STUDENT ACCOUNTANTS
THE STRUGGLE CONTINUES

INTANGIBLE ASSETS
HOW VALUABLE ARE THEY?

CPA IRELAND AND SAIPA
WHAT YOU NEED TO KNOW

WHY CORPORATE GOVERNANCE IS VITAL
FOR FAMILY BUSINESSES AND SMMES
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Civil rights activist Jesse Jackson famously said: “At the end of the day, we must go forward with hope and not backward by fear and division.”

Turbulent times induce fear and uncertainty in all but the strongest individuals, and strength in unity is therefore one of the most effective ways to counter the divisive impact of all the changes during the past year and the uncertain outlook of the year ahead.

Contrary to popular belief, unity does not need to lie in the agreement of opinion or approach; it can start from something as simple as being proud to be associated with a common goal, organisation or profession.

At SAIPA we recognise that it is extremely important for accountants to face trials as a unified force. Business has changed tremendously over the past five years; becoming more mobile, diverse and challenged by consumers that have access to an incredible amount of information.

It is therefore imperative that our members dedicate themselves to being comfortable with advising on issues outside of their preferred area of expertise, ranging from business finance access and management, to good governance practices.

Knowledge and skills in areas outside of the traditional sphere of expertise of accountancy – people management – can help accountants to navigate decisions made on bias, and steer a team towards a working rhythm based on mutual respect. It might even help to bridge the generational gap that influences issues ranging from recruitment to a change in how businesses should approach a work-life balance to keep the new generations engaged and motivated.

Our wish for our members for the year is a ‘next level’ experience as both a Professional Accountant (SA) and a trusted business advisor. We encourage you to continuously upgrade your knowledge and skills, find ways to maintain a positive outlook, and always create an energy of abundance for you and those around you.

Taking the words of Jesse Jackson to heart, let us use 2016 to learn what we can, do what we can, change what we can, and move forward with hope.
SAIPA has adopted the IFAC 2014 Handbook of the Code of Ethics for Professional Accountants.

The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform skilfully within the professional environment.

SAIPA is also one of the Recognised Controlling Bodies (RCB) with SARS. All Tax Practitioners need to adhere to the good standing status that entails the following:

- Tax Compliance (be in possession of a valid Individual Tax Clearance Certificate)
- No criminal record as per (Section 234-237 of the Tax Administration Act 28, 2011).
- Meet the minimum education requirements and maintain your Continuous Professional Development (CPD).
- Adhere to the SARS, SAIPA and IFAC Code of Conduct, By Laws and Constitution where applicable.

In terms of the aforementioned, the CPD regulatory requirement is as follows:

1. Compliance cycle of three years,
2. Minimum 120 CPD hours, and
3. Minimum of 50% verifiable and compulsory CPD hours, viz. 60 structured and 60 unstructured hours over the three year cycle.

The following changes relating to CPD system have been implemented with effect from 1 January 2016:

- The three year CPD cycle still applies, but is based on a calendar cycle rather than an anniversary cycle. It is important to note that the CPD commencement date structure has changed from the election date of a member to a calendar year.
- The compliance ending date for the previous three year cycle was 31 December 2015 and this was the cut-off date for the implementation of the new system.
- The CPD for compliance purposes is based on the minimum CPD requirements for the current year, viz. a minimum of 20 hours for both structured and unstructured CPD.
- No CPD hours will be allowed to be carried forward provided prior approval is obtained from SAIPA.

Consequences for Non-compliance:

1. Deregistration from SARS;
2. Disciplinary action; and
3. Internal suspension

SAIPA would like to encourage all members to adhere to membership compliance. We cannot stress enough how important it is for members to be in good standing and avoid non-compliance. If you have any questions, please contact the Membership Compliance Officer – Aysha Naino at anaino@saipa.co.za

SAIPA’S CONTINUING PROFESSIONAL DEVELOPMENT REQUIREMENTS

Any new member during the year is deemed to be in good standing for that particular calendar year. The member must attend and accumulate CPD hours from the date of registration and submit the CPD hours throughout the calendar year. The CPD hours required for compliance will be apportioned based on the period of being a member for that year. The second cycle commences from January of the year following of him/her becoming a member for which the minimum CPD requirements must be complied with.

The good standing for CPD hours is valid for the following year, e.g. good standing at 31 December 2015 is valid until 31 December 2016.

CPD hours must be submitted on or before 31 January of the year following the end of the previous calendar year. CPD compliance will be checked and validated on 31 January of the year following the cut-off date of 31 December of the immediate previous year.

For members who have not completed their three year CPD cycle, the hours for CPD compliance for good standing will be calculated proportionately, but the minimum annual CPD structured and unstructured requirements must be adhered to.

CPD Unstructured hours

- Hands on IT experience involving new learning;
- Planned reading of specific articles in the financial press;
- Project work;
- Reading relevant articles in SAIPA’s official journals Professional Accountant and/or Tax Professional;
- Regional committee work which develops transferable skills;
- Technical discussions with colleagues; and
- Visits to other regions/organisations.

CPD TOPICS FOR 2016

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<tr>
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<td>Deferred Taxation</td>
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<td>July</td>
<td>IFRS for SMEs update - Refresher</td>
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<td>August</td>
<td>Trust &amp; Deceased Estates</td>
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Becoming an accountant in today’s world is a struggle against a plethora of challenges, including – most recently – the destruction caused by the #FeesMustFall campaign.

There can be little doubt that BCom Accounting is one of the hardest tertiary courses in South Africa. After all, in order to pass, the students need to prove they can apply calculations, auditing, computation and problem-solving skills at the highest level over all four years of study. It is a long and challenging path; one that requires talent, diligence and commitment and, ultimately, only the toughest survive.

With this in mind, it is probably unsurprising to learn that there is still a critical shortage of skilled accountants at all levels across the economy. In fact, a recent Talent Shortage Survey for South Africa shows that accounting and finance staff are among the top 10 positions that employers in the country have difficulty filling. Nonetheless, Faith Ngwenya, chief executive of the SA Institute of Professional Accountants (SAIPA) points out that the Commerce faculties at most universities are usually the biggest in student numbers.

“The level of accountancy teaching at most universities is high and covers the important...
technical focuses of the core areas of the qualification in accountancy, such as Financial Accounting, Tax, Auditing and Finance. However, what is missing from tertiary studies is the competency-based teaching and learning in all the areas of the accountancy field. This facilitates integrated thinking which enables the graduate to come out of university and be ready to fit into a working or entrepreneurial environment.”

Senior executive for professional development, transformation and growth at the SA Institute of Chartered Accountants (SAICA), Chantyl Mulder, agrees. According to Mulder, the trouble lies with some students not being adequately prepared in high school, making their skills problems starker. “This limits what you can do with them. There are literacy and professional skills problems,” says Ngwenya.

Despite these challenges, Gugu Sigasa, president of the Association of Black Accountants of SA (ABASA), says that things are not all bad in the profession. “Over the past 10 years, there has been a significant growth in the profession, and an improvement in the demographics of the members of the chartered accountancy profession.”

Chartered or professional?

When it comes to choosing a career in accounting, there are two key options for students who can either focus on qualifying as a Chartered Accountant, or can choose a career as a Professional Accountant.

Ngwenya points out that often, career guidance at schools fails to differentiate between the various specialisation streams that are available within a qualification in accountancy.

“What is missing from tertiary studies is the competency-based teaching and learning in all the areas of the accountancy field. This facilitates integrated thinking which enables the graduate to come out of university and be ready to fit into a working or entrepreneurial environment.”

“A Professional Accountant (SA) and a Chartered Accountant (SA) differ in the qualification route and in the professional designations that one will use. CA (SA) is the highest designation offered by SAICA, while the Professional Accountant (SA) is the highest designation offered by SAIPA. Despite this, both designations can lead to a career in commerce and industry, private practice, public sector and academia.”

An accountancy lecturer at the University of Johannesburg, who asked not to be named, explains that UJ takes on board more than 500 students every year on its BCom Accounting and B Accounting courses. He adds that students tend to be more exposed to the CA profession, which is why, he feels, many students enrol for BCom Accounting, with their ultimate aim being to work towards a Certificate in the Theory of Accounting (CTA).

Facing the challenges

He adds that while all students face challenges, it would be difficult to say specifically what the biggest challenge is that accounting students experience. They obviously experience finance problems as most other students do, while there are also many other difficulties experienced by such students. However, he feels that not enough research has been done on how serious and unique these issues are within the accounting discipline. Nonetheless, he does suggest that such questions are often debated within the university, and that opinions differ greatly among the various lecturers and those in this field of academia.

Ngwenya is more to the point, as she indicates that the biggest challenge faced by most students studying to become accountants is the volume of work in the syllabuses.

“Nothing in the secondary education prepares you for what you will be doing at tertiary level. Integration of practice and theory is also crucial. If one looks at financial accounting, for example, the graduates come out of university knowing most of the international financial reporting standards. However, the practical application of these standards to real-life situations becomes a challenge.”

“Students tend to consider a chartered accountancy qualification to be synonymous with an accountant. Having previously lectured both at a university of technology and various universities, I have found that almost every student coming into the Accountancy qualification says they want to be a chartered accountant, when what they really mean is that they want to be an accountant.”

She suggests that research is also an area that needs to be incorporated in the accountancy curriculum. The curriculum as it currently stands,
states Ngwenya, has very little, and sometimes no, research requirements at all. This, in turn, impacts on the enhancement of soft skills in accountancy graduates.

“Bearing this in mind, I would think that there are huge opportunities for closer collaboration between businesses, professional bodies and academia. After all, South Africa is rated number one in the world with regard to Auditing and Corporate Reporting. Clearly, we should do all we can to hold on to this ranking, and success here relies completely on the calibre of graduates and the professional qualifications of the accountants,” she says.

When fees must fall

While students across the board face a number of challenges, from financial issues to transport, housing and many other problems, a unique challenge arose towards the end of last year, with the rise of the #FeesMustFall campaign.

The student-led protest movement started in mid-October 2015, in response to an increase in fees at South African universities. Although the focus of the protests was focused on a rise in fees, a number of factors formed the background for the protests. These included a lack of funding for poorer students, high incomes for university managers, a real decline in government funding for higher education, lack of social transformation and encompassed broader socio-economic and racial inequality issues. Where this seriously impacted on students’ ability to continue learning was when the protests boiled over into violence, with the protest ultimately causing over R300 million worth of damage.

“#FeesMustFall was a turning point in the academic history of South Africa. For the first time since, perhaps, 1976, students took the lead in driving for genuine change in the make-up of education,” says Ngwenya.

“However, we need to separate the events that took place in the latter part of 2015 and the events taking place at the beginning of 2016. What one saw in the 2015 student movements was the united front that was demonstrated by students across the board. During this time there was very little destruction of property save for the blockading of entrances to some universities and intimidation reports at some universities.”

The message she says was both clear and, to a large extent justified, considering the extremely high increases that were proposed by universities at the time. Furthermore, the universities were quite understanding too, as most extended the academic year and delayed examinations.

“This was a sacrifice on the part of the academics, as it impacted on plans that they may have had for the end of the year, but as a profession, we welcomed the concessions that were made by the universities to ensure that the students and their studies were not compromised.”

“On the other hand, the campaigns at the beginning of the year were more questionable, as they were disruptive to the most crucial part of the university year, namely the registration stage. There was also an unseemly element involved in the destruction of university infrastructure. This was condemned by most South Africans as they had less to do with the reasonable demands that had been seen the year before. Fortunately fewer universities were affected for extended periods by these protests.”

Impact on the students

According to Khayelihle Sithole, senior lecturer at the Wits School of Accountancy, the #FeesMustFall campaign was generally quite disruptive in nature, with varying levels of interruptions across different institutions.

“In relation to the Accounting students, the most vulnerable group tend to be those in their final

Project Achiever

The results from the 2015 professional evaluation exam, as regulated by SAIPA, indicated that a record 91% of applicants passed and subsequently earned the designation of Professional Accountant (SA). In terms of numbers, this means that South Africa is richer by 457 professional accountants.

According to Rashied Small, education, training and membership executive at SAIPA, the record result was due in large part to the Project Achiever intervention funded by the Financial & Accounting Sector Education and Training Authority (FASSET).

“The project was implemented for the first time during August 2015 in preparation for the professional evaluation examination written in November 2015. It forms part of the transformation strategy implemented by SAIPA and therefore targets black African candidates. SAIPA, however, provided an opportunity to its total constituency by funding 20 candidates who did not meet the fund requirement.”

The effect of the project can easily be determined: it has seen the number of black African candidates writing the examination increased from an average of 24% over the past 10 years to 37% for the November 2015 examination.

For more info visit: www.saipa.co.za
year (postgraduate students), as they need to finish exams early enough in order to be able to write the professional exams at the end of January. The height of the movement occurred during the period when such exams were still taking place, leading to postponements of some papers.”

“However, all institutions were able to eventually complete these exams with sufficient time to enable the candidates to sit for the professional exams at the end of January 2016. This is evidenced by the fact that the number of candidates that sat for the professional exams was 2 318, more than the previous year’s total of 2 234. Clearly, after the initial wave of the campaign, most institutions were able to complete the 2015 academic programme, with the exception of the University of the Western Cape,” he adds.

Ngwenya also suggests that while the no-fee increase obtained by the campaign was an achievement for the students, it must be viewed holistically in the light of a staggering Rand and higher levels of inflation. Because of this, there has been a need for universities to cut down on their expenses and this may well have negative implications on the success of the academic programmes in the long run.

“I think we can still solve at least some of these long-term problems, but we need partnerships with the private sector to assist the universities in bridging the gap caused by the reduced income that will now be generated in the current and future years.”

Assisting those in need

Sithole suggests that the crux of the #FeesMustFall campaign seems to have occurred at Wits University.

“This institution benefited from the fact that by the time the campaign became a national movement, our stakeholders within the institution had already committed to providing catch-up lectures to the students involved in the campaign. This was initiated by various academics across different faculties who committed to offering student support in the evenings.”

“Looking specifically at our accounting students, ABASA immediately implemented a plan of action that assisted students across all levels of study – both undergraduate and postgraduate – within Wits University. This assisted students who were no longer able to access normal academic support through tutorials and lecturer consultations,” he continues.

Sithole adds that at the beginning of 2016, the North West University continued to experience unrest which eventually led to the closure of the campus for the first term, meaning that the accounting students from this campus were affected by a lack of access.

“What made this situation unique is that NWU’s other campuses had lectures running during the time, and very little latitude existed in terms of amending the test and exam timetables. ABASA therefore undertook to provide support to the affected students through a camp that ran throughout the Easter period. With this intervention, the students were provided with access to a safe environment where they were able to carry on with their academic endeavours that kept them actively engaged in the curriculum.”

Of course, he says, the other way of looking at the effects of the campaign is that the long-term impact will result in more students being able to access the university in the long run.

“This will be facilitated through a more transparent setting of fees across institutions and a greater sensitivity towards understanding the plethora of issues students face when trying to access tertiary education. And of course, the existing students within the institutions will also benefit from the resultant freeze in fee increments as introduced by the government in October last year,” he concludes.

#TheRealCostOfTheDamages

The Department of Higher Education and Training says that damage caused to universities during the 2015/16 #FeesMustFall protests amounted to R300m.

The individual damages sustained by universities during the #FeesMustFall campaign: North West University’s Mahikeng campus suffered the most damage (R151m); UKZN (R82m); University of the Western Cape (R46m); Tshwane University of Technology’s Shoshanguve Campus (R5m); University of Zululand (R4.5m); University of Cape Town (R3.2m); University of the Free State (R2.8m); University of Limpopo (R1.7m), Wits (R1.4m); Cape Peninsula University of Technology (R689 000); Walter Sisulu University (R351 000); and University of Johannesburg (R345 000).

Surprisingly, perhaps, the university that suffered the least costly damages was Rhodes University (R250 000).

At least 10 000 students could have been educated with the R300 million in damage done to university campuses across the country by protesters. BCom accounting students pay an average of R40 400 at NWU which means that for the R151 million in damages, just over 3 730 students could have been educated.
WHY CORPORATE GOVERNANCE MAKES SENSE FOR FAMILY BUSINESSES AND SMMES

Lynette Dicey, Freelance writer

South African JSE-listed companies are widely regarded by foreign investors as among the best governed in the world’s emerging economies, a fact that has been extremely beneficial to the country. The benefits are equal for non-listed SMMEs and family-run businesses that follow the same sound governance practices and principles, fostering stakeholder confidence, sustainability and growth.

All about leadership

“Essentially, corporate governance is all about leadership,” explains Parmi Nateson, Executive: Centre for Corporate Governance at the Institute of Directors South Africa (IoDSA). “It can be used as a mechanism to create processes, systems and controls as well as to direct appropriate behaviour to ensure sustainability and continuity. Applying sound principles of corporate governance within an organisation, regardless of its size, helps to ensure that decisions are made in the best interests of the organisation and its stakeholders. It also helps to boost productivity, growth and job creation.”

Tony Balshaw, Managing Partner at Mazars East London and partner-in-charge of the firm’s B-BBEE and Family Business divisions cautions that there is a distinction between SMMEs and family-run businesses. “Family businesses can be large organisations or smaller companies. The point is that the ownership is closely held by the family, sometimes across generations.” He adds that family businesses can become emotion-based systems, where there is role confusion, and the onus is on treating all family members equally. In a business system, the focus is task- and merit-based. Together, these two orientations have the potential to create
conflict and a lack of strategic intent within the business, particularly when coupled with a lack of effective communication, management and governance systems.

“The old adage ‘shirt sleeves to shirt sleeves in three generations’ has proved to be true all too often in family-run businesses,” laments Balshaw. The reason? “Myopic focus and a lack of input from outside influencers ultimately causes a knowledge vacuum filled only with the perception of family members – not a recipe for long-term success.” For a longer-term orientation, Balshaw recommends defining boundaries and recognising the need for knowledge, experience and expertise from people outside of the business to ensure it is run effectively.

Creating appropriate governance structures

Natesan explains that an important determinant for creating an appropriate governance structure and framework is whether an SMME is owner-managed or non-owner managed. “As a company moves through various stages, from start-up to growth, maturation and reinvention, its reliance on other people will differ. As reliance on others grows, the risk of misalignment between shareholders and the Board or management, could lead to decreased value.”

In South Africa, King III is the recognised code of governance, consisting of various principles and recommendations. The principles of King III apply to all organisations regardless of their size or the nature of the business. However, the extent to which the practices apply to specific businesses differ between entities. King III is based on the ‘apply or explain’ model, which allows businesses to use their discretion when considering each governance principle on the basis of their unique circumstances and to decide the best approach to achieve desired outcomes. “Effectively, this means that the Board could decide to apply a certain principle in a different way from how it appears in King III. Explaining how it was applied or why it was not applied results in compliance,” says Natesan.

Balshaw has challenged King III’s ‘apply or explain’ model in the context of owner-managed family businesses, saying that these businesses usually have other compensating roles and mechanisms that talk to compliance with King III.

A further challenge faced by both SMMEs and family businesses (and one which is rectified by the application of corporate governance principles) is around strategy development. “One of the greatest benefits of corporate governance is improved leadership, decision-making and vision,” Natesan reveals, adding that the most fundamental step for a successful business is the development of a viable strategic vision and plan, as well as identifying the organisation’s core competencies. Strategic thinking is related to what the organisation wants to achieve, while strategic planning outlines how this strategic vision will be achieved and helps to drive the development of the appropriate business plans, structures and processes to make it happen. One of the greatest reasons that businesses fail is due to a lack of proper strategic thinking and planning from the outset.

Balshaw concurs, adding that in the start-up phase of a business, it’s likely that the knowledge is centralised in one person. “This is why it’s important to bring in outsiders and sound governance principles to ensure that knowledge is shared, systems are put in place and the business is managed effectively.” He believes that a lack of strategic vision in a family-run business can become a source of conflict, resulting not only in an unhappy family, but an unhappy and unsuccessful business too. “Family members must understand boundaries, and the different ‘hats’ they need to wear within their roles. They should be educated in terms of moving away from a process of centralised decision-making and towards embracing a formalised, effective governance structure, as well as working across generations to ensure continuity and succession planning. The business must be effectively managed and an effective business system created, including a Board of Directors,” he says.

According to King III, a Board should comprise a majority of non-executive directors and should also consist of individuals with the appropriate skills, vision and knowledge to contribute effectively to decision-making. The appointment of non-executive directors contributes to a balance of power, which is important to create a degree of objectivity and independence on the Board. Diverse views are imperative for the effective functioning of the governing body of an organisation. This is particularly relevant in the case of family businesses or SMMEs where roles tend to overlap, and there is a greater need for objectivity as many of the organisation’s decision-makers are too closely involved with the day-to-day running of the business. At the end of the day, more objectivity equates to better decision-making, maintains Balshaw.

He encourages families to create a ‘creed’ – not a legal document, but rather a blueprint setting out
the guiding principles and practices to be observed by the family with regard to the future ownership control, management, and governance plans for the family and business, and the roles the nuanced structures need to be in place.

It is necessary to embrace the notion of management control (including professional management), as distinct from ownership, necessitating the establishment of effective governance structures.

As a family business becomes increasing complex it requires the formalisation of a variety of practices, philosophies, guidelines, policies and structures. To this end, Balshaw proposes a guideline in terms of four different structures that should be formulated in the interests of good corporate governance:

Guidelines for family business structures

1. Family Shareholders Committee

The role of this committee is to manage the interaction and relationships between family owners and the essential business governance structures, forging the owners’ goals, visions and values for the business. It sets the goals for growth, risk, liquidity and profitability and plans for ownership continuity. It is the proper arena in which to challenge the leadership and raise broad questions about the board and management’s performance and plans.

The committee also allows the family to speak as one voice to the management and Board. It allows for discussion around expectations and goals, as well as profitability and risk. “Family members must see the business as a separate entity to themselves. It has a separate legal persona and needs to adopt sound governance principles such as having an effective Board,” Balshaw says.

He explains that the lines often become blurred when the family treats the business as the family piggy bank, failing to distinguish what belongs to them in a personal capacity by virtue of being owners, and what belongs to the business. “One of the best ways to ensure that there is no role confusion in relation to taking money out of the business is to define the roles and develop formal budgets. This should include market-related remuneration for family members that are employees of the business, and the anticipated distributable dividends to beneficial family owners.

2. Board of Directors

The business needs to ensure that its practices and principles are relevant, and sound corporate governance prevails over family needs and wants.

A Board of Directors is a critical ingredient in a successful family business. The Board members must be competent and experienced to provide strategic direction to the family-controlled companies. Balshaw adds that bringing in directors from outside of the family is key to creating a successful board.

3. Executive Committee or Management Committee

This committee forms a link between the company and the Board. It should meet monthly to review results, review and direct the actions of the business.

4. Family Council

The objective of the Family Council is to bring all generations of the family together to share goals and decisions, to discuss common problems, to learn about the business, and to preserve family values and family traditions.

Governance framework establishes relationships

Natesan says an effective governance framework establishes stable and effective relationships between shareholders, the Board, managers and stakeholders – roles which, in some cases, are performed by the same person. The implementation of corporate governance structures must be flexible and able to adapt and evolve as the organisation grows and changes. It’s about weighing up whether a particular principle is in the best interests of the organisation at a point in time. “An SMME should voluntarily elect to apply governance best practice as soon as practically possible, with a view to gearing itself for growth,” Natesan advises.

Ultimately, good governance is about effective leadership based on an ethical foundation. This is characterised by the values of responsibility, accountability, fairness and transparency. “Responsible leaders direct strategies and operations with the aim of achieving sustainable economic, environmental and social performance,” says Natesan. Moreover, being a responsible corporate citizen implies that the Board is not only responsible for the financial bottom line of the business, but also its impact on the environment and the society in which it operates – the ‘triple bottom line’.

For Balshaw, corporate governance allows businesses to take a proactive approach in terms of doing what they can to make for a harmonious and productive working environment, both for the business and the people involved.

“The lines often become blurred when the family treats the business as the family piggy bank, failing to distinguish what belongs to them in a personal capacity by virtue of being owners, and what belongs to the business.”
Intangible assets can be something of a grey area for businesses, difficult to value, but undoubtedly properties that have a bearing on the company’s bottom line. Viewed simply, intangible assets are those assets that are not physical in nature – rather, they refer to the intellectual property and knowledge that a business has which provides it with a competitive edge.

“Intangible assets are the cornerstone of any business,” confirms head of Intellectual Property practice at Norton Rose Fulbright, Likonelo Magagula. “While they are not physical, they are critical in determining a company’s value.”

In addition to knowledge, intangible or intellectual assets encompass the skills and creativity of employees, as well as the processes, methods or systems used in business activities and relationships with customers and suppliers.

Intellectual assets are, in fact, broader in scope than just Intellectual Property (IP) rights, although IP rights comprise a major subset of intangible assets. “These include intellectual assets that are legally protected in some manner or degree, such as inventions (patents), distinctive marks or signs (trade marks), expression of ideas reduced to a material form (copyright), physical configurations (registered designs), semi-conductors, and strategically significant information that, unless kept confidential, could lead to competitor advantage (know-how),” says patent attorney in biotechnology at ENSafrica, Dr Joanne van Harmelen.

In South Africa, IP can be split into two main categories: the first is ‘conventional’ intellectual property, which comprises patents, copyrights, registered designs and trademarks. The second is less conventional intellectual property, and it comprises trade secrets, traditional knowledge, and know-how, explains Magagula.
“Effectively, intangible assets enable a company to obtain a competitive advantage and benefit financially through the exclusivity they could obtain by registering the relevant intellectual property,” says Danie Strachan, partner at Adams & Adams. Intangible assets can assist a business in building its reputation in a specific field, as well as helping to attract investment, funding or partnerships.

These types of assets are further characterised by the fact that they can be bought and sold, and licensed or cross-licensed. As a result of the potential impact of the different types of intangible assets, it’s important to be able to value the different assets in terms of how they will affect the bottom line.

Differentiating between assets

“There are a number of recognised valuation methods, but before selecting one, ensure that the intellectual property assets that need to be valued are properly identified, the purpose of the valuation is clear, and the date of the valuation has been determined,” explains Waldo Steyn, a director in ENSafrica’s IP department.

On the spectrum of intangible assets, properly determining the assets that need to be valued is critical and can be an area of confusion in terms of what is registered and unregistered. With registered intellectual property assets such as trademarks, patents and designs, and even copyright – although not registered – for example, companies are able to more easily track and legally protect these assets; assets such as employee knowledge, best practices, know-how, trade secrets and goodwill can be more difficult to value and, therefore, police.

When examining the different assets be aware of the different forms they take, says Van Harmelen. Patents, for instance, protect ideas in industrially realisable form. “A patent can protect a new product, a new process or a new use of a product. Patent rights are obtained through a formal patent registration process,” she says. Registered designs also require a formal registration process, which protects the outward appearance of industrially produced articles – with a focus on their aesthetic or functional features. Trademarks are a well-known intangible asset, and critical to a company’s continued success. Some companies with big brands such as Microsoft and Coca-Cola depend heavily on their trademarks, which serves to identify products and distinguish them from their competitors. Registered trademark rights are only obtainable through a formal process in one or more of 45 different classes of goods and services.

Unregistered trademarks also enjoy protection in South Africa through the goodwill and reputation associated with such marks. “Unregistered trademarks are more challenging to protect than registered trade mark rights, as a party claiming such rights must prove the goodwill and reputation associated with the unregistered trademark and must seek relief on the basis of unlawful competition usually in the form of passing off,” says Steyn.

Copyright protects works of artistic or literary merit and protection is automatic under the Copyright Act, provided the formalities for subsistence of copyright are met. It’s important to understand who the first owner of these rights would be, as the different forms of works in which copyright subsist are treated differently in the Copyright Act.

Proprietary confidential information – which incorporates know-how and trade secrets – is another unregistered intangible asset of confidential or proprietary knowledge that results in an optimised product or process. Some forms of confidential information may overlap with other forms of intellectual property, says Van Harmelen, and in these instances protection can be attained by formal registration with a statutory body, such as in the case of patents and designs. In many instances, however, companies need to rely on a network of contractual obligations of confidentiality and non-disclosure agreements with employees, clients and suppliers.

As with all intangible assets, IP is territorial. “In other words, protection has to be sought in each country or jurisdiction where a company conducts business,” explains Magagula.

Valuing and protecting intangible assets

There are three main methods with which to value assets once a business has properly identified which of its assets are to be valued and the purpose of the valuation: the cost approach, the sales comparison or market equivalent approach, and the income or royalty approach.

The cost approach values IP assets on the basis of their historic cost of creation or the estimated cost to create a replacement asset with the same or similar commercial application. The sales comparison or market equivalent approach establishes the value of the asset by comparing it to recent disposals of equivalent assets. “This approach is particularly challenging in South Africa
because finding comparable transactions or data can be difficult,” says Strachan.

Working with the income approach is typical for valuing patents and trademarks. This looks at the value of an IP asset as the cash flow it is predicted to generate. IP valuation is a fairly complex exercise, reports Magagula, as the methodology is based primarily on the royalty savings valuation – in effect, the cost savings of ownership against licensing that a third party acquiring the IP would pay for acquiring the right to its exclusive use.

“The quality of any intellectual property asset valuation is dependent on the quality of the assumptions that underpin the valuation,” explains Steyn. “In respect of the income approach, for example, assumptions about the earnings of the relevant intellectual property assets, any growth forecast, the discount rate used and the useful economic life of the assets are all such critical factors.”

Because of the complex nature of intangible assets it is critical for companies to understand the nature of the intangible assets that drive the value in their businesses in order to develop an appropriate intangible asset identification, protection and enforcement strategy.”

Because of the complex nature of intangible assets it is critical for companies to understand the nature of the intangible assets that drive the value in their businesses in order to develop an appropriate intangible asset identification, protection and enforcement strategy. Business owners with registered and unregistered IP rights need to be vigilant and take appropriate action where they have found an infringement to have taken place.

A company may send the infringer a cease and desist letter, advises Magagula, making them aware of the company’s rights and asking the infringer to stop, failing which legal action will be pursued. Of course, if the cease and desist letter does not work, then legal action can be instituted in the High Court.

“While the legal processes involved with actively enforcing intangible asset rights are intricate, businesses need to police and protect these assets. If business owners fail to take action, other individuals or businesses will continue to use and profit from these assets, thus diluting the original brand and decreasing its value,” Strachan concludes.

Research has indicated that

- as much as 31 Hours a Month are spent in Meetings
- Productivity to be as low as 23.5 Hours per Week
- 87% of activities are directly linked to a Customer, Supplier or Prospect

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The term amortisation and depreciation is often used interchangeably as both are used so as to reflect the asset's consumption, expiration, obsolescence or other decline in value as a result of use or the passage of time. However, the fundamental difference is that depreciation represents the decline in future economic benefits embedded in the tangible assets through use, while amortisation implies writing off of the cost of the intangible asset, such as goodwill, patents, trademarks, licences, etc. Depreciation is recognised as a provision and is recorded in as accumulated depreciation, while amortisation is a direct write-off against cost of the asset. In some instances it may be acceptable to account for the amount via an accumulated amortisation account.

The concept of amortisation is that it illustrates the expense of using the value of the intangible asset to generate revenue/income. Moreover, amortisation directly affects an entity’s profit and is thus extremely important for investors when evaluating the performance and value of the entity. For this reason, overstating or understating the asset’s salvage value and useful life can make quite an impact on the entity’s bottom line.

Before an intangible asset is amortised, management must apply judgement and estimation in determining whether the cost of the asset declines through use over time. For example, it is recommended that goodwill cannot be amortised as it is practicable to measure the decline in its cost and to estimate the useful life of the asset (as for depreciation). Intangible assets need an analogous technique to spread out their cost over a period of time – entities use the useful life of assets to guide their decisions on whether or not to amortise them on their financial statements. One of the techniques involves the determination of the present value for the intangible asset and defining its useful life expectancy, just as with calculating depreciation.
The useful life of certain intangible assets is difficult to judge, particularly assets that involve contracted or other legally set terms. When estimating the useful life of an intangible asset that is resulting from contractual or legal rights (such as patents, licences, trademarks, franchise and servicing rights), management should assess the following:

- Whether the entity intends and is able to renew or extend the contract;
- Whether there are substantial costs associated with renewal; and
- Whether there will be any material modifications to existing contract terms.

This will help determine whether the benefits of the asset for amortisation purposes will continue beyond the contract period. If it is probable that the contract is extendable without substantial cost or modification, management can assign a useful life that is longer than the contract term. If the benefits of the asset will continue indefinitely, it has an indefinite useful life and the entity should not amortise it. If the useful life stretches beyond the contract term but is not indefinite, management must make their best estimate of the asset’s useful life.

"The useful life of certain intangible assets is difficult to judge, particularly assets that involve contracted or other legally set terms."

Amortisation and impairment both relate to the value of intangible assets. Impairment occurs when the carrying amount of an intangible asset is deemed more than the recoverable amount (higher of the selling price less cost to sell or value in use). The accounting standards require intangible asset values to be re-evaluated at least annually. If the recoverable amount/fair value is determined to be less than the carrying amount of the intangible asset minus the amortisation expense, the asset is said to be impaired.

The current trend in the accountancy profession and the preparation of financial statements is to move from historical to fair value accounting. Non-current assets, tangible and intangible assets, can therefore be measured and valued using the historical cost or revaluation model – this has been the practice in terms of Full IFRS and has also now been incorporated in IFRS for SMEs. The revaluation model permits the assets to be reported as their fair values resulting in a more realistic indication of the net asset value of the business.

However, the reluctance to adopt the revaluation models is motivated by the complexity in determining the fair value of the assets rather than the benefits of the information to the users of financial statements. Furthermore, the options of implementing the revaluation model, viz. gross replacement costs versus the net replacement cost, further increases the reluctance to change from the historical costs method. Changing to the revaluation model is classified as a change in accounting policy (changing the basis of measurement) which requires the retrospective implementation by adjusting the results of prior periods. In summary, the gross replacement cost method requires the retrospective adjustments to both the cost and accumulated depreciation, while the net replacement cost method is implemented prospectively by writing off the accumulated depreciation against the cost of the assets and adjusting the carrying amount to its revalued amount (similar to the treatment for a change in estimate).

The market value can either be determined by using:

- Current market value for assets which have an active market; or
- Fair valuation using an acceptable and appropriate valuation technique, e.g. present value of future cash flows or capitalised profit when there is no active market for the assets or the assets are highly specialised.

In conclusion, when determining whether an asset should be amortised (intangible assets) or depreciated (tangible assets) management should apply professional judgement and estimation in determining the impact the utilisation of the assets has on the cost and future economic benefits associated with the asset. The rate of amortisation and depreciation is significantly affected by the following:

- Nature of the business and the use of the asset;
- Residual value;
- Useful life;
- Replacement policy of the entity; and
- Changes in technology and advancements in the industry.

The major issues relating to the cost of maintaining the intangible item, such as renewal costs, is whether it should be capitalised as part of the carrying amount or whether it should be expensed immediately. The following factors should be considered when making the decision for its recognition:

- Materiality of the amount involved;
- Effect on the economic benefits embedded in the asset; and
- Effect on the useful life of the related asset.

If the amount incurred is deemed to increase the future economic benefits or improve its income-generating capacity, then the costs must be capitalised to the carrying amount of the assets and amortised over the remaining useful life.

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The objective of selecting a depreciation policy is to enhance the quality and fairness of the financial statements – this means that the depreciation must be appropriate to ensure that the correct depreciation expenses are charged against profit, and the carrying amount of the asset fairly reflect the remaining economic benefits embedded in the asset. The question that needs to be addressed is: “Does depreciating the asset to a zero value represent fair presentation?”

The residual value, also referred to as the salvage value, represents the amount that may be recovered through disposal at the end of the useful life of the asset – residual value represents an estimate of the selling price on disposal less the costs to sell. The residual value represents the cost of the asset that should not be depreciated and thus represents the future economic value after the asset has been utilised for its intended purpose – economic benefit is represented by the disposal value at the end of its useful life. The cost of the asset less the residual value (depreciable amount) is the amount that should be depreciated over the estimated useful life.

The arguments for ignoring the residual value when determining the depreciation policy are:

- the residual value is often considered to be insignificant;
- it is difficult to determine as it represents a future amount;
- changes in technology may significantly affect the estimated useful life of the asset;
- the cost of determining the residual value exceeds the benefit of including the information in the financial statements; and
- there is uncertainty about the manner of disposing the asset.

The arguments in favour of accounting for the residual value are:

- the profit/loss on disposal should be zero or negligible as the amount received on disposal must be equal to the residual value; and
- the asset has an economic value at the end of its useful life.

The residual value of the asset can easily be measured if there is an active market and the market
value can be determined without undue effort and costs. The residual value can be estimated at the date the asset was acquired based on market models and future predictions using appropriate valuation techniques. Management often uses insurance as a risk-mitigating strategy to guarantee the residual value of the asset at the end of its useful life – the insured value may be used as a basis for determining the residual value. When estimated residual value is not material, it can be assumed to be zero.

The following can be used when estimating the residual value of assets:

- **No residual value**: for lower-value assets it is common to ignore the residual value. This approach is preferred by many accountants when the amount of any likely residual value falls below a predetermined threshold level. However, the depreciation recognised will be higher than would have been the case if a residual value had been used – negatively impacting on the profit performance of the entity.

- **Comparables**: the residual value can be estimated by using the residual values of comparable assets, especially where there is an active market for the used assets.

- **Policy**: there may be a company policy that the residual value for all assets within a certain class of assets is always the same. Unless this approach is used to set conservative residual values the risks are (i) the policy-derived value may be higher than market value, and (ii) the depreciation charged against profit will be reduced, inflating the performance of the business.

One of the confusions regarding residual value is whether residual value, which is estimated at the time of acquisition of asset and deducted from the cost of the asset to determine depreciable value, is the present value or the future value. IFRS (IAS 16) clarified the matter by providing the definition of residual value: “The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.” This implies that the residual value is not a present value of the asset which we can compute by discounting the future value. Rather, it demands more assumptions and involves judgement on part of the management of the entity. The residual value is determined not by making future estimates and then discounting such value, but rather, future conditions and circumstances are put in the present frame of time and applied on the asset to determine its current residual value as per those conditions. This is expected to give a more accurate figure of residual value of the asset.

The accounting standards require that the depreciation policy, together with the estimated residual value and useful life, be reviewed at the end of each reporting date to determine whether they are relevant and appropriate under the prevailing circumstances. If the residual value needs to change, then it will be recognised as a change in an accounting estimate which requires prospective implementation.

For example, an asset with a cost of R800 000 and estimated residual value of R80 000 at the date it was acquired is depreciated over an estimated useful life of eight years using the straight-line method. The depreciation per year will be R90 000 [(800 000 – 80 000)/8]. If after three years the residual value is revised to be R60 000, then the depreciation will be re-calculated based on the carrying amount at the date of change over the remaining useful life. From the fourth year the depreciation will amount to R94 000 [(800 000 – 270 000) – 60 000/5] per year after adjusting for the change in the residual value.

In conclusion, the residual value of an asset directly affects the fair presentation of financial statements, especially the profitability (depreciation expenses) and the financial position of the entity (carrying amount of the asset). Furthermore, both the residual value and the estimated useful life of the assets are estimates which must be reviewed at each reporting date – thus any changes should be recognised as a change in an accounting estimate. The use of the residual value when determining the depreciation policy enhances the quality of the financial statements, and improves the quality of the profit reported statement of financial performance and the carrying amount of the assets in the statement of financial position.
Business entities use all forms of debt to finance both capital expenditure and operating activities. The presentation of the forms of debt financing in the financial statements significantly affect the analysis of the liquidity, solvency and financial risk of the entity, as well as its ability to raise additional financing to support the growth and sustainability of the business. The question facing professional accountants is “how to report shareholders/members loans in the financial statements – debt or equity.”

When dealing with debt financing, the following key definitions need to be taken into consideration:

1. **Definition of a loan:** A loan is the act of giving money or any other asset to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

2. **Definition of a liability:** A liability is defined as the future sacrifices of economic benefits that the entity is obliged to make to other entities as a result of past transactions or other past events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

3. **Definition of a financial liability:** A financial liability is defined as a contractual obligation to deliver cash or similar to another entity or a potentially unfavourable exchange of financial assets or liabilities with another entity.

Liabilities should be measured at the cash payment or the value of the assets transferred to cancel or settle the debt obligation – for example, if a loan of R150 000 will be settled by a transfer of an asset/services with a fair value of R120 000, then the liability should be measured at the fair value of the asset/services or if a settlement discount is granted in settlement, then the liability may be measured at the net cash payment (after deducting the discount). Financial liabilities are initially measured at fair value or present value of future cash flows, but when the financial liability is measured at fair value through Profit & Loss then the transaction costs are all taken into consideration. Since fair value is a market price, on initial recognition, fair value may not equal the amount of consideration paid the financial liability.

The fair value of the liability must represent the amount available under market conditions, thus an interest-free loan or a loan raised at a rate which does not reflect the market rate may not represent its fair value – under such circumstances the loan should be measured at amortised cost using the effective interest rate method. Similarly the liability in respect of a finance lease must be recognised at its amortised cost with the finance cost being expenses at the end of each reporting period.
For example, an interest-free loan of R300 000 repayable in full after four years granted to a member when the market interest rate was 12% per annum cannot be measured at the amount received as it does not represent the fair value. The loan should be measured at the present value of the future cash flows discounted at the market interest rate – R190 655 [300 000 @ 12% after four years] represents the fair value and the balance of R109 345 must be recognised as deferred finance costs. The loan must be fairly valued at the end of each reporting period and the change in the liability must be measured at finance costs expensed – interest expense charged each year resulting in the liability being measured at R300 000 when the loan is repaid (amortised cost).

The separation of the liability between non-current and current liabilities depends on the expected payment schedule – the loan portion which is repayable within 12 months of the reporting date must be classified as a current liability. With respect to a finance lease, the capital component (amortised cost) must be separate between long-term and current liabilities – only the capital component is recognised as the liability and not the actual payment as it includes a finance cost component. The finance component is recognised based on the accrual basis (recognised periodically when there are dues) and can only be included as a current liability when it represents an accrued expense at the reporting date (due and payable).

For example: amortisation table – effective interest rate of 12%:

<table>
<thead>
<tr>
<th>Capital balance</th>
<th>Repayment</th>
<th>Interest expense</th>
<th>Capital repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>455 600</td>
<td>150 000</td>
<td>54 672</td>
<td>95 328</td>
</tr>
<tr>
<td>360 272</td>
<td>150 000</td>
<td>43 232</td>
<td>106 767</td>
</tr>
<tr>
<td>253 505</td>
<td>150 000</td>
<td>30 420</td>
<td>119 579</td>
</tr>
<tr>
<td>133 925</td>
<td>150 000</td>
<td>16 071</td>
<td>133 929</td>
</tr>
</tbody>
</table>

The separation of the liability between non-current and current liabilities or equity is usually debated. What is important is to decide the classification, i.e. whether such a loan meets the criteria and definition of a loan – viz. repayments and interest terms and conditions. In many instances the loan has no fixed repayment terms – the note to the financial statements usually read, ‘the loan is repayable on demand or has no fixed repayment terms’. Analysis of financial statements of SMEs or owner-managed businesses indicate that such loans are usually sub-ordinated and that they are used as a limitless debt resource (never repaid), and gives the impression of the loan forming part of ‘permanent capital’. Furthermore, such loans seldom bear interest or bear interest at a rate which is significantly below the market rate.

The issue confronting the compiler of the financial statements is whether an interest-free or low-interest charged loans should be classified as liabilities or included as part of equity. An equity instrument is defined as contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities – residual of assets less liabilities. It seems as if many of the loans are debt instruments with characteristics of equity and should be accounted either as a compound instrument, debt instrument or equity. The following may be used as a guideline to assist in the classification of loans from shareholders/members:

1. If there are clear indications that the loan will not be repaid in the foreseeable future (no fixed terms of repayment, sub-ordinated and interest free), then the major proportion of such a loan has characteristics of equity and should be classified as part of equity;

2. If there are clear indications that the loans will be repaid within a specified period (fixed repayment terms with an interest charge), then the loan has characteristics of a debt instrument and should be classified as a financial liability; and

3. If there are no clear indications as to whether the loan can be classified as either an equity or debt instrument, then the loan should be classified as a compound instrument and should be separate between debt and equity using an appropriate method of allocation.

In conclusion, liabilities, whether loans from external finance providers or shareholders/members which are classified as liabilities, must be measured at their fair values (present value of future cash flows discounted at the effective interest rate) or the cash outflow or assets transferred to settle the debt obligations (net cash outflow after deducting settlement discount). The liability in respect of leases and similar obligations must represent the capital component only – interest is an expense which must be recognised periodically.

The separation of the liability between non-current (long-term) and current is based on the period of repayment – if debt is repayable within 12 months from the reporting date then it is classified as a current liability. The loans from shareholders/members are usually classified as non-current liabilities. However, to ensure accurate recognition and fair presentation of the financial statements the loans should be classified based on the characteristics of the instrument. Loans granted to shareholders/members should be presented as financial assets in the financial statements and cannot be written off against other non-current liabilities or equity.
In this article we address loans to companies and corporations by shareholders or members, and loans from companies and corporations to its shareholders or members.

**Loans to the company**

It is common cause for new companies and corporations to get its first funding from its shareholders and members. And yet at the same time the initial shares capital or members’ interest will be between R100 and R1000, which is problematic. A company requires capital which, in this case is very little, and the question is: are the initial loans by the shareholders or members truly loans? The initial attributes that directly affect a loan are the expectation of repayment and the initial intention of the parties. If that loan is, in fact, to fund the capital needs of the company or corporation, and it is unlikely that that loan will be repaid in the foreseeable future, it should be recognised as equity and not a loan.

Where you have a very small share capital value with a larger loan from a shareholder or member to fund the initial capital needs, you will likely have depreciable assets and a non-depreciating liability that generally results in the liabilities exceeding the assets in the initial years of trading. If, however, that loan by the shareholders or members was recognised as equity you would not have the problem of liabilities exceeding the value of the assets.

Every loan must have certain characteristics that need to be considered, which generally include:

- What is the term and repayment schedule of the loan;
- Is the loan secured;
- Is there an interest charge for the use of that loan; and
- What is the purpose for the loan (what is it intended to fund)
The courts in income tax cases have often overridden the loan and given it the effect of a donation where it was clear that when the loan was given there was no intention to expect repayment of the loan, and at a certain future point in time that loan would be forgiven or written off.

**Loans to shareholders, members, or other connected parties**

In this article the tax consequences of such loans will not be covered, but note that there is a dividends tax liability when insufficient interest is charged on loans to connected parties. In both the Companies Act and the Close Corporations Act there are restrictions and provisions with regards to providing loans or financial assistance that must be adhered to.

In terms of the Close Corporations Act payments and loans by a close corporation to its members, one must consider the following provisions:

- In terms of Section 51(1), payments to members by reason only of their membership may be made by the close corporation, provided that the solvency and liquidity requirements are met.

- In terms of Section 51(3), payments to members by reason only of their membership, include distributions of income and repayments of any contribution, but exclude payments to members in the ordinary course of business, e.g. interest, rent, salaries or repayments of loans.

- In terms of Section 52, a close corporation must not, without the prior consent in writing of all members, either directly or indirectly make a loan or provide security to any of its members, any other close corporation in which one or more of its members together hold more than 50% interest, or any company controlled by one or more members of the close corporation.

Section 45 of the Companies Act (no. 71 of 2008) addresses loans or other financial assistance (which includes lending of money guaranteeing a loan or other securing any debt or obligation) to directors, including inter-company loans and loans between related and inter-related parties.

Unless there is anything in the Memorandum of Incorporation (MOI) to the contrary, financial assistance may not be authorised by the board unless it is pursuant to an employee share scheme that satisfies the requirements of Section 97, or a special resolution has been passed and adopted by the shareholders of the company, within a two-year period that approved such financial assistance for a specific recipient, or generally for a category of potential recipients and the specific recipient falls within this category. In addition, that the company is, and will be, able to maintain both solvency and liquidity, and be satisfied that the financial assistance will be fair and reasonable to the company.

It is always important to review the MOI of the company (similarly for trusts, you would consider the trust deed) to ensure that any other conditions regarding the provisions of financial assistance have been satisfied.

Section 45 requires that after the adoption of any resolution of the board to provide financial assistance, the board must give written notice thereof to all the company’s shareholders, unless all the shareholders are directors of the company.

In addition, the written notice must be given within 10 working days to every trade union representing the company’s employees, if the total value of financial assistance exceeds 0,1% of the company’s net worth at the time of the resolution. Otherwise, in all other cases the written notice can be given within 30 business days after the company’s financial year end.

"In both the Companies Act and the Close Corporations Act there are restrictions and provisions with regards to providing loans or financial assistance that must be adhered to."

If the procedure and requirements in granting financial assistance have not been adhered to, any such agreement or resolution will be void, which means the directors of the company are directly liable for any loss, damages or costs suffered by the company, if they were present at the meeting when the board approved the resolution or agreement, or participated in the making of such a decision at any other occasion. To escape this liability, a director, if present at the meeting, must vote against the resolution or agreement for the provision of financial assistance.

Companies and corporations should ideally not engage its capital and cash in providing financial assistance, as such is not part of the core business, or where such assistance does not benefit the objectives of the company or corporation.
The Institute of Certified Public Accountants in Ireland (CPA) and the South African Institute of Professional Accountants (SAIPA) entered into a mutual recognition agreement (MRA) in 2015. The agreement provides both bodies and their members the opportunity for key strategic partnerships and supports trade opportunities between the two countries. The MRA also facilitates global career opportunities for members of CPA Ireland and SAIPA as they can become members of both accountancy bodies. It gives both organisations the chance to work together in providing better services to members, undertaking joint research and thought leadership initiatives on the global stage, and acting as advocates within the International Federation of Accountants (IFAC) and regional accounting networks.

Beyond the accountancy professions, ties between Ireland and South Africa have always been strong. The bonds of friendship between our two countries were strengthened during the peace process in Northern Ireland. Figures such as Presidents Nelson Mandela, and Thabo Mbeki and Archbishop Desmond Tutu lent their support to the British and Irish Governments in seeking to bring an end to the Troubles. In fact, South African Deputy President Cyril Ramaphosa was one of the international observers of paramilitary decommissioning.

There are approximately 30 000 Irish citizens living in South Africa and a similar number of South African citizens living in Ireland. South Africa is Ireland’s 40th largest trading partner and has been designated as a priority market for exports by the Irish Government. This was demonstrated by the Trade Missions to South Africa in 2011, 2012 and 2013 and the opening of an Enterprise Ireland office in Johannesburg in 2013.

Ireland has a genuine two-way trade and investment relationship with South Africa. Irish companies, including Kerry Ingredients and the Irish Dairy Board employ over 13 000 people in South Africa and South African companies, including Aspen Pharmaceuticals and Investec are now well established in Ireland, providing many high-end job opportunities for Irish citizens.

Why CPA Ireland?

CPA is the most commonly used accounting designation internationally, and Irish professional qualifications are held in high regard worldwide.
Out of some 2.8 million qualified accountants in the world, 1 million plus are CPAs. CPAs are qualified to work in any jurisdiction in the world as the CPA qualification is based on international financial reporting and auditing standards.

Alongside CPA Ireland’s proud relationship with SAIPA, the Institute also has formal agreements with accountancy bodies in Australia, Canada, India, Nigeria and more. At last count, CPAs were working in over 40 countries across the globe.

All of this ensures that the CPA qualification is not just your ticket to a rewarding professional career, but a professional passport to work anywhere in the world. CPAs work across a wide range of sectors, including industry, commerce, finance, government, public practice and other areas where accounting and financial management is required.

Doing Business in Ireland

Ireland remains one of the leaders in the world of business. The top growth areas in Ireland include agrifood, green energy, IT, engineering and pharmaceuticals, while financial and professional services continues to perform well. Ireland is also host to a wide range of multinationals, including Facebook, Google, Microsoft and Twitter. CPAs involve themselves in business at every level in Ireland, from small community businesses to multinational companies, and CPA Ireland’s professional standards and training ensure that members retain up-to-date competencies and skills to assist, whatever the scale of business.

Join CPA Ireland

Members of SAIPA are just three steps away from joining CPA Ireland:

1. Complete Online Application form
   This form can be found on www.cpaireland.ie/SAIPA, a dedicated page on the CPA Ireland website for SAIPA members.

2. Complete and pass two online CPD Courses – Overview of Irish Taxation and Overview of Irish Law
   The required online CPD courses, an Overview of Irish Tax and an Overview of Irish Law may be accessed by visiting the CPA Ireland website www.cpaireland.ie/SAIPA. Upon successful completion of these online courses you will receive a certificate of completion, which is required to support your application for CPA Ireland membership.

3. Apply for Membership with CPA Ireland
   Following the successful completion of steps 1 and 2 above you are required to complete the CPA Ireland membership application form and submit it with the following:
   - Administration and annual subscription fees;
   - Letter of good standing from SAIPA, which is dated no older than one year prior to application and contains:
     - The date you joined SAIPA
     - The date your current membership is fully paid to
     - Confirmation that you are not currently subject to any disciplinary sanctions or investigations, and have not been subject to any disciplinary sanctions in the past five years; and
   - Provide two references and proof of identification (copy of passport or driving licence). Once received in full, your application will take approximately 4 – 6 weeks to process. On approval by the Council of the Institute of the application for CPA membership, each member pays an annual subscription which is determined by the Council each year.

Members of SAIPA are eligible for CPA membership if they:

- Have successfully completed the SAIPA examinations, and the SAIPA practical experience requirements.
- Are a member of good standing and not currently subject to any disciplinary sanctions or investigations.
- Have not been subject to any disciplinary sanctions in the past five years.
- Have completed any other requirements as may be prescribed by SAIPA from time to time.
- CPA Ireland is not obliged to be a member of SAIPA by virtue of an MRA or any other mutual recognition arrangement with another professional body.

Member Benefits, Discounts and Professional Services

CPA Ireland provides members with a variety of benefits, discounts and professional services. The full range includes financial, health, publication, lifestyle, technical and professional benefits. Professional and technical resources will enable you to remain up to date and at the leading edge of your profession, with further information available in the members section of www.cpaireland.ie.

If you wish to find out more about joining CPA Ireland, visit www.cpaireland.ie/SAIPA or email mdelany@cpaireland.ie.

“There are approximately 30,000 Irish citizens living in South Africa and a similar number of South African citizens living in Ireland. South Africa is Ireland’s 40th largest trading partner and has been designated as a priority market for exports by the Irish Government.”
You cannot call yourself a farmer if you work in the garden once a year.

Competency is a fundamental requirement of a person who claims to be a professional. The professional possesses constellations of knowledge, an acceptable attitude and specific skills that comfort clients and employers with the assurance that they are receiving a quality professional service. One can never undervalue the contribution of a well-informed and trained workforce. Your success lies in improving your competency and that of your staff, which will speak volumes about the quality of your service. It allows you to remain adaptable and competitive, and this contributes to increased efficiency and greater revenue. All this can be achieved with some effort and time.

What professionals often neglect is the impact of not improving your employee competencies. Leading an effective team requires all team players to have adequate skills. It will provide you with time to strategise and facilitate further business opportunities and give you peace of mind that your business is always in good hands. A Professional Accountant (SA) should take reasonable steps to ensure that those working under his/her authority, in a professional capacity, have the appropriate training and supervision which includes shadowing or monthly Continues Professional Development (CPD).

The International Federation of Accountants (IFAC) defines competence as the ability to perform the tasks and roles expected of a professional accountant, whether newly qualified or experienced, to the standards expected by employers and the general public.

In the pursuit for excellence the Professional Accountant (SA) must take due care in discharging their duties. It imposes the obligation to perform professional services to the best of a member’s ability with concern for the best interest of those for whom the services are performed. The safeguarding of competence requires a commitment to life-long learning and professional improvement which remains the responsibility of the professional.

In all engagements and in all responsibilities, members must undertake to achieve an acceptable level of competency. It also establishes the limitations of a member’s capabilities by dictating that discussion or referral may be required when a professional engagement exceeds the personal competence of member. Each member is responsible for assessing their own competence by of evaluating whether their education, experience, and judgment are adequate for the responsibility to be assumed.

Important DO NOTS!

- A Professional Accountant (SA) cannot portray himself as an Auditor if he is not registered with the Independent Regulatory Board of Auditors (IRBA).
- An Accounting Technician (SA) cannot depict herself as a Professional Accountant (SA) and in so doing, deceive the public into believing the same, when she has not met the academic and practical component and has indeed not been admitted as a Professional Accountant (SA).
- A member based abroad who has not been fully up to date with his South African tax legislation cannot be competent to take upon South African Tax work due to the constant amendments to legislation.

Legitimacy is key. Stay true to your real self. Instead of creating an exaggerated, idealistic version of yourself as a professional, examine who you are and your best attributes. Determine what makes you unique and focus your attention on enhancing your abilities. Misrepresentation could find you on trial for fraud and negligence claims.

When you call yourself a Professional Accountant (SA), what does this mean?

- I am capable of managing my own work;
- I am responsible for the quality of the work I perform;
- I am able to exercises professional judgement; and
- I am capable of leading a team and managing functions adapted to my skill set.

A member provided with the privilege of being a Professional Accountant (SA) should strive to be aware of his behaviour and its impact on others. He strives to take the correct actions that are both valuable and non-destructive to others as well as the Institute. The Professional Accountant (SA) realises that because of the association between himself and the public, when he causes harm to another or some aspect of the profession, he is actually harming himself. There must be constant maintenance of your level of understanding and knowledge to enable you to render services with the required faculty and acumen.
“Be a yardstick of quality. Some people aren’t used to an environment where excellence is expected.” ~ Steve Jobs

A

s a member of SAIPA you may not be aware that your professional body is accredited for its quality management system. SAIPA was certified in 2013 and has successfully maintained the ISO 9001:2008 standard.

What does this mean for you?

It gives you the assurance that your professional body values quality and excellence. To give meaning to its values, SAIPA has invested in the ISO 9001 standard because it gives us an opportunity to showcase that these values are entrenched in the running of your Institute.

The 9000 family

We are accredited for ISO 9001: 2008/2015 which belongs to the 9000 quality family and includes the following:

- Legal, Ethics and Compliance
- Health and Safety
- Compliance to applicable legal regulations.

How it works?

The Legal, Ethics and Compliance department has an annual audit plan for each department in the Institute, to ensure compliance with the requirements of the standard. The idea of 9001:2015 is to add risk mitigation to our quality processes. We are moving towards implementation of the 2015 version and anticipate full compliance by 2017. Management is fully engaged in the ISO audits, and we have reconstituted our quality manual for improved integration to the standard. Audits are conducted annually by an external auditor who considers our processes and policies, to confirm that we have conformed to the internationally accepted yardstick. This year marks our re-certification of the quality standard.

The future of ISO at SAIPA

We intend to investigate the requirements of the ISO 18001:2007 OHSAS standard as it incorporates the concepts of Health and Safety as well as compliance to applicable legal regulations. It will assist SAIPA in aligning to international best practices in these areas. Should we find that there is a definite appetite for SAIPA to acquire this accreditation we will not hesitate to formalise the certification. The standard provides a systematic method of preserving institutional knowledge. Quality has become a mandatory value for SAIPA if it intends on striving towards become the accountancy institute of choice.
Social media has been a buzzword for the past nine years, and has grown up through several phases before becoming what it is now – one of the most powerful ways for businesses to promote products and services and build reputation at a fraction of the cost of traditional marketing methods.

Managing the reputation of a business used to be an expensive exercise limited to those with access to big budgets and creative content creators. The digital revolution, however, disrupted the marketing industry by making it possible for anyone with an Internet connection to circumvent the privilege and limitations of traditional mass media.

Business owners now have more control than ever in determining the course and success of marketing efforts, but many are still hesitant to embrace the benefits of social media for business. Technology, potential reputation damage, and a fear of making mistakes on social media appear to be the three main inhibitors to getting started.

Supplementing a website with an active presence on social media has been proved to positively influence purchasing decisions. Having social media accounts is, however, not sufficient. The accounts need to be updated regularly, be of value to the visitor, and provide proof that a client will be in good hands.

In professional services, word-of-mouth marketing is the most powerful and successful marketing tool. Social media drives digital word of mouth, and can therefore not be dismissed by professional accountants as a short-lived trend only suitable for personal pursuits.

Choose the right platform and content

It is important to remember that social media is not limited to public platforms. Tools like the broadcast function on WhatsApp also form part of social communication, and can play a great part in reminding clients about deadlines, legislative updates, etc. Similarly, an office group on WhatsApp can significantly improve productivity, as long as it is used responsibly and within pre-set limits.
A low-risk way of getting started with public social media platforms is to just lurk around and learn from how others are doing it. This will help to provide information on trends, strategies and types of content that align to intended results.

Types of social stories that could work well for professional accountants include observations made during events or training attended, comments on new legislation, sharing global industry developments and advice on problems that are commonly shared by clients. Content doesn’t always have to be created; balancing original content with finding and sharing content (with proper attribution and credit to the creator) that is relevant to a social audience is perfectly acceptable.

“Types of social stories that could work well for professional accountants include observations made during events or training attended, comments on new legislation, sharing global industry developments and advice on problems are commonly shared by clients.”

Social media has become largely driven by visual content. It is, therefore, important to not only rely on text, but to also share short videos with advisory snippets, photos of things that lead to a significant realisation, graphs and infographics that support statements, and even lighthearted images that trigger a desired emotion.

After the learning phase, the best way to get over the fear of participating in social media is to pick up a smart phone, start taking photos and videos with the phone, and posting it on social accounts through the apps downloadable to the phone. The apps have been programmed to take new users through each step with relative ease.

The most popular social platform for pure business is Linkedin, but Facebook has proved to also drive sales and loyalty due to its more personal nature and easier interface. Twitter is still the most popular for sharing thoughts during events. For those more experienced in social media use, Instagram and SnapChat are predicted to rise in popularity and give the more well-known platforms a run for their money.

A simple Google search will deliver a myriad of articles, guides, and videos on the Internet on how to get started – or how to become a more advanced user – of social media tools and how to grow the number of relevant social followers.

Grow the social audience

The mere existence of a social media account won’t attract followers – called a social audience – just because it exists. The relevance and number of followers will grow steadily only if a social account is promoted on platforms that already reach the intended audience.

Including a link to or mention of social media accounts in email signatures, on websites, letterheads, and marketing material makes it easier for potential audience members to connect with a social account.

For those that stumble on a social media account after an Internet search, a great first impression relies heavily on the information contained in the profile section. An official logo or photo as profile picture, combined with comprehensive information in the profile fields is imperative. The profile section is also a great place to set expectations by stating what type of content the audience can expect.

A social media audience will only interact with posts if it is of some value to them. Stories that are entertaining, helpful, or educational to the audience will encourage them to regularly visit and interact with the social account, while posts that just sell a service or promote a product will be a strong deterrent.

Take precautions

The golden rule of responsible social media use is to overthink everything before posting. Make sure it aligns with the SAIPA code of conduct, and the morals and values of the business.

When responsible social content does trigger an unintended response, it is best to be prepared to respond with a link to independent third-party content addressing opposing views and stating facts. If this does not defuse a situation, it might be necessary to contact an offender via direct message as a next step to determine whether a resolution is possible.

In the case of verbal abuse or unrelenting negative comments it best to make use of the privacy settings of a social account to block transgressors from further interaction. A public social account is better than a private social account, but not if it is undeservedly detrimental to the reputation of a business.

The best precaution against potential social media risks is proactively training, rather than reactively monitoring, anyone that will be managing social media accounts. Managing social media accounts should not be relegated to the youngest employee based on an assumption that they are more comfortable with using social technology. Business owners should take responsibility for staying on top of social activity by actively participating, even if the responsibility for social activity has been assigned to someone else.
STAFF PROFILE

ZOBUZWE NGOBESE
Marketing and Communication Executive, SAIPA

Q: Tell us about yourself
A: Originally from Pietermaritzburg, KwaZulu-Natal – the city synonymous with the Comrades Marathon – I started my career as a financial journalist, which exposed me to the analysis of financial statements of listed companies. Like most journalists who end up in the field of Corporate Communications, I moved into the corporate world and never looked back. I have been in the marketing and communications field for about 12 years now. I have a passion for finance, investment management, economics and marketing. I am also a keen sportsman with a passion for running, cycling, indoor soccer and boxing.

Q: What do you do at SAIPA?
A: I am the Marketing and Communications Executive.

Q: What is the best part of your job?
A: I love the strategic thinking and planning part of my job as well as the stakeholder engagement side.

Q: What are some of the more challenging aspects of your job?
A: In marketing and communications there are always three common challenges, namely, changing external perceptions, standing out from the crowd and working with limited financial resources. These are exciting challenges and I see the massive opportunity within these that make me love my job even more.

Q: What are your thoughts on the accounting industry as a whole and SAIPA’s role in it?
A: I believe the accounting profession is one of the key pillars in delivering the skills needed by the services sector of the economy. SAIPA therefore has a critical role to play by attracting students into the profession and exposing them to the endless opportunities that the industry has to offer. I believe the accounting profession is one of the key pillars in delivering the skills needed by the services sector of the economy. SAIPA therefore has a critical role to play by attracting students into the profession and exposing them to the endless opportunities that the industry has to offer.

Q: Who do you admire?
A: There are many people I admire but I will mention five – Phuthuma Nhleko, Nelson Mandela, Oprah Winfrey, Warren Buffet and Barack Obama.

Q: What do you do for fun?
A: I enjoy playing sports, keeping fit, travelling and going out whenever I have time, and especially attending live music events.

Q: Any personal goals or future plans you’d like to share with us?
A: I want to grow my investment portfolio. I also want to do more travelling in South Africa, Southern Africa, East Africa and West Africa – in that order.

I believe the accounting profession is one of the key pillars in delivering the skills needed by the services sector of the economy. SAIPA therefore has a critical role to play by attracting students into the profession and exposing them to the endless opportunities that the industry has to offer.
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