

CLOSE CORPORATIONS

Study unit 5

FAC1601

OVERVIEW

- ◉ Key concepts
- ◉ Attributes
- ◉ Advantages and disadvantages
- ◉ Prescribed forms
- ◉ Name and registration number
- ◉ Membership
- ◉ Internal & external relations
- ◉ Joint liability
- ◉ Tax
- ◉ Accounting records
- ◉ Deregistration

KEY CONCEPTS

- ◉ Juristic person
- ◉ Unlimited existence
- ◉ Limited liability
- ◉ Members' contribution
- ◉ Accounting officer
- ◉ Financial statements
- ◉ Profit distribution
- ◉ Loans to/from members
- ◉ Retained earnings
- ◉ Profit before tax

MEMBERS' INTEREST

- ⦿ Right to share in % of profits/losses
- ⦿ Single interest
- ⦿ Obtain interest
 - ⦿ Buy from 1 or more existing members, or
 - ⦿ Contribute to CC
 - ⦿ Dr Bank (or other asset contributed)
 - ⦿ Cr Capital:A

INTEREST ON MEMBERS' LOANS

⦿ Interest on loans to members

- ⦿ Statement of profit/loss and other comprehensive income → 'Other income'

⦿ Interest on loans from members

- ⦿ Statement of profit/loss and other comprehensive income → 'Finance cost'

SALARIES PAYABLE TO MEMBERS

- ◉ Statement of profit/loss and other comprehensive income
 - ◉ Separate line item under ‘Distribution, administrative and other expenses’
 - ‘Salaries to members’
 - ◉ Exercise 5.2 in text book

INCOME TAX

- ◉ Separate person from members
- ◉ Has to register as provisional tax payer
- ◉ Tax = Taxable income x tax rate
- ◉ Normal income tax for year → Expense
- ◉ Difference between normal income tax for year and income tax paid (provisional)
 - ◉ Statement of financial position
 - Income tax payable (Current liability), or
 - Income tax receivable (Current asset)

DISTRIBUTION TO MEMBERS

⦿ Journal entries

- Dr Distribution to members
- Cr Distribution to members payable
- *Recording of provision for a distribution of total comprehensive income to members*

- Dr Retained earnings
- Cr Distribution to members
- *Closing off journal*

- Dr Distribution to members payable
- Cr Bank (or Loan from member:A)
- *Payment of distribution to members*

RETAINED EARNINGS

- ⦿ Statement of financial position
 - Calculation:
 - Opening balance (Closing balance of previous period)
 - PLUS: Total comprehensive income for the year
 - LESS: Amount to be transferred to reserves
 - LESS: Distribution to members
 - ⦿ Distributions during the year AND final distribution

DISCLOSURE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	R
Revenue	000
Cost of sales	(000)
Gross profit	000
Other income	000
Profit on sale of office furniture	000
Distribution, administrative and other expenses	(000)
Remuneration: Accounting officer	00
Salaries and wages	00
Salaries to members	000
Depreciation	000
Finance costs	(00)
Interest on long-term loan	00
Profit before tax	000
Income tax expense	(000)
Profit for the year	000
Other comprehensive income for the year	00
Total comprehensive income for the year	000

STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED _____

	Members' contributions	Retained earnings	Loans from members	Asset replacement reserve	Total
	R	R	R	R	R
Balances at 1 March 20.8	000	000	000	000	000
Total comprehensive income for the year		000			000
Transfer to asset replacement reserve		(000)		000	
Distribution to members		(000)			(000)
Loans from members			000		000
Balances at 28 February 20.9	000	000	000	000	000
Non-current liability			000		
Current liability			00		

STATEMENT OF FINANCIAL POSITION AS AT _____

	R
ASSETS	
Non-current assets	0 000
Property, plant and equipment	000
Financial assets	000
Current assets	0 000
Inventories	000
Trade receivables	000
Prepayments	000
Other financial assets	000
Cash and cash equivalents	
Total assets	0 000

STATEMENT OF FINANCIAL POSITION AS AT _____ (CONT)

Total assets	0 000
EQUITY AND LIABILITIES	
Total equity	0 000
Members' contributions	000
Retained earnings	000
Other components of equity	000
Total liabilities	0 000
Non-current liabilities	000
Long-term borrowings	000
Current liabilities	0 000
Trade and other payables	000
Distribution to members payable	000
Current tax payable	000
Total equity and liabilities	0 000

DISCLOSURE NOTES

DISCLOSURE REQUIRED NOTES

- ⦿ Analysis of transactions with members
- ⦿ Property, plant and equipment
- ⦿ Loans to members
- ⦿ Loans from members
- ⦿ Members' contributions

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Vehicles	Total
	R	R	R	R
Carrying amount at..	XX	XX	XX	XX
Cost	XX	XX	XX	XX
Accumulated depreciation	(XX)	(XX)	(XX)	(XX)
Additions	XX	XX	XX	XX
Depreciation for the year	(XX)	(XX)	(XX)	(XX)
Carrying amount at ..	XX	XX	XX	XX
Cost	XX	XX	XX	XX
Accumulated depreciation	(XX)	(XX)	(XX)	(XX)

FINANCIAL ASSETS

⦿ Trade and other receivables

- ⦿ Debtors control
- ⦿ Allowance for credit losses
- ⦿ Allowance for settlement discount granted
- ⦿ Accrued income (e.g. dividends receivable)

⦿ Other financial assets

- ⦿ Loans and receivables: Loans to members
 - Description of loan, secured or not, interest rate and repayment terms
- ⦿ Financial asset at fair value through profit or loss: Held for trading: Listed shares (Description)

⦿ Cash and cash equivalents

- ⦿ Bank
- ⦿ Petty cash

LOANS TO MEMBERS

	Member A	Member B	Total
	R	R	R
Balance at ... (First day of period)	XX	XX	XX
Advances during the year	XX	XX	XX
Repayments during the year	(XX)	(XX)	(XX)
Interest capitalised	XX	XX	XX
Balance at (Reporting date)	XX	XX	XX

FINANCIAL LIABILITIES

- Long-term borrowings
 - Mortgage (Description)
 - Loans from members
 - Secured or unsecured
 - Interest rate
 - Repayment terms

- Current financial liabilities
 - Trade and other payables
 - Creditors control
 - Allowance for settlement discount received
 - Accrued expenses
 - Income received in advance
 - Current portion of long-term borrowings
 - Loans from members

LOANS FROM MEMBERS

	Member C	Member D	Total
	R	R	R
Balance at _____	XX	XX	XX
Advances during the year	XX	XX	XX
Repayments during the year	(XX)	(XX)	(XX)
Balance at _____	XX	XX	XX
Current portion	(XX)	(XX)	(XX)
Non-current portion	XX	XX	XX

TRANSACTIONS WITH MEMBERS

	A	B	C	D	Total
Salaries	XX	XX	XX	XX	XX
Interest earned in loans to members	(XX)	(XX)			(XX)
Interest incurred on loans from members			XX	XX	XX
	XX	XX	XX	XX	XX