Types

126. Currently, there are three levels of taxes imposed in South Africa: central government, regional and local. Central government taxes include income taxes on companies and individuals, a sales tax (which will be replaced by a value-added tax in 1991) and customs-and-excise duties, a donations tax, an estate duty, a stamp duty, and a transfer duty on real estate transactions.

127. Recently, a new tier of government—regional services councils—was introduced. These councils are financed by levies on sales and payroll. Local authorities impose taxes in the form of rates levied on owners of real estate.

Company Income Tax

128. A tax is assessed on the taxable income of companies. The tax rate is established annually for the tax year ending on March 31. The standard rate for the company tax for the tax year ending March 31, 1991, is 50 percent. Different rates apply to mining companies and insurance companies. Some of these rates are determined in accordance with formulas. For income tax purposes, close corporations are treated like companies.

129. Taxable income is computed as received or accrued gross income that is not capital and that is from a source within South Africa; from this, exempt income and allowable expenditures incurred in the production of income are deducted.

130. Taxable income is generally determined by applying certain adjustments that are required by the tax laws to income before taxation as shown in the annual financial statements. Except for these adjustments, the treatment of an item for tax purposes generally follows that adopted in the financial statements.

131. An adjustment is made for depreciation, which is not an allowable deduction. Instead, capital allowances, which approximate normal depreciation rates, are deductible. The disposal of assets qualifying for capital allowances may result in an adjustment (for capital allowances previously claimed) being added back, or deducted from, taxable income.

132. Tax losses incurred in any financial year may be set off against subsequent years' taxable income. There is no limit to the time in which losses can be utilized, but if there is an interruption of a year or more in trading activities, the loss will be eliminated. Losses may not be carried back.

Withholding Taxes

133. Entities paying dividends or royalties to nonresidents are required to withhold taxes at prescribed rates. Generally, the withholding tax on dividends and royalties is 15 percent. These amounts have to be paid to the revenue authorities within prescribed time periods.

Sales Tax

134. A sales tax is levied at a standard rate of 13 percent on the taxable value of transactions at the point of sale to an end user. The

tax is broadly based and covers goods, services, lease and rental agreements, and imports. Certain basic foodstuffs, services, and exports are exempt from the sales tax.

135. As of September 1991, South Africa will change to a value-added tax system. This new tax will be levied at a rate of 12 percent. It will be broadly based, with very few exceptions. The main exceptions will be for exports, certain financial services, and a limited number of foodstuffs.

Income Tax on Individuals

136. A tax is assessed on the income from a South African source. In the case of a married person for the 1990–91 tax year, income under South African *rand* (R) 12,000 per year is not subject to tax. Income in excess of R12,000 per year is subject to tax at a marginal rate of 20 percent. The marginal rate increases to a maximum of 44 percent at an income level of R80,000. The taxable income of individuals includes gross income less exempt income and allowable deductions. Benefits such as company cars and entertainment allowances are valued and included in taxable income.

Regional Services Council Levies

137. Regional services councils impose levies on payroll and sales. The regional services levy is imposed on remuneration paid or payable to employees at a current rate of 0.25 percent. The regional establishment levy is imposed on sales at a current rate of 0.11 percent. The levies are payable on a monthly basis.

Estate Duty

138. The estate of any individual who was a resident of South Africa at the time of his or her death is liable for payment of a duty if the net value of the estate exceeds R1 million. Duty is payable on the excess at a flat rate of 15 percent.

Donations Tax

139. A tax is payable by the donor at a flat rate of 15 percent on the value of donated property. Exemptions are made for donations between spouses and for donations to charities, educational institutions, religious organizations, or organizations involved in the advancement of art or science.

Other Taxes

140. Rates are levied by local authorities on the value of real estate. Transfers of real estate are subject to transfer duty, and a stamp duty is imposed on various legal documents such as mortgage bonds, share certificates, and life insurance policies. Customs duties are levied at varying rates on imported goods, and an excise duty is levied on such items as alcohol and tobacco products.

Tax Returns

141. All companies are required to file annual tax returns within sixty days of the financial year end. In practice, it is usually not possible to complete the returns within sixty days, and therefore, most companies apply for an extension. Companies are required to make two provisional payments during each financial year on the income tax finally assessable on the year's results. These payments are based on estimated taxable income. If a company's taxable income is more than R20,000 in a financial year, the company may pay the balance (after taking into account the provisional payments mentioned previously) within six months of the financial year end in order to avoid interest accruing on the balance. Penalties are imposed for late payment or filing of final and provisional returns.

142. Tax returns are rendered with copies of audited financial statements, a tax computation, schedules of the capital allowances claimed, and information regarding various items such as changes in provisions, capital profits, remuneration of directors, and interest and royalty payments to nonresidents.

143. Individuals are required to submit tax returns within sixty days after a date published by the Commissioner for Inland Revenue. This date is normally in mid-March.

APPENDIX A

Outstanding Auditing Pronouncements

The auditing statements and guidelines as of June 1991 are as follows:

Introductory Statements

AU 001 *Responsibilities and Function of the Independent Auditor*
AU 005 *Fraud and Error*
AU 010 *Generally Accepted Auditing Standards*
AU 011 *The Relationship Between Statements Issued in South Africa and Guideline Statements Issued by the International Federation of Accountants*
AU 015 *The Audit Process*
AU 020 *Quality Control*

General Statements

AU 110 *Training and Proficiency*
AU 115 *Supplementary Practical Training*
AU 118 *On the Job Training*
AU 120 *Independence*
AU 130 *Due Professional Care*

Statements on Fieldwork

AU 202 *Audit Risk*
AU 204 *Audit Evidence*
AU 205 *Working Papers*
AU 210 *Audit Planning*
AU 211 *Engagement Letters*
AU 220 *Supervision and Review*

AU 221 *Change in Professional Appointment*
AU 225 *Reliance on Other Auditors*
AU 226 *Using the Work of a Specialist*
AU 230 *Accounting Systems and Internal Control*
AU 231 *Compliance Procedures*
AU 232 *Reporting Material Weaknesses in Internal Controls*
AU 240 *Substantive Procedures*
AU 252 *Bank Confirmations*
AU 257 *Enquiries of Attorneys*
AU 259 *Management Representations*
AU 265 *Analytical Review*
AU 270 *Timing of Auditing Procedures*
AU 283 *Audit Sampling*
AU 290 *Evaluating and Concluding*
AU 291 *Audit Differences*
AU 292 *Overall Reviews of Financial Information*
AU 293 *Events After the Balance Sheet Date*
AU 294 *Going Concern*

Statements on Reporting

AU 310 *Reporting*
AU 321 *The Auditor's Report on Annual Financial Statements*
AU 322 *Other Information in Documents Containing Audited Financial Statements*
AU 331 *Special Reports*
AU 332 *Special Reports Expressing Opinions*
AU 333 *Special Reports Expressing Limited Assurance*
AU 334 *Special Reports on Factual Findings*

Audit and Accounting Guides

- *Trading When the Liabilities of an Undertaking Exceed Its Assets*
- *Auditing in a Computer Environment*
- *Profit Forecasts*
- *Close Corporations—An Introduction and a Guide to Some of the More Important Aspects of This New Legislation*
- *The Retention of Records*
- *What Is an Audit?*

APPENDIX B

Outstanding Accounting Pronouncements

The accounting statements and guidelines as of June 1991 are as follows:

Framework

AC 000 *Framework for the Preparation and Presentation of Financial Statements*

Statements of Generally Accepted Accounting Practice

AC 100 *Preface to Statements of Generally Accepted Accounting Practice*
AC 101 *The Disclosure of Accounting Policies*
AC 102 *Taxation in the Financial Statements of Companies*
AC 103 *Extraordinary Items and Prior Year Adjustments*
AC 104 *Earnings Per Share**
AC 105 *Accounting for Leases in the Financial Statements of Lessees*
AC 106 *Depreciation Accounting*
AC 107 *Contingencies and Events Occurring After the Balance Sheet Date*
AC 108 *Valuation and Presentation of Stock in the Context of the Historical Cost System*
AC 109 *Accounting for Construction Contracts*
AC 110 *Accounting for the Results of Associated Companies and Non-consolidated Subsidiaries Under the Equity Method**
AC 111 *Revenue Recognition*
AC 112 *Accounting for the Effects of Changes in Foreign Currency**
AC 113 *Lessor Accounting*
AC 114 *Capitalization of Borrowing Costs*

*Currently under review by the Accounting Practices Committee.

AC 115 *Reporting Financial Information by Segment*
AC 116 *Disclosure of Retirement Benefit Information in Financial Statements*
AC 117 *Accounting for Discontinued Operations*
AC 118 *Cash Flow Information*

Accounting Guidelines

AC 201 *Disclosure of Effects of Changing Prices in Financial Results**
AC 202 *Accounting for Fixed Asset Revaluations*
AC 203 *Valuation of Real Estate Assets*
AC 204 *Accounting and Reporting Practices of Long-Term Insurance Institutions*
AC 205 *Valuation of Livestock in the Financial Statements of Farming Enterprises*
AC 206 *Accounting by Co-operatives*
AC 207 *Accounting and Reporting Practices of Short-Term Insurers*
AC 208 *Accounting for Financial Futures Contracts*

Accounting Opinions

AC 300 *Preface to Opinions Issued by the Accounting Issues Task Force*
AC 301 *Accounting for the Tax Effects Arising From the Change in Tax Legislation Concerning LIFO Reserves, Consumable Stock and Work in Progress*

*Currently under review by the Accounting Practices Committee.

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are taken from the 1989 annual report of Anglo-Alpha Limited and are for illustrative purposes only. The statements presented are not intended to include all information that South African law requires (such as the directors' report).

AUDITOR'S REPORT

Report of the independent auditors to the members of Anglo-Alpha Limited:

We have audited the annual financial statements set out on pages ___ to ___. These financial statements are the responsibility of the company's directors. Our responsibility is to report on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. An audit includes an evaluation of the appropriateness of the accounting policies; an examination, on a test basis, of evidence supporting the amounts and disclosures included in the financial statements; an assessment of the reasonableness of significant estimates; and a consideration of the appropriateness of the overall financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below.

In our opinion these financial statements fairly present the financial position of the company at December 31, 1989, and the results of its operations and cash flow information for the year then ended in conformity with generally accepted accounting practice and in the manner required by the Companies Act.

[Auditor] CA(SA)
[Address]
[Date]

ANGLO-ALPHA LIMITED ACCOUNTING POLICIES
December 31, 1989

The principal accounting policies of the Group that are set out below conform in all material respects with South African generally accepted accounting practice and statements issued by the International Accounting Standards Committee. The policies are consistent with those followed in the previous year, except as indicated below and in note 1 to the financial statements.

The annual financial statements incorporate current cost accounting procedures, which include the revaluation of fixed assets, investments, and stock.

1. Fixed Assets

Fixed assets are reflected at depreciated current replacement cost except where otherwise indicated. The assets are revalued every five years, and during the intervening years, asset values are updated annually by applying an inflation index to determine current values. The revaluation of fixed assets is performed by the Group's engineers and is based on the estimated current replacement cost of the existing production capacity. The remaining useful lives of the assets are reassessed simultaneously with the revaluation. The net surplus arising on revaluation is transferred to the capital revaluation reserve.

The total depreciation charge for the year is based on the current replacement cost of fixed assets at rates that have been determined in relation to the useful lives of the assets, using the straight-line method.

Investment properties are reflected at their open market value. Ongoing valuations are undertaken either by internal management or external valuers.

Land, mineral rights, quarry properties, and certain other assets that are not used directly in the process of manufacture, or that will not be replaced, are not revalued.

Land on which specialized buildings are situated is shown at cost. Provision is made to recognize permanent declines in value. Specialized buildings and the remaining assets are depreciated over their estimated useful lives, using the straight-line method.

Interest on borrowings raised to finance the construction of fixed assets is capitalized until the assets are commissioned.

2. Investments

Investments are shown at current values. Listed investments are shown at market value and unlisted investments are shown at fair value. In arriving at fair value, the earnings yield method, dividend yield method, net asset value, or net realizable value may be used as appropriate. Current values are determined on an annual basis by internal management.

Income from investments is brought to account only to the extent of dividends received or declared. The Group's interest in its investments is not such that the Group, acting on its own, can exercise control over their dividend policies. Accordingly, the Group does not consider that its investments should be classified as associate companies and accounted for on the equity basis as required by Statement of Generally Accepted Accounting Practice AC110.

3. Stock

Stock, with the exception of machinery spares, is valued at the lower of current replacement cost and net realizable value. Machinery spares are classified as fixed assets for current cost accounting purposes and are thus valued at the current replacement cost. Cost is determined on either the first-in, first-out or the average cost method. The cost of work in progress and finished goods includes an appropriate allocation of production overhead expenditure. Due account is taken of obsolete, redundant, or slow-moving items in valuing machinery spares and stores.

4. Current Cost Adjustment

This adjustment reflects the effect on the income statement of applying current cost accounting policies and comprises the following.

4.1. Additional Depreciation

This adjustment represents the difference between depreciation based on the current replacement cost of fixed assets and on the historical cost of those assets.

4.2. Cost of Sales

The cost-of-sales adjustment represents the difference between the current cost and the historical cost of stock consumed. The current cost of stock consumed is arrived at using the averaging method.

4.3. Financial Gearing

This adjustment represents that portion of the additional depreciation and cost-of-sales adjustments that will be financed from borrowings. The amount, which is transferred from the capital replacement reserve, is based on the Group's actual long-term average debt percentage.

4.4. Outside Shareholders' Interest

The current cost adjustment is net of outside shareholders' interest where applicable.

5. Nondistributable Reserves

5.1. Capital Revaluation Reserve

This reserve represents the net surplus on the revaluation of fixed assets, investments, and stock.

Annual increases in revaluations are credited directly to this reserve, while any decreases are shown in the income statement as extraordinary charges but only to the extent that they exceed surpluses previously transferred to these reserves.

5.2. Capital Replacement Reserve

This reserve represents the current cost-of-sales adjustment and current cost depreciation on fixed assets and machinery spares less the financial gearing adjustment.

5.3. Deferred Taxation

This represents the deferred tax balance at January 1, 1988, that is no longer required in terms of the partial basis.

6. Turnover

Turnover comprises all sales to customers after deducting general sales tax, trade discounts, returns, and delivery charges and includes sale of quota and commissions received. On consolidation, internal transactions are excluded.

7. Deferred Taxation

Deferred taxation is provided on the liability method using the partial basis. Accordingly, deferred taxation is provided only when it is probable that tax will become payable in the foreseeable future as a result of the reversal of existing timing differences.

In previous years, deferred tax was provided on the deferred benefits and deferred liability basis.

The deferred tax balance under the deferred benefits and deferred liability basis at January 1, 1988, has been transferred to nondistributable reserves, since this balance is no longer required in terms of the partial basis.

8. Leases

When the substance of a lease is a financing arrangement and the asset has a relatively long useful life, the cash value of the asset is capitalized and reflected in the balance sheet with the corresponding liability to the lessor. Where appropriate, these assets are revalued at depreciated current replacement cost.

Depreciation is written off over the estimated useful lives of the assets. Lease payments are allocated between a reduction of the liability and a lease finance cost charged against income, based on the effective rate of interest.

9. Foreign Currencies

Foreign currency liabilities are translated to South African Rand at rates of exchange ruling at the balance sheet date or, if liabilities are covered by forward exchange contracts, at the rates applicable. Costs of forward cover incurred on loan liabilities are included with finance costs.

Foreign currency adjustments are dealt with in operating income if they relate to normal trading transactions. If they relate to loans raised specifically to finance the construction of capital assets, they are capitalized prior to the commissioning of the assets.

10. Basis of Consolidation

The consolidated financial statements include the financial position and operating results of the Company and all its subsidiaries.

On acquisition of a subsidiary, assets are adjusted to the values placed on them and any cost of control is written off. Accumulated depreciation on fixed assets acquired is not reversed upon consolidation. Unrealized profits arising from transactions within the Group are eliminated.

11. Presentation

All amounts in the financial statements, reports, and supporting schedules are stated to the nearest R000. Comparative figures are regrouped or restated if necessary.

ANGLO-ALPHA LIMITED
CASH FLOW STATEMENT
For the year ended December 31, 1989

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Cash generated by operations	173 532	178 977	154 674	149 895
Finance costs	(17 482)	(18 986)	(17 314)	(18 886)
Preference dividends	(482)	(587)	(482)	(587)
Taxation	(32 241)	(533)	(28 717)	–
Cash available from operations	123 327	158 871	108 161	130 422
Ordinary dividends	(31 581)	(22 257)	(31 581)	(22 257)
Cash retained from operations	91 746	136 614	76 580	108 165
Investment activities	(30 798)	(11 423)	(33 175)	8 210
Investment in future operations	(46 842)	(35 103)	(27 110)	(27 353)
Net inflow for the year	14 106	90 088	16 295	89 022
Cash effects of financing activities:				
Repayment of long-term liabilities	(22 157)	(92 060)	(20 412)	(93 066)
Repayment of preference shares	(1 240)	(1 240)	(1 240)	(1 240)
Increase in short-term loan	5 055	4 945	5 055	4 945
Increase in bank overdraft	976	–	233	–
Decrease/(increase) in cash resources	3 260	(1 733)	69	339
Cash utilized	(14 106)	(90 088)	(16 295)	(89 022)

ANGLO-ALPHA LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 1989

	Note	*1989 (R000)*	*1988 (R000)*
Turnover	2	624 664	530 574
Cost of sales		370 023	305 641
Gross profit		254 641	224 933
Historical cost depreciation	3	40 118	37 332
Selling and administration expenses		45 325	38 071
Net operating income		169 198	149 530
Income from investments	6	13 937	8 779
Finance costs	7	17 482	18 986
Net income before taxation and current cost adjustment		165 653	139 323
Taxation	8	55 020	41 103
Preference dividends		482	587
Outside shareholders' interest in subsidiaries		(287)	–
Net income before current cost adjustment attributable to ordinary shareholders		110 438	97 633
Current cost adjustment	9	39 959	32 423
Net income attributable to ordinary shareholders		70 479	65 210
Ordinary dividends	10	34 588	28 573
Retained income for year	11	35 891	36 637
Earnings per share* based on net income attributable to ordinary shareholders and weighted average number of shares in issue during the year:			
Current cost basis		234,3c	216,8c
Historical cost basis		367,2c	324,6c

*Earnings per share in South Africa is normally expressed in cents per share. In addition, South Africa uses a comma instead of the decimal point.

ANGLO-ALPHA LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET

December 31, 1989

		1989		1988	
	Note	*(R000)*	*(R000)*	*(R000)*	*(R000)*
Capital Employed					
Stated capital	12		251 164		226 512
Nondistributable reserves	13		277 620		262 223
Retained income	11		93 360		80 660
Ordinary shareholders' equity—historical value			622 144		569 395
Capital revaluation reserve	13		707 522		605 847
Ordinary shareholders' equity—current value			1 329 666		1 175 242
Outside shareholders' interest in subsidiaries			1 317		48
Deferred taxation	14		2 731		1 541
Preference share capital and premium	12		5 040		6 280
Long-term liabilities	15		72 931		80 783
			1 411 685		1 263 894
Employment of Capital					
Fixed assets	16		1 241 432		1 146 216
Investments	18		114 951		90 901
Current assets:					
Stock	19	109 957		93 020	
Debtors		137 960		105 956	
Cash resources		988		2 970	
		248 905		201 946	
Current liabilities:					
Current portion of long-term liabilities	15	31 656		45 311	
Short-term loan		10 000		4 945	
Taxation payable		54 011		31 120	
Creditors		74 403		74 243	
Ordinary dividend declared		22 557		19 550	
Bank overdraft		976		—	
		193 603		175 169	
Net current assets			55 302		26 777
			1 411 685		1 263 894

ANGLO-ALPHA LIMITED
INCOME STATEMENT
For the year ended December 31, 1989

	Note	*1989 (R000)*	*1988 (R000)*
Turnover	2	487 904	416 724
Cost of sales		293 284	244 916
Gross profit		194 620	171 808
Historical cost depreciation	3	32 413	30 446
Selling and administration expenses		23 033	18 090
Net operating income		139 174	123 272
Income from subsidiaries	5	4 754	4 654
Income from other investments	6	13 471	8 432
Finance costs	7	17 314	18 886
Net income before taxation and current cost adjustment		140 085	117 472
Taxation	8	49 568	37 547
Preference dividends		482	587
Net income before current cost adjustment attributable to ordinary shareholders		90 035	79 338
Current cost adjustment	9	34 057	28 448
Net income attributable to ordinary shareholders		55 978	50 890
Ordinary dividends	10	34 588	28 573
Retained income for year	11	21 390	22 317

ANGLO-ALPHA LIMITED
BALANCE SHEET
December 31, 1989

		1989		1988	
	Note	(R000)	(R000)	(R000)	(R000)
Capital Employed					
Stated capital	12		251 164		226 512
Nondistributable reserves	13		239 536		230 132
Retained income	11		60 777		62 578
Ordinary shareholders' equity—historical value			551 477		519 222
Capital revaluation reserve	13		654 821		559 476
Ordinary shareholders' equity—current value			1 206 298		1 078 698
Preference share capital and premium	12		5 040		6 280
Long-term liabilities	15		73 519		80 024
			1 284 857		1 165 002
Employment of Capital					
Fixed assets	16		1 072 529		1 015 316
Interest in subsidiaries	17		74 515		57 568
Investments	18		113 076		89 284
Current assets:					
Stock	19	86 482		73 795	
Debtors		92 931		67 972	
Cash resources		272		341	
		179 685		142 108	
Current liabilities:					
Current portion of long-term liabilities	15	31 286		45 193	
Short-term loan		10 000		4 945	
Taxation payable		49 433		28 582	
Creditors		41 439		41 004	
Ordinary dividend declared		22 557		19 550	
Bank overdraft		233		—	
		154 948		139 274	
Net current assets			24 737		2 834
			1 284 857		1 165 002

ANGLO-ALPHA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1989

1. Change in Accounting Policy

During the year, the Group changed its method of providing for deferred taxation from the deferred benefits and deferred liability basis to the partial basis. The comparative figures for 1988 have been restated accordingly.

The effect of the application of the new policy on retained income at the beginning of the year is shown in note 11.

The effect of the change applied retrospectively to the income statement has been as follows:

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Increase in net income	20 315	20 220	14 594	14 473
Increase in earnings per share	67,5c	67,2c		

2. Turnover

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Sale of goods and services	624 664	530 574	487 904	416 724
Turnover excludes—				
Internal transactions	30 252	27 289	28 426	25 259
General sales tax	15 946	11 153	530	438
Management fees	1 531	1 261	867	589
Rental received on leasing of—				
Fixed property	525	710	211	183
Plant and equipment	93	—	—	—
	618	710	211	183

3. Net Operating Income

Net operating income is stated after the following:

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Administration, management and technical fees	3 760	2 850	3 173	2 378

(Continued on next page)

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Auditors' remuneration:				
Audit fees	693	566	396	295
Expenses	28	13	21	7
	721	579	417	302
Directors' compensation:				
For services as directors	100	104	100	104
For managerial services	1 225	979	1 225	979
	1 325	1 083	1 325	1 083
Historical cost depreciation:				
Owned assets				
Land, quarry properties, and mineral rights	268	361	257	217
Buildings	3 753	3 690	3 263	3 269
Plant, equipment, and vehicles	34 371	31 556	27 167	25 235
	38 392	35 607	30 687	28 721
Leased assets:				
Plant, equipment, and vehicles	1 726	1 725	1 726	1 725
	40 118	37 332	32 413	30 446
Profit (loss) on disposal of fixed assets:				
Property	2 499	1 834	135	41
Plant, equipment, and vehicles	965	25	(11)	57
	3 464	1 859	124	98
Operating lease expenses:				
Plant, equipment, and vehicles	472	214	183	83

4. Depreciation

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Historical cost depreciation	40 118	37 332	32 413	30 446
Current cost depreciation	64 365	52 814	55 427	46 513
	104 483	90 146	87 840	76 959

5. Income From Subsidiaries

	Company 1989 (R000)	Company 1988 (R000)
Dividends	90	118
Interest	2 567	2 696
Fees	2 097	1 840
	4 754	4 654

6. Income From Investments

	Consolidated 1989 (R000)	Consolidated 1988 (R000)	Company 1989 (R000)	Company 1988 (R000)
Dividends:				
Unlisted	10 601	7 404	10 441	7 308
Listed	1 883	957	1 782	836
	12 484	8 361	12 223	8 144
Interest	1 453	418	1 248	288
	13 937	8 779	13 471	8 432

7. Finance Costs

	Consolidated 1989 (R000)	Consolidated 1988 (R000)	Company 1989 (R000)	Company 1988 (R000)
Interest paid (including forward cover costs)	14 554	16 345	14 386	16 245
Lease finance charges	3 363	3 220	3 363	3 220
	17 917	19 565	17 749	19 465
Less: Amount capitalized (see accounting policy no. 1)	155	217	155	217
Interest received on cash resources	280	362	280	362
	17 482	18 986	17 314	18 886

8. Taxation

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
South African normal taxation:				
Current	55 033	40 653	49 580	37 547
Prior year	99	(35)	(12)	–
Deferred taxation	(112)	485	–	–
Aggregate tax charge	55 020	41 103	49 568	37 547
Reconciliation of rate of taxation:	%	%	%	%
Normal taxation rate	50,0	50,0	50,0	50,0
Decrease in rate of taxation due to –				
Unprovided timing differences	(12,6)	(16,2)	(10,6)	(13,5)
Dividend income	(3,8)	(3,0)	(4,4)	(3,5)
Capital profits	(1,0)	(0,2)	–	–
Training and other special allowances	(0,4)	(0,4)	(0,3)	(0,4)
Tax losses utilized	(0,1)	(0,4)	–	–
Investment allowances	–	(0,9)	–	(1,1)
	(17,9)	(21,1)	(15,3)	(18,5)
Increase in rate of taxation due to –				
Rate differential applicable to mining companies	0,6	0,4	0,7	0,5
Disallowed expenditure	0,3	0,2	–	–
Tax losses carried forward	0,2	–	–	–
	1,1	0,6	0,7	0,5
Effective rate on historical cost income (excluding prior-year taxation)	33,2	29,5	35,4	32,0
Estimated tax losses	4 957	3 428	–	–
Applied to reduce deferred taxation	(644)	(720)	–	–
	4 313	2 708	–	–
Attributable to outside shareholders	(992)	–	–	–
Available for setoff against future taxable income attributable to ordinary shareholders	3 321	2 708	–	–

9. Current Cost Adjustment

(See accounting policy no. 4)

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Current cost depreciation:				
On fixed assets	63 756	52 299	54 818	45 998
On machinery spares	609	515	609	515
Cost-of-sales adjustment	8 287	6 137	6 494	5 210
	72 652	58 951	61 921	51 723
Less: Financial gearing adjustment (see note 13)	32 693	26 528	27 864	23 275
	39 959	32 423	34 057	28 448

10. Ordinary Dividends

			Consolidated		Company	
			1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
No. 78	40,0	cents per share paid September 8, 1989 (1988: 30,0c)	12 031	9 023	12 031	9 023
No. 79	75,0	cents per share payable March 16, 1990 (1988: 65,0c)	22 557	19 550	22 557	19 550
	115,0	cents per share (1988: 95,0c)	34 588	28 573	34 588	28 573

11. Retained Income

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Balance at beginning of year:				
As previously reported	60 440	44 023	48 105	40 261
Prior-year adjustment—deferred tax provision no longer required	20 220	188 486	14 473	177 028

(Continued on next page)

	Consolidated		Company	
	1989 (R000)	1988 (R000)	1989 (R000)	1988 (R000)
Transfer to nondistributable reserves (see note 13)	–	(188 486)	–	(177 028)
As restated	80 660	44 023	62 578	40 261
Retained income for year	35 891	36 637	21 390	22 317
Transfer from capital revaluation reserve—unrealized loss on diminution in value of coal investment now realized	(23 191)	–	(23 191)	–
Balance at end of year	93 360	80 660	60 777	62 578

12. Share Capital

	Consolidated		Company	
	1989 (R000)	1988 (R000)	1989 (R000)	1988 (R000)
Authorized:				
36 000 000 (1988: 36 000 000) ordinary shares of no par value—1 000 (1988: 1 000) cumulative redeemable preference shares of R1,00 each	1	1	1	1
Issued:				
Stated capital—30 076 848 (1988: 30 076 848) ordinary shares of no par value	226 512	226 512	226 512	226 512
Transfer from nondistributable reserves (see note 13)	24 652	–	24 652	–
	251 164	226 512	251 164	226 512
504 (1988: 628) cumulative redeemable preference shares of R1,00 each	1	1	1	1
Premium	5 039	6 279	5 039	6 279
	5 040	6 280	5 040	6 280

13. Nondistributable Reserves

(See accounting policy no. 5)

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Balance at beginning of year	868 070	608 157	789 608	558 056
Transfer to stated capital	(24 652)	–	(24 652)	–
Transfer from retained income—deferred tax balance	–	188 486	–	177 028
	843 418	796 643	764 956	735 084
Surplus on revaluation of fixed assets	129 494	100 838	114 254	82 676
Surplus on revaluation of investments	10 019	(13 016)	9 789	(12 363)
Transfer to retained income—realized loss on coal investment	23 191	–	23 191	–
Surplus on revaluation of stock	2 817	3 481	2 928	1 761
Cost-of-sales adjustment	8 287	6 137	6 494	5 210
Current cost depreciation on machinery spares	609	515	609	515
Transfer to income statement—financial gearing adjustment	(32 693)	(26 528)	(27 864)	(23 275)
Balance at end of year	985 142	868 070	894 357	789 608
Represented by—				
Capital revaluation reserve:				
Extent by which interest of shareholders has been increased as a result of revaluing assets:				
Fixed assets	644 724	579 076	593 686	534 249
Investments	39 089	5 879	39 035	6 055
Stock	23 709	20 892	22 100	19 172
	707 522	605 847	654 821	559 476
Capital replacement reserve (the movement on this reserve is made up primarily of the current cost adjustment per the income statement net of the transfer to stated capital):	89 134	73 737	62 508	53 104

(Continued on next page)

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Deferred taxation:				
Balance at January 1, 1988, no longer required as a result of the change to the partial basis of deferred taxation	188 486	188 486	177 028	177 028
	277 620	262 223	239 536	230 132
	985 142	868 070	894 357	789 608

14. Deferred Taxation

(See accounting policy no. 7)

	Consolidated	
	1989 (R000)	*1988 (R000)*
Balance at beginning of year	1 541	1 056
Transfer (to)/from income statement	(112)	485
Arising on acquisition of subsidiary	1 302	—
	2 731	1 541

15. Long-Term Liabilities

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Local	28 894	32 638	27 348	31 761
Foreign	18 451	48 997	18 451	48 997
Financial lease and suspensive sale obligations	36 646	44 459	36 646	44 459
Overdraft	20 596	—	22 360	—
	104 587	126 094	104 805	125 217
Amounts repayable within one year	31 656	45 311	31 286	45 193
	72 931	80 783	73 519	80 024

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Long-term liabilities, repayable as follows:				
1989	–	45 311	–	45 193
1990	31 656	29 189	31 286	29 071
1991	33 956	13 122	35 342	13 002
1992	12 441	12 102	12 051	11 979
1993	11 232	10 873	11 045	10 851
1994	151	34	24	8
1995 and later	15 151	15 463	15 057	15 113
	104 587	126 094	104 805	125 217

16. Fixed Assets

(See accounting policy no. 1)

	Consolidated		Company	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Assets at estimated current replacement value:				
Buildings—valuation	173 493	150 760	162 473	141 249
Accumulated depreciation	81 031	64 832	78 129	62 332
	92 462	85 928	84 344	78 917
Plant, equipment, and vehicles—valuation	1 995 424	1 761 967	1 830 827	1 620 857
Accumulated depreciation	981 835	808 382	896 847	731 725
	1 013 589	953 585	933 980	889 132
Investment properties—at valuation	51 077	49 739	24 964	22 928
Assets at historical cost:				
Land, quarry properties, and mineral rights—cost	29 314	18 166	26 221	10 182
Accumulated depreciation	14 746	4 494	14 342	2 989
	14 568	13 672	11 879	7 193

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	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Buildings—cost	10 568	8 997	3 429	3 638
Accumulated depreciation	3 805	2 976	833	656
	6 763	6 021	2 596	2 982
Plant, equipment, and vehicles—cost	61 756	61 083	23 618	35 927
Accumulated depreciation	39 148	38 431	23 033	26 140
	22 608	22 652	585	9 787
Capital work in progress—cost	40 365	14 619	14 181	4 377
Total cost or estimated current replacement value	2 361 997	2 065 331	2 085 713	1 839 158
Total accumulated depreciation	1 120 565	919 115	1 013 184	823 842
	1 241 432	1 146 216	1 072 529	1 015 316
The historical cost of assets valued at estimated current replacement cost	758 822	732 546	645 281	630 819
Accumulated depreciation	246 418	222 370	195 679	174 091
	512 404	510 176	449 602	456 728
Surplus arising from revaluation of assets (see note 13)	644 724	579 076	593 686	534 249
	1 157 128	1 089 252	1 043 288	990 977
Net book value of assets at cost	84 304	56 964	29 241	24 339
	1 241 432	1 146 216	1 072 529	1 015 316

17. Interest in Subsidiaries

	Company 1989 (R000)	Company 1988 (R000)
Unlisted shares at cost less amounts written off	21 164	19 545
Amounts owing by subsidiaries	56 150	40 340
	77 314	59 885
Less: Amounts owing to subsidiaries	2 799	2 317
	74 515	57 568

18. Investments

(See accounting policy no. 2)

	Consolidated 1989 (R000)	Consolidated 1988 (R000)	Company 1989 (R000)	Company 1988 (R000)
Listed shares at market value	32 138	25 158	31 401	24 451
Unlisted shares at fair value (directors' valuation)	50 945	49 668	49 835	48 758
	83 083	74 826	81 236	73 209
Long-term loans at fair value:				
Coal investments	15 879	5 097	15 879	5 097
Other	920	920	920	920
Long-term loans at cost:				
Staff-assisted housing	1 583	2 107	1 583	2 107
Employees' Share Participation Pension Trust	5 207	6 107	5 207	6 107
Other	8 279	1 844	8 251	1 844
	114 951	90 901	113 076	89 284
Historical cost of investments:				
Listed shares	10 253	8 714	9 371	7 832
Unlisted shares	33 741	48 080	32 830	47 169
Loans	31 868	28 228	31 840	28 228
Surplus arising from revaluation of investments (see note 13)	39 089	5 879	39 035	6 055
	114 951	90 901	113 076	89 284

19. Stock

(See accounting policy no. 3)

	Consolidated		*Company*	
	1989 (R000)	*1988 (R000)*	*1989 (R000)*	*1988 (R000)*
Stock, which is stated at current values, comprises—				
Raw materials	7 360	4 575	6 901	4 482
Waste rock dumps	10 378	9 727	—	—
Work in progress	2 515	2 933	2 515	2 933
Finished goods	29 986	21 393	17 971	12 428
Machinery spare parts and stores	59 718	54 392	59 095	53 952
	109 957	93 020	86 482	73 795
Historical cost of stock	86 248	72 128	64 382	54 623
Surplus arising from revaluation of stock (see note 13)	23 709	20 892	22 100	19 172
	109 957	93 020	86 482	73 795

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in South Africa

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc.?	Yes	1*a–c.* The primary purpose of an audit is to report to shareholders on the fair presentation of the annual financial statements.
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field work, and standards of reporting. Those standards and their interpretations	Yes	

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers in the U.S. Generally Accepted Auditing Standards column refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.
AU citations in the Required by Government or Professional Pronouncements column refer to South African Auditing Statements (see appendix A).
This checklist does not include the latest GAAS pronouncements issued in the United States.

General Information	Answer	Comments
constitute U.S. generally accepted auditing standards which have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in South Africa?		
B. If so, are they published?	Yes	2B. Published in the *SAICA Handbook*.
C. If auditing standards exist in South Africa, are they similar to U.S. standards?	Yes	
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?		3. The Auditing Standards Committee of SAICA.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	No	✓			
5. Do auditors observe inventory counts? (AU 331)	No	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. AU 259	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. AU 257	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. AU 205	✓			

B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. AU 205	✓	
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. AU 230	✓	
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	No	✓	10A. AU 232 requires auditors to report weaknesses in internal controls to management. If audit committees exist, such weaknesses would normally be reported to them.
B. If so, is the communication documented? (AU 325)			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. AU 283	✓	
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. AU 205	✓	12. See paragraph 30 of text.
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	No	✓	
B. If so, list the procedures.			

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	No	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. AU 293	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. AU 293	✓			
16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in South Africa?	Yes. AU 225	✓			16. The practice is unusual except where required by legislation (for example, financial institutions).
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, branches, or investees: (AU 543)					

A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. AU 225	✓		
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No		✓	17B. If the principal auditor is unable to obtain sufficient evidence to rely on the other auditor or to perform other procedures, the auditor's opinion should be qualified.
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. AU 321	✓		18A. See paragraph 39 of text.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)				18B. See paragraphs 41 through 43 of text.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	No		✓	19A,B. The auditor is not required to express an opinion on the consistency of application of accounting principles. However, any changes in significant accounting principles and their effect on the financial statements are required to be disclosed in the financial statements. If this is not done, the auditor would qualify his or her opinion.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes	✓		
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	No		✓	
B. If not, what date is used?				20B. The date of approval by the board of directors or completion of the fieldwork, whichever is later.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. *(Code of Professional Conduct*, Rule 101 and its interpretations)	Yes. *Code of Professional Conduct* Sec. ET 030	✓			
22. Please describe any standards in South Africa for which there are no corresponding U.S. standards.					22. None

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in South Africa

General Information	Answer	Comments
1. Are there generally accepted accounting principles in South Africa? If so, are they codified?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	Parliament, through the Companies Act and the Accounting Practices Board.	

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No	✓			

Notes:

References in the U.S. Generally Accepted Accounting Principles column are to sections of the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
All citations in the Required by Government or Professional Pronouncements column refer to South African accounting statements and guidelines (see appendix B).

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	No	✓			4. AC 114 permits capitalization of interest, but it is not mandatory.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. AC Nos. 106 and 202 and the Fourth Schedule of the Companies Act	✓			5A. Since inflation has a significant effect on the value of assets, revaluations are frequent.
B. If so, define the basis.					5B. See paragraph 65 of text.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	No	✓			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts. No. 5)	Yes. AC 111	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. AC 101 and the Companies Act	✓			8. The matching concept is one of the fundamental accounting concepts in South Africa.
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Companies Act	✓			9A. See paragraphs 59 and 60 of text.

B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes	✓			9B. See paragraph 60 of text.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Companies Act		✓		
B. If so, list them.					10B. See paragraph 61 of text.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. AC 110	✓			11. See paragraph 66 of text.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	No			✓	12: The pooling-of-interest method is not permitted.
13. Is the method used to account for a business combination disclosed? (B50)	No			✓	
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50)	No			✓	
B. If so, list the criteria.					
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	No	✓			15A. See paragraph 68 of text.
B. If so, is it amortized as a charge to income over the period estimated to be benefited?					

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
16. Are the following disclosures made for related-party transactions: (R36)					
a. the nature of the relationship?	Yes. Fourth Schedule of the Companies Act	✓			16*a.* See paragraph 69 of text.
b. a description of the transactions for the periods presented?	No			✓	
c. the amounts of the transactions for the periods presented?	No			✓	
d. the amounts due to or from related parties at the balance sheet date?	Yes. AC 110 and the Fourth Schedule of the Companies Act	✓			16*d.* Disclosures relate to subsidiaries, associated companies, directors, employees, and shareholders.
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. AC 107	✓			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. AC 107	✓			
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss	Yes. Fourth Schedule of the Companies Act	✓			

may be remote? [In the U.S., guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)					
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)					
a. sales to outsiders and intersegment sales?	Yes. AC 115	✓			20*a-f.* See paragraph 70 of text.
b. operating profit or loss?	Yes. AC 115	✓			
c. identifiable assets and related depreciation, depletion, and amortization expense?	No		✓		20*c.* There is only a requirement to disclose total segment assets, although AC 115 encourages other disclosures.
d. capital expenditures?	No			✓	
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	Yes. Fourth Schedule of the Companies Act	✓			
f. effect of a change in accounting principles?	Yes. AC 115	✓			
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	Yes. AC 201		✓		
B. If so, list the disclosures required.					21B. See paragraph 72 of text.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Fourth Schedule of the Companies Act	✓			
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	No	✓			

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, how are noncurrent assets defined?					23B. Though not statutorily defined, noncurrent assets are generally defined as those not expected to be realized within one year or the current operating cycle.
24. A. Is an allowance established for uncollectible receivables? (C59)	No	✓			24A. There is no statutory requirement regarding allowance for uncollectable receivables; however, if in the opinion of the directors the amount recoverable is less than the book value, disclosure should be made of any estimated shortfall. In practice, a provision is made for doubtful receivables. See paragraph 73 of text.
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	See Comment				24B. Generally, the provision is calculated on the basis of examining each individual receivable or on a formula based on previous experience. See paragraph 73 of text.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No			✓	

26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. AC 108	✓		
B. If not, how is inventory stated?				
C. Is the basis disclosed?	Yes. AC 108	✓		
27. Does cost for inventory purposes include: (I78)				
a. materials?	Yes. AC 108 and the Fourth Schedule of the Companies Act	✓		
b. direct labor?	Yes. AC 108 and the Fourth Schedule of the Companies Act	✓		
c. factory overhead?	Yes. AC 108 and the Fourth Schedule of the Companies Act	✓		
d. if the answer to *c* is yes, is an allowable share of all factory overhead included?	Yes. AC 108 and the Fourth Schedule of the Companies Act	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				
a. first-in, first-out (FIFO)?	Yes. AC 108	✓		
b. last-in, first-out (LIFO)?	Yes. AC 108		✓	
c. average cost?	Yes. AC 108	✓		
B. Are the same methods permitted for tax purposes?	No	✓		28B. The LIFO basis is not acceptable for tax purposes.
29. Is the inventory costing method used disclosed? (I78)	Yes. AC 108	✓		

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. AC 106	✓			
B. If so, is an accumulated depreciation account used?	Yes. AC 106	✓			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. AC 106 and the Fourth Schedule of the Companies Act	✓			
b. balances of major classes of depreciable assets?	Yes. AC 106 and the Fourth Schedule of the Companies Act	✓			
c. the methods used to compute depreciation for the major asset classes?	Yes. AC 106 and the Fourth Schedule of the Companies Act	✓			
d. accumulated depreciation, either by major class of assets or in total?	Yes. AC 106 and the Fourth Schedule of the Companies Act	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. AC 105 and AC 113	✓			
B. If so, list the criteria and disclosure requirements.					32B. See paragraphs 76 through 81 of text.
33. A. Do criteria exist for classifying leases as other than operating	Yes. AC 105 and AC 113	✓			

leases for the lessor and lessee? (L10)			
B. If so, list the criteria, type of lease, and disclosure requirements.			33B. See paragraphs 76 through 81 of text.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	No	✓	
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓	35A,B. Though not defined, noncurrent liabilities are generally regarded as those not due within twelve months from the balance sheet date.
B. If not, how are noncurrent liabilities defined?			
36. For notes payable, is disclosure made of: (C32)			
a. interest rates	Yes. Fourth Schedule of the Companies Act	✓	36*a-f.* Disclosures are required for amounts payable in excess of one year.
b. maturities?	Yes. Fourth Schedule of the Companies Act	✓	
c. assets pledged as collateral?	Yes. Fourth Schedule of the Companies Act	✓	
d. covenants to reduce debt?	No	✓	
e. minimum working capital requirements?	No	✓	
f. dividend restrictions?	No	✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. AC 109	✓	37A. Companies may choose to use either the percentage-of-completion method or the completed contract method.

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, what are the criteria for determining the method to be used?					37B. The percentage-of-completion method may only be used if certain conditions are met. See paragraphs 83 and 84 of text.
38. A. Are research costs charged to expense when incurred? (R50)	No	✓			
B. Are such costs disclosed?	No		✓		
39. A. Are development costs charged to expense when incurred? (R50)	No	✓			
B. Are such costs disclosed?	No		✓		
40. A. In the U.S., events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in South Africa? (I17)	Yes. AC 103	✓			40A. See paragraph 87 of text.
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. AC 103	✓			41. See paragraph 88 of text.

42. A. Are disclosures required for:			
a. extraordinary items? (I17)	Yes. AC 103 and the Fourth Schedule of the Companies Act	✓	
b. material events or transactions not classified as extraordinary items? (I22)	Yes. AC 103	✓	
c. disposal of a segment of a business? (I13)	Yes. AC 117	✓	
B. Indicate the financial statement presentation of these items.			42B. Presentation: *a.* Face of income statement (after ordinary activities, net of tax) *b.* Either face of income statement or notes *c.* Treated as extraordinary item
43. A. Are pension costs provided for covered employees over the terms of employment? (P16)	No	✓	
B. If so, do they include charges for costs assigned under the actuarial method used for years prior to the plan's inception?			
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. AC 116	✓	
B. If so, list them.			44B. See paragraph 91 of text.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. AC 102	✓	

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	See Comment				45B. Deferred taxes may be provided using either the comprehensive or the partial basis, and both are currently used.
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	Yes. AC 102	✓			46A. The prevailing standard tax rate is used, unless other information indicates that another rate would be more appropriate (for example, when a change in the standard tax rate has been announced).
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. AC 102	✓			
B. If so, list the requirements.					47B. See paragraphs 93 and 94 of text.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	No. Income Tax Act				48A. Tax losses can only be used to offset taxable income in future periods.
B. If so, are the tax effects of a loss carryback included in the income in the period?					
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. Income Tax Act	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes	✓			

50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. AC 112	✓	
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. AC 112	✓	51. See paragraph 97 of text.
52. A. Are translation adjustments reported separately? (F60)	Yes. AC 112	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. AC 112	✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating *to translation adjustments*?	Yes. AC 112	✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. AC 112	✓	53A. See paragraph 98 of text.
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. AC 112	✓	

U.S. Generally Accepted Accounting Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. AC 112	✓			
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment				55. See paragraph 102 of text.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. AC 107	✓			
57. Please list any standards for South Africa for which there are no corresponding U.S. standards.					57. None

Bibliography

The information in this booklet was compiled from many sources in South Africa. Significant references follow:

- *The South African Institute of Chartered Accountants Handbook*
- The Companies Act (1973, as amended)
- The Income Tax Act (1962, as amended)
- Listings requirements of the Johannesburg Stock Exchange
- Rules and directives of the Johannesburg Stock Exchange

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