

# Interim financial reporting - compliance to local statutory requirements, local regulatory requirements and local and international accounting standards

MJ Nieuwoudt

## Abstract

The interim financial information of a company, published in the form of an interim report, provides the users of company reports with timely information for making economic decisions. The preparation and presentation of interim reports in the Republic of South Africa has been regulated for a number of decades by the *Companies Act*, No 61 of 1973, and the *JSE Listing Requirements*, which regulate the minimum disclosure requirements for interim reports. There is a general requirement in section 303 of the *Companies Act* that the interim report should be a fair presentation of the business, results and operations of the company - no guidance is however provided as to what fair presentation implies. Until recently, there were substantial uncertainties regarding which principles should apply in respect of the preparation of, and disclosure in interim reports to ensure that the interim report provides a fair presentation of the entity's financial position, results and changes in financial position. The recent release of international and local standards has given momentum to the process of improving the quality of interim reports. The main objective of the paper is to provide information pertaining to the extent to which South African listed companies (1) adhere to the local relevant statutory and regulatory disclosure requirements regarding interim financial reports and (2) already adhere to international and local accounting standards which become operative for financial statements covering periods beginning on or after 1 January 1999.

## Key words

*Interim financial reporting*  
*Financial information*

## 1 Background

Interim financial reporting involves reporting an enterprises's financial information for less than a full financial year or for a period ending on a date other than the enterprise's financial year end. Empirical research about interim financial information consistently finds such information to be useful to and, in fact, used by investors and creditors in making capital investment decisions. Financial analysts worldwide emphasise the importance to them of interim financial information. An *Issues Paper* prepared by the *International Accounting Standards Committee* (IASC) contains a detailed discussion of analysts' views and research findings, including an annotation on the approach and conclusions of approximately 50 published research studies on the *usefulness of interim financial information for investment decisions* (IASC 1996a:99-113).

Until the early nineties the interim report was treated as the Cinderella of financial reporting throughout the world. The release of the *Cadbury Report* in the United Kingdom, as well as initiatives taken by the International Accounting Standards Committee, provided momentum to the process of improving standards for the preparation and presentation of interim reports.

Currently in South Africa section 303 of the *Companies Act*, No 61 of 1973 requires every public company with a share capital (other than a wholly owned subsidiary) to send to each member and holder of debentures of the company, an interim report not later than three months after expiration of the first period of six months of its financial year. The interim financial report is required to fairly present the business, results and operations of the company or, in the case of a holding company of the group, for those six months. The interim financial report should at least deal with those matters as set out in paragraphs 73, 74 and 76 - 79 of Schedule 4 of the *Companies Act*. Furthermore section 8 of the *Johannesburg Stock Exchange Listing Requirements (JSE Listing Requirements)* identifies supplementary disclosure requirements for listed companies.

On the international front, the International Accounting Standards Committee (IASC) concluded a historical agreement with the International Organization of Securities Commissions (IOSCO) during the third quarter of 1995 whereby a comprehensive core set of standards was identified that would be developed by the IASC by the end of 1998 and be endorsed by the IOSCO. The goal of both the IASC and the IOSCO is that financial statements prepared in accordance with International Accounting Standards should be used worldwide to facilitate cross-border offerings and listings. Achieving this goal will involve regulatory action at the national level through national due processes (IASC 1995:2).

At its meeting in November 1995, the Board of the IASC added to its agenda a project "to develop new requirements for an International Accounting Standard on the recognition, measurement, and disclosure issues surrounding the reporting of interim financial information" (IASC 1996a:13). The Board appointed a Steering Committee to oversee this project and in May 1996 it issued an *Issues Paper* (IASC 1996a) that identifies 27 basic issues relating to interim financial reporting. A *Draft Statement of Principles* (IASC 1996c) followed in September 1996. The final *Statement of Principles* (IASC 1997a) was prepared and submitted to the IASC Board for approval at its board meeting in April 1997. The next significant step was the approval of an *Exposure Draft, E57 - Interim Financial Reporting* (IASC 1997b), by the IASC Board at its next meeting in July 1997. The *Exposure Draft* was published in August 1997 for public comment. The IASC issued the final accounting standard (IAS 34) in this regard during February 1998.

The South African Institute of Chartered Accountants (SAICA) issued Exposure Draft 119 -Proposed Statement of Generally Accepted Accounting Practice - Interim Financial Reporting in October 1997. The issue of this exposure draft forms part of the Accounting Practice Committee's Harmonisation and Improvement project to bring statements of Generally Accepted Accounting Practice into line with standards issued by the International Accounting Standards Committee (IASC). The exposure draft was based primarily on E57 (SAICA 1997:27).

## 2 Research scope and objectives

The primary objective of this paper is to provide information pertaining to the extent to which South African companies adhere to the relevant local statutory and regulatory disclosure requirements regarding interim financial reports. A high level of compliance to the local statutory and regulatory reporting requirements is expected, since companies who do not adhere, risk penalties and fines under the *Companies Act* and delisting under the *JSE Listing Requirements*. The second objective is to provide information pertaining to the extent to which South African companies already adhere to the proposed international accounting standard on interim financial reporting (E57). It is important to note that the effective date for the International Accounting Standard to become operative applies to periods beginning on or after 1 January 1999.

For the purposes of this survey 50 companies were selected from The *Financial Mail* of June 1996 (*Financial Mail* 1996:39-59) ranking of the "top industrial companies" by total assets, market capitalization, net profit and turnover in 1996. As a starting point total assets was used being the dominant factor/category. It was further ensured that these companies, based on the other three categories, were also ranked in the top 50 - this resulted in the provisional elimination of certain companies. Because the selection then dropped to fewer than 50, it was decided to use the same methodology on the *Financial Mail's* ranking below the top 50, until 50 companies had been selected. The findings on these 50 companies may, however, not be representative of all South African listed companies.

The decision was taken to focus the research on listed companies in the *industrial sector* of the Johannesburg Stock Exchange (JSE), because they have to comply with generally accepted accounting practice (GAAP), whilst companies in the banking, insurance and mining industries have additional accounting practices with which to comply.

Information about the companies selected was collected from their published interim reports with interim dates falling within the 1996 calendar year. Annexures A and B pertain to the companies selected for the survey.

### **3 Local statutory and regulatory reporting requirements**

Interim reports are currently subject to the requirements set out in the *Companies Act*, No 61 of 1973 and the *JSE Listing Requirements*. Twenty-four of these statutory and regulatory reporting requirements were deliberately selected to establish to which extent companies adhere to certain disclosure requirements of the *Companies Act* and the *JSE Listing Requirements* in respect of interim financial reporting. The selections were divided into four categories, namely:

- General evaluation criteria;
- Income statement disclosure requirements;
- Balance sheet disclosure requirements; and
- Supplementary information disclosure requirements.

The following key is applicable for indicating the source of the requirement:

- CS A section of the *Companies Act*, with an indication of the section number.
- SF Schedule 4 of the *Companies Act*, with an indication of the paragraph number.
- JR A JSE listing requirement, with an indication of the section number.

The results of the analysis are presented in tabular form with comments where applicable.

### Results of the survey

#### General evaluation criteria

**Table 1: Compliance with general evaluation criteria**

Requirement tested	Compliance	Comment
The interim report should cover a six month period [CS 303].	100%	
The interim report should be issued within three months after the end of the six month period covered in the report [CS 303].	98%	
Interim reports must be approved by the directors and signed on their behalf by two directors [CS 305(3)].	8%	1
Amounts in respect of the immediately preceding corresponding interim period and the corresponding audited amounts in respect of the most recent completed financial period should be stated [SF 74(3)].		
- Income statement	100%	
- Balance sheet	96%	

**Comment 1**

Company directors did not adequately approve the interim reports. This deficiency relates to two aspects of approval, namely (1) a statement that the interim results have been approved by the directors, and (2) visible evidence of approval by signing the interim report - two directors are required to sign the interim report on behalf of the board. Signing the interim report also serves to emphasize the directors' responsibility in this regard.

**Income statement disclosure requirements**

**Table 2: Compliance with income statement disclosure requirements**

<b>Requirement tested</b>	<b>Compliance</b>	<b>Comment</b>
If applicable turnover should be disclosed [SF 76(1)(a)].	100%	
Depreciation should be disclosed [JR 8.45(c)].	80%	
Interest paid should be disclosed [JR 8.45(d)].	57%	2
Net income before interest paid and taxation should be disclosed as a separate line item in the income statement [SF 76(1)(b)].	35%	3
Net income attributable to ordinary shareholders should be disclosed [SF 76(1)(f)].	100%	
Dividends per share should be disclosed [SF 76(1)(l)].		
- Ordinary shares	98%	4
- Preference shares	31%	
Earnings per share should be disclosed [SF 76(1)(h)].	100%	

**Comment 2**

Interest paid was not properly disclosed because the companies concerned only disclosed *net* interest paid or received without a reference as to how the net amount had been calculated. It is significant that the *JSE Listing Requirements* differs from that of the *Companies Act* in so far as the latter requires the disclosure of *net* interest paid in paragraph 76(1)(c). In addition to the requirements of the *Companies Act*, the *JSE Listing Requirements* requires listed companies to disclose further detail, where applicable – among these is the separate disclosure of interest paid (gross).

**Comment 3**

Only 17 companies adhered to this requirement. However, a significant number of companies disclosed the line item: "Net income before interest paid and taxation". The Schedule 4 requirement does not allow for interest received to be taken into account in this line item.

**Comment 4**

A total of 49 companies declared ordinary dividends – companies with issued preference share capital by implication also had to declare preference dividends. Companies did not always clearly indicate the composition of their share capital. This made it difficult to distinguish between ordinary share capital and preference share capital, as well as establishing whether dividends per preference share was properly disclosed. The results of the analysis show that 13 companies have preference shares and declared preference dividends. Only four companies complied with the requirement to disclose preference dividends per share.

**Balance sheet disclosure requirements****Table 3: Compliance with balance sheet disclosure requirements**

Requirement tested	Compliance	Comment
The balance sheet must disclose separately non interest bearing debt [SF 76(2)(c)] and interest bearing debt [SF 76(2)(d)].	65%	5
Net asset value per share should be disclosed [SF 76(2)(e)].	88%	

### Comment 5

Different names were used to designate liabilities, namely borrowings, debt, loans and liabilities. These terms *per se* do not indicate whether the debt is interest bearing or not. It appears that companies assume that users will conclude that all liabilities, especially long-term liabilities, will be interest bearing, which is not always the case. There is definitely a need for improvement in this disclosure requirement.

### Supplementary information disclosure requirements

**Table 4: Compliance with supplementary information disclosure requirements**

Requirement tested	Compliance	Comment
Any comments on any facts or circumstances relevant to the financial position of the company, and where applicable, of the group, necessary to a better assessment of the information given, must be stated [SF 78].	<i>uncertain</i>	6
The interim report must include sufficient information on the cash position of the company [SF 77].	88%	
Information regarding contingencies must be stated [SF 78 and JR 8.47(d)].	<i>uncertain</i>	7
Information on capital commitments must be provided [SF 78 and JR 8.47(b)].	82%	8
Capital expenditure for the current period must be stated [JR 8.47(a)].	86%	8
Finance and operating lease commitments must be stated [JR 8.47(c)].	<i>uncertain</i>	9
Interest capitalised must be stated [JR 8.47(e)].	<i>uncertain</i>	10
If applicable and material, full disclosure of all borrowings and off-balance sheet borrowings should be included [JR 8.47(f)].	<i>uncertain</i>	11
An exceptional increase in borrowings during the period under review and the effect of such increased borrowings on earnings per share must be stated [JR 8.47(g)].	29%	12
Comments on the acquisition and disposal of subsidiaries must be included [SF 78].	96%	13
Changes in the relative holding in any subsidiary must be stated [SF 78].	62%	13



**Comment 6**

Paragraph 78 of Schedule 4 of the *Companies Act* states: "Any comments on any facts or circumstances relevant to the financial position of the company, and where applicable, of the group, which are necessary to appreciate better the information given, including information regarding contingencies, capital commitments, acquisitions and disposals of subsidiaries and changes in the relative holding in any subsidiary shall be stated".

The requirement appears to be vague, in that if the directors feel that the information given in the report is sufficient, no further comment on the financial position is required. The fact that no general information on the financial position is given is not seen as non-compliance for the reason provided. A total of 30 companies submitted additional narrative information on the financial position.

**Comment 7**

A total of 23 companies indicated the existence of contingent liabilities. One company provided insufficient information regarding an obvious contingent liability that existed at the interim date. It is uncertain whether the other companies had contingent liabilities.

**Comment 8**

The assumption was made that all companies (except for the one investment company which had no subsidiaries on that date) should have capital expenditure for the period as well as capital commitments.

**Comment 9**

According to the survey only 22% of the companies had finance lease commitments and/or operating lease commitments. This is not a true reflection of current business practice, as a scrutiny of the companies' annual financial statements showed that most of the companies have both finance and operating lease commitments. Companies should disclose finance lease commitments and operating lease commitments separately to comply with this disclosure requirement.

**Comment 10**

Only eight companies clearly indicated that they capitalise interest. One company did not have capital expenditure and it is uncertain whether or not the other 41 companies capitalised interest.

### **Comment 11**

Only one company disclosed that it had off-balance sheet borrowings.

### **Comment 12**

Seven companies had an exceptional increase in borrowings of which only two mentioned the effect on earnings per share – non-compliance is therefore 71%. Where companies have had exceptional increases in borrowings, the effect of such increases on earnings per share must be disclosed – failure to do so represents a contravention of the *JSE Listing Requirements*.

### **Comment 13**

The information on acquisitions and disposals of subsidiaries was mostly disclosed in the cash flow statement and in some instances as a comment. The disclosure in the cash flow statement is not always clear, as companies combine disposals and acquisitions of fixed assets, investments and subsidiaries. The absence of any comment makes it difficult to establish if any subsidiaries are involved. One company very obviously had not complied with this disclosure requirement. This company did not disclose any information on acquisitions and disposals of subsidiaries, while the balance of premium on acquisition of subsidiaries showed an increase in the condensed balance sheet.

Of the 24 companies disclosing acquisitions and disposals of subsidiaries, only 15 disclosed the changes in relative holding in the subsidiaries. This represents 38% non-compliance.

## **4 Conclusion – local statutory and regulatory reporting requirements**

As expected, the survey results indicate a high degree of compliance with the relevant disclosure requirements of both the *Companies Act* and the *JSE Listing Requirements*. Special attention should, however, be given to the following disclosure aspects, representing deficiencies in reporting practices:

- company directors should properly approve the interim reports;
- the gross amount of interest paid should be separately disclosed;
- dividends per preference share should be separately disclosed;
- a clear distinction should be made between non interest bearing and interest bearing debt;
- sufficient information should be furnished in order to separately identify the existence of operating lease commitments and/or finance lease commitments;

- companies affected by exceptional increases in borrowings should disclose the effect of such increases on earnings per share; and
- companies that disclose acquisitions and/or disposals of subsidiaries should also disclose the change in relative holding in the subsidiaries.

The philosophy underlying the recent accounting standards (*E57*, *ED 119* and *IAS 34*) issued on interim financial reporting is that information must be useful to a wide range of users in making economic decisions. The interim statements should provide an update on the latest set of annual financial statements and, accordingly, focus on new activities, events and circumstances and should not duplicate information previously reported (*ED57* para 16, *ED 119* para 17, *IAS 34* para 15).

It is expected that the local statutory and regulatory requirements will be revised and updated in future and brought into line with the accounting statements. The main focus should be to provide useful information regarding new activities, events and circumstances.

## 5 International and local accounting standards

The purpose of the following survey is to establish to what degree South African listed companies **already** adhere to certain selected requirements and recommendations of the proposed international accounting standard on interim financial reporting (*E57*). It should be noted that the selected companies' interim dates fall within the 1996 calendar year whereas *E57* was only released in August 1997. This survey was undertaken before the release of either the proposed local accounting standard on interim financial reporting (*ED 119*) in October 1997 or the international accounting standard on interim financial reporting (*IAS 34*) in February 1998.

The local exposure draft (*ED 119*) has been based primarily on the proposed international accounting standard *E57* issued by IASC (SAICA 1997b:27). The major difference between *E57* and the proposed new South African statement (*ED 119*) is that *E57* provides guidance on estimating LIFO inventories at interim dates whereas no guidance is provided in the proposed new South African Statement (SAICA 1997b:28).

The major differences between *E57* and *IAS 34* are that *IAS 34* requires disclosure of issuances, repurchases and repayments of debt and equity securities. *E57* only required that the effect of the acquisition or disposal of subsidiaries should be disclosed, whereas *IAS 34* requires more information, namely that the

effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings, and discontinuing operations should be disclosed.

The current statutory and regulatory requirements applicable to South African listed companies regarding the income statement and balance sheet information are more comprehensive than those proposed in *E57* (IASC 1997b). It was therefore decided to focus on additional disclosure requirements set out in *E57*, namely:

- Disclosure requirement regarding the cash flow statement; and
- Selected note disclosure.

Ten reporting issues were selected for the purposes of the survey because they are measurable in terms of the available information in the selected interim reports.

The results of the survey are presented as follows:

- Each reporting issue is briefly identified.
- The finding in respect of the evaluation of the 50 selected interim reports is then stated in writing and/or in the form of a table.

Although the issues were selected from *E57* a reference is also made to *IAS 34* and *ED 119* where the same issue was addressed.

The following key gives the origin of the selected reporting requirements:

*E57: Proposed International Accounting Standard on Interim Financial Reporting* issued by the IASC in August 1997 (IASC 1997b). The appropriate paragraph number is also indicated.

*IAS 34: International Accounting Standard on Interim Financial Reporting* issued by IASC in February 1998 (IASC 1998). The appropriate paragraph number is also indicated.

*ED 119: Proposed Statement of Generally Accepted Accounting Practice on Interim Financial Reporting* issued by SAICA in October 1997 (SAICA 1997). The appropriate paragraph number is also indicated.

## Results of the survey

### Cash flow statement

**Issue 1:** A condensed cash flow statement should at least include the three major subtotals of cash flow, namely cash flow from operating activities, investment activities and financing activities [E57 para. 11], [IAS 34 para. 10] and [ED 119 para. 12].

Table 5 clearly shows that most of the companies did not provide adequate cash flow information. Only 34% of the companies provided cash flow information that complies with the proposed international accounting standard.

**Table 5: Cash flow statement**

	Number
Cash flow statement as required by E57 was provided and reconciled to the cash per balance sheet	6
Cash flow statement as required by E57 was provided but not reconciled to the cash per balance sheet	11
Cash flow information was provided but the information did not comply with the requirements of E57 ( <i>deviation</i> )	23
No cash flow information was included ( <i>deviation</i> )	10
Total	50

### Selected note disclosure

**Issue 2:** A statement is furnished that the same accounting policies and methods of computation are followed in the interim financial statements as in the most recent annual financial statements [E57 para. 17(a)], [IAS 34 para. 16(a)] and [ED 119 para. 18(a)].

The purpose of a statement in respect of the accounting policies followed in the interim financial statements as compared to the most recent annual financial statements, serves to make the users of an interim report aware of the body of principles by which it has been prepared without the need to enumerate those principles in the interim report. Since E57 and ED 119 were issued after the interim reporting dates of the companies selected for the purposes of this research report, the relevant interim reports were examined for evidence of a statement that the interim report had been prepared in accordance with recognised accounting pronouncements. This statement should be included in the body of the interim report itself and not as part of the public announcement on an audit

review, where appropriate. Failure to make any statement in respect of the accounting pronouncements applied in preparing the interim report was identified as a deviation – Table 6 sets out the results in this regard.

**Table 6: Accounting pronouncements**

	Number
Comply with International Accounting Standards	0
Comply with Generally Accepted Accounting Standards	10
Comply with both of the above	0
None of the above ( <i>deviation</i> )	40
Total	50

**Issue 3:** If the accounting policies and methods of computation have been changed significantly, a description of the nature and effect of the change should be furnished [E57 para. 17(a)], [IAS 34 para. 16(a)] and [ED 119 para. 18(a)].

A total of 17 companies restated certain amounts in the financial statements, 16 of which indicated that the reason for restatement was a change in accounting policies. One company restated its financial statements for comparative reasons without giving further detail or valid reasons, which is not acceptable. It is praiseworthy that 94% of the companies complied with the stated requirement.

**Issue 4:** Explanatory comments about seasonality or cyclicity of interim operations should be included [E57 para. 17(b)], [IAS 34 para. 16(b)] and [ED 119 para. 18(b)].

Companies appear to accept the requirement to disclose information regarding the seasonality or cyclicity of operations. A total of 17 companies included the required information. It is uncertain if the requirement was applicable to the other companies.

**Issue 5:** The nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence should be disclosed [E57 para. 17(c)], [IAS 34 para. 16(c)] and [ED 119 para. 18(c)].

Items of an "unusual" nature require special disclosure because they are of particular relevance to users of financial statements in understanding and making projections about the financial position and performance of an entity (IASC 1996c, para. 38). "Unusual" items would include income and expenses from ordinary activities which are normally separately disclosable, extraordinary items, business combinations, corrections of fundamental errors, etcetera. The disclosure of these items in annual financial statements is required by GAAP and the need for the information applies equally to interim reports.

Although the specific requirement contained in E57 [para. 17(c)] addresses the effect of unusual items on various items in the financial statements, namely assets, liabilities, equity, net income and cash flows, the survey only focuses on separately disclosable items within profit or loss from ordinary activities, as discussed in accounting opinion AC 307 of the SAICA (SAICA 1996:1-3).

**Table 7: Separately disclosable items of income or expenditure**

	Number
Designated as unusual/exceptional/infrequent/abnormal above the line ( <i>comment 1</i> )	20
Designated as unusual/exceptional/infrequent/abnormal below the line ( <i>comment 1</i> )	4
Properly designated in terms of accounting opinion AC 307 ( <i>comment 1</i> )	2
Still disclosed as extraordinary items ( <i>comment 2</i> )	0
Uncertain whether separately disclosable items exist	24
Total	50

#### Comments

- Of the 26 companies disclosing items that are disclosable because of their nature, size or incidence, 24 companies seemed to be ignorant about the latest developments in GAAP on this issue.

- None of the the companies treated disclosable items as extraordinary items. This is evidence that companies have accepted and comply with the amended accounting standard in respect of extraordinary items (compare SAICA 1995, para. .10-.14).

**Issue 6:** Revenue and segment results for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting should be included [E57 para. 17(e)], [IAS 34 para. 16(g)] and [ED 119 para. 18(e)].

A total of 86% of those companies where the existence of separate segments could be determined with relative certainty, properly disclosed segmental information. This shows a wide acceptance of the principle. It is, however, disappointing that a total of 20 companies provided insufficient information to enable users to identify whether segmental information is relevant or not. The results of the survey are presented in Table 8.

**Table 8: Disclosure of segmental information**

	Number
Segmental information was properly disclosed	25
No such information was included although separate segments were identifiable ( <i>deviation</i> )	4
Not applicable – no segments	1
Uncertain whether segmental information was applicable	20
Total	50

**Issue 7:** Significant events subsequent to the end of the interim period should be stated [E57 para. 17(f)], [IAS 34 para. 16(h)] and [ED 119 para. 18(f)].

A total of 15 companies disclosed information about subsequent events. It is uncertain if the requirement was applicable to the other companies.

**Issue 8:** Enterprises should consider providing additional comments on significant changes in business trends [E57 para. 18(a)] and [ED 119 para. 19(a)].

A total of 34 companies commented on changes in business trends. The additional information referred to is merely recommended by E57.

**Issue 9:** Enterprises should consider providing additional information on the prospects for the full current financial year of which the interim period is a part [E57 para. 18(c)] and [ED 119 para. 19(c)].



It is commendable that 94% of the companies provided information on prospects for the full current year, although *E57* only *recommends* disclosure in this regard. This is an indication of the importance to companies to disclose such information to the users of their interim reports.

**Issue 10:** Narrative information regarding the performance of the enterprise since the last annual reporting date should be disclosed by way of a note [E57 para. 16], [IAS 34 para. 15] and [ED 119 para. 17]

An explanation of events and changes is crucial to an understanding of the performance of the enterprise since the last annual reporting date (IASC 1996a, para. 112). The information disclosed would enable the reader to assess the results of the operations for the interim period. A total of 94% of the companies already complied with this *E57* requirement.

## 6 Conclusion - international and local accounting standards

Until recently there were substantial uncertainties about which principles should apply in respect of the preparation of, and the disclosure in interim reports in order to ensure that the interim report provides a fair presentation of the entity's financial position, results and changes in financial position. *Proposed International Accounting Standard - E57* (IASC 1997b), *International Accounting Standard - IAS 34* (IASC 1998) and the *Proposed statement of generally accepted accounting practice - ED 119* (SAICA 1997) provide significant guidance in this respect.

The extent to which South African listed companies already complied with the proposed international and local standards on interim financial reporting is highly commendable, except for the following two weak areas:

1. the minimum components of cash flow information were not properly disclosed; and
2. very few companies clearly identified the accounting pronouncements applied in preparing the interim report.

## 7 Overall conclusion

In the past interim reporting in South Africa was subject only to the requirements set out in the *Companies Act* and the *JSE Listing Requirements*. None of these

statutory or regulatory requirements give guidance on principles for preparing and reporting information. The requirement of fair presentation in interim reports of the business, results and operations in section 303 of the *Companies Act* is not linked to generally accepted accounting practice as is the case with annual financial statements.

*ED 119* (SAICA 1997) was released in October 1997 with the objective of prescribing the principles for preparing and reporting information about the financial position, performance, and changes in financial position of an enterprise for less than a full financial year (SAICA 1997:1). It is expected that the SAICA will soon release the final statement of generally accepted accounting practice properly based on *IAS 34* (IASC 1998).

It is vital that South African companies note these accounting statements and implement their requirements as soon as possible, since *IAS 34* (IASC 1998) becomes operative for financial statements covering periods beginning on or after 1 January 1999. By complying with the accounting standard, South African interim reports become globally comparable.

There is a need to update and/or revise the statutory and regulatory requirements. Fair presentation of interim reports should be linked to GAAP. The statutory and regulatory requirements should then deal exclusively with additional useful information that is not required by GAAP but is necessary to make economic decisions.

## Annexure A

## Top 50 industrial companies - selected on all four categories

Ranked by re-searchers	Ranked by Financial Mail - 28 June 1996					
	Total assets	Market cap.	Net profit	Turn-over	Name	Sector
1	1	5	5	3	Anglo American Industrial Corporation Ltd	Industrial Holdings
2	2	12	3	12	Sappi Ltd	Paper & Packaging
3	3	1	2	1	The South African Breweries Ltd	Beverages, Hotels & Leisure
4	4	3	1	10	Sasol Ltd	Chemicals, Oils & Plastics
5	5	4	7	2	C.G. Smith Ltd	Industrial Holdings
6	6	2	4	24	Rembrandt Group Ltd	Industrial Holdings
7	7	16	6	11	Iscor Ltd	Steel & Allied
8	8	6	13	6	Barlow Ltd	Industrial Holdings
9	9	19	14	4	C.G. Smith Foods Ltd	Food
10	10	11	8	7	Malbak Ltd	Industrial Holdings
11	11	17	11	22	Safmarine and Rennies Holdings Ltd	Industrial Holdings
12	12	10	9	8	Anglo Vaal Industries Ltd	Industrial Holdings
13	13	29	34	15	Engen Ltd	Chemicals, Oils & Plastics
14	14	14	17	-	Liblife Strategic Investments Ltd	Industrial Holdings

**Top 50 industrial companies – selected on all four categories (continued)**

Ranked by re-searchers	Ranked by Financial Mail - 28 June 1996					
	Total assets	Market cap.	Net profit	Turn-over	Name	Sector
15	15	13	15	62	Johnnies Industrial Corporation Ltd	Industrial Holdings
16	16	24	37	5	Premier Group Ltd	Food
17	17	8	10	9	Tiger Oats Ltd	Food
18	18	9	16	14	Murray & Roberts Holdings Ltd	Industrial Holdings
19	19	35	21	23	AECI Ltd	Chemicals, Oils & Plastics
20	20	32	25	47	Kersaf Investments Ltd	Beverages, Hotels & Leisure
21	21	26	29	13	Pepkor Ltd	Stores
22	22	7	12	21	Nampak Ltd	Paper & Packaging
23	23	46	31	32	Sentrachem Ltd	Chemicals, Oils & Plastics
24	24	50	23	44	Highveld Steel & Vanadium Corporation Ltd	Steel & Allied
25	25	21	26	27	The Tongaat-Hulett Group Ltd	Food
26	26	18	19	16	Wooltru Ltd	Stores
27	27	25	36	26	Reunert Ltd	Electronics & Electrical
28	28	15	22	28	Edgars Stores Ltd	Stores

**Top 50 industrial companies - selected on all four categories (continued)**

Ranked by re-searchers	Ranked by Financial Mail - 28 June 1996					
	Total assets	Market cap.	Net profit	Turn-over	Name	Sector
29	29	72	54	25	Toyota South Africa Ltd	Motor
30	30	31	27	70	Alpha Ltd	Building, Construction & Allied
31	33	37	18	39	Polifin Ltd	Chemicals, Oils & Plastics
32	34	38	32	40	Consol Ltd	Paper & Packaging
33	35	23	33	30	Plate Glass & Shat-terprufe Industries Ltd	Industrial Holdings
34	36	20	51	43	Imperial Holdings Ltd	Industrial Holdings
35	37	27	24	66	Sun Inter-national (South Africa) Ltd	Beverages, Hotels & Leisure
36	38	41	28	17	McCarthy Retail Ltd	Stores
37	41	59	40	51	JD Group Ltd	Furniture, Households & Allied
38	42	28	41	56	African Oxygen Ltd	Engineering
39	44	53	49	38	Kohler Ltd	Paper & Packaging
40	45	51	62	18	Pick 'n Pay Stores Ltd	Stores

**Top 50 industrial companies - selected on all four categories (continued)**

Ranked by re-searchers	Ranked by Financial Mail - 28 June 1996					
	Total assets	Market cap.	Net profit	Turn-over	Name	Sector
41	46	52	55	18	Shoprite Holdings Ltd	Stores
42	47	48	58	19	Metro Cash and Carry Ltd	Stores
43	48	58	47	36	Foodcorp Ltd	Food
44	49	22	35	53	Foschini Ltd	Stores
45	52	45	44	46	South African Druggists Ltd	Pharmaceutical & Medical
46	55	60	38	65	Del Monte Royal Foods Ltd	Food
47	56	30	39	59	Pretoria Portland Cement Company Ltd	Building, Construction & Allied
48	63	64	59	41	ICS Holdings Ltd	Food
49	65	39	45	34	The Bidvest Group Ltd	Industrial Holdings
50	70	47	42	55	Pep Ltd	Stores

## Annexure B

### Number of companies per sector

Sector (in alphabetical order)	Number
Building, Construction & Allied	2
Chemicals, Oils & Plastics	5
Electronics & Electrical	1
Engineering	1
Food	7
Furniture, Households & Allied	1
Industrial Holdings	13
Motor	1
Paper & Packaging	4
Pharmaceutical & Medical	1
Steel & Allied	2
Stores	9
Total	50

## Bibliography

Cadbury, A. 1992. *Report of the Committee on Financial Aspects of Corporate Governance*. London: Committee on Financial Aspects of Corporate Governance and Gee & Co. Ltd.

*Companies Act*. 1973. Act number 61 of 1973. Refer Government Gazette.

Financial Mail. 1996. *Financial Mail Special Survey - Top Companies*. 28 June 1996. Rosebank: Financial Mail.

IASC (International Accounting Standards Committee). 1995. *Annual review*. London: IASC.

IASC (International Accounting Standards Committee). 1996a. An issues paper prepared by the IASC staff. *Interim financial reporting*. May 1996. London: IASC.

IASC (International Accounting Standards Committee). 1996b. Early decisions on interim reporting. *IASC Insight*. July 1996:14-15.

IASC (International Accounting Standards Committee). 1996c. A draft statement of principles issued for comment by the steering committee on interim financial

reporting. *Interim financial reporting*. September 1996. London: IASC.

IASC (International Accounting Standards Committee). 1997a. Statement of principles. *Interim financial reporting*. March 1997. London: IASC.

IASC (International Accounting Standards Committee). 1997b. Proposed international accounting standard. *Interim financial reporting - Exposure Draft E57*. August 1997. London: IASC.

IASC (International Accounting Standards Committee). 1998. *Interim Financial Reporting - IAS 34*. February 1998. London: IASC.

JSE (Johannesburg Stock Exchange). 1995. *The Johannesburg Stock Exchange Listing Requirements*. June 1995. Johannesburg: JSE.

SAICA (South African Institute of Chartered Accountants). 1995. *Net profit or loss for the period, fundamental errors and changes in accounting policies - AC 103*. March 1995. Johannesburg: SAICA.

SAICA (South African Institute of Chartered Accountants). 1996. *Separately disclosable items of income or expenditure within profit or loss from ordinary activities - AC 307*. March 1996. Johannesburg: SAICA.

SAICA (South African Institute of Chartered Accountants). 1997. Proposed statement of generally accepted accounting practice - *Interim Financial reporting - ED 119*. October 1997. Johannesburg: SAICA.

The interim financial reports of 50 companies. Refer to Annexures A and B

---

*MJ Nieuwoudt*  
*Senior Lecturer*  
*School of Accountancy*  
*University of Pretoria*  
*Pretoria*