

PoA

Written report

50 marks

Learner's Book page 50, Exercise Book page 21

Suggested solution

1 Introduction

Should include the following concepts:

Definition of a company. The learner must refer to the separate legal personality and that it can exist separately from its owners.

Companies have limited liability that is the company is liable for its own debts.

If the company becomes insolvent, the owners are limited to the amount they invested into the company.

The constitution of the company is made up of the Memorandum of Association, Articles of Association and the Prospectus.

The prospectus is a document inviting members of the public to buy shares in a company.

The owners of the company are known as Shareholders.

The number of shares listed by the company is the authorised share capital.

The shares that are sold are known as issued share capital. The value represents Ordinary share capital.

Profits retained to be used for the next financial year is known as distributable reserves and recorded as retained income.

Companies pay tax for the year. Income Tax which is an expense and any amounts owing is recorded as SARS (Income tax) a liability. Any amounts paid during the year i.e. provisional income tax is recorded in the CPJ and posted to the debit side of SARS (INCOME TAX).

The shareholders of a company are entitled to a profit which is called dividends.

dividend could be paid during the year via the CPJ by debiting DIVIDENDS ON ORDINARY SHARES (an expense account) or declared at the end of the year, implying that they are still owing, in which case DIVIDENDS ON ORDINARY SHARES is debited and SHAREHOLDERS FOR DIVIDENDS, a liability account, is credited.

Directors' fees and Auditors' fees must be shown separately and not added to salaries and wages.

Private companies	Public companies
Name ends in (Pty) Ltd or (Proprietary) Limited	Name must end with Ltd or Limited
One to 50 shareholders	Minimum one shareholder
Managed by at least one director	Managed by at least three directors
Capital is contributed by the founders	Capital is raised by selling shares to the public
Shares transferred with the consent of shareholders	Shares are freely transferable
Financial Statements and information are made available only to shareholders	Financial Statements are published and anyone may gain the published information
May not issue a prospectus.	Issues prospectus in order for the public to buy shares
May commence business as soon as the Certificate of Incorporation is received	Commence business after Certificate to Commence Business is issued
Not compulsory to hold statutory meetings	Compulsory to hold statutory meetings
May not be listed on a Stock Exchange	May be listed on a Stock Exchange

2 Registration of company

Lodge formation documentation with the Companies and Intellectual Property Commission (CIPC) for registration. The amended Companies Act 2008 of South Africa requires the following documents to be lodged:

- Notice of Incorporation (CoR 14.1)
- Memorandum of Incorporation (MOI) (CoR 15.1 A).

If a proposed name is rejected, the company may still be registered and the registration number then becomes the name of the company at incorporation. An approved name may be submitted to the Registrar of Companies at a later stage.