

# Interim financial reporting in transition

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## Abstract

The purpose of this article is twofold, firstly to provide information on the extent to which South African listed companies complied with local statutory and regulatory requirements for interim financial reporting in the three-year period 1996 to 1998. Secondly to provide information on the extent to which South African listed companies already complied with international and local accounting standards which became effective on 1 January 1999 and 1 July 1999 respectively. This information is used to establish reporting trends, identify weaknesses in reporting practices and make recommendations for improving the quality of interim financial reporting.

## Key words

*Interim financial reporting*  
*Interim financial information*

## 1 Background

Interim financial reports are widely used by investors, creditors and financial analysts in making decisions and preparing forecasts. 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).

For many years the South African disclosure requirements regarding interim financial statements were regulated by both the Companies Act, No 61. of 1973, as amended, as well as section 8 of the Johannesburg Stock Exchange Listing Requirements (JSE Listing Requirements).

On the international front the need to improve standards for the preparation and presentation of interim financial reports was identified (compare IASC 1995, IASC 1996a,b,c and IASC 1997a). The objective was to facilitate cross-border offerings and listings. Achieving this goal will involve regulatory action at national level through national due processes (IASC 1995:2). In August 1997 Exposure draft, E57 – Interim Financial Reporting (IASC 1997b), was published for public comment. Subsequently the final accounting standard IAS 34 was issued in February 1998 (IASC 1998). As a result of the South African Accounting Practice Committee's Harmonization and Improvement project to bring statements of Generally Accepted Accounting Practice in line with standards issued by the IASC, Exposure draft 119 – Proposed Statement of Generally Accepted Accounting Practice, Interim Financial Reporting (SAICA 1997) was released in October 1997. The final statement AC 127 (SAICA 1998c) was issued in December 1998 and this statement agrees to a large extent with IAS 34 (SAICA 1998c:13).

## **2 Research objectives and scope**

The objective of this article is twofold, firstly to provide information pertaining to the extent to which South African listed companies complied with the relevant local statutory and regulatory requirements regarding interim financial reporting for the three-year period, 1996 to 1998. Secondly to provide information pertaining to the extent to which South African companies already adhered to international and local accounting standards over a two-year period (1997 and 1998). The reason for only including information for these two years, is that the accounting standards were only issued during the period 1997 to 1998. It is important to note that IAS 34 (IASC 1998) became effective on 1 January 1999 and AC 127 (SAICA 1998) on 1 July 1999. All of the interim financial reports selected relate to periods before these dates.

A high level of compliance to the local statutory and regulatory reporting requirements was expected, since companies that do not comply, risk penalties and fines under the Companies Act and delisting under the JSE Requirements. The debate on disclosure requirements began in the early nineties (compare IASC 1996a) and one would expect that the extent to which the South African companies already adhere to these accounting standards would have increased over the two-year period (1997 and 1998).

A total of 50 listed companies was selected for the years under review. The selection of the companies was done independently for each of the years under review from *The Financial Mail's* "top industrial companies"

by total assets, market capitalization, net profit and turnover. The dominant category and primary selection criteria, was total assets. The top 50 companies with the highest average in all the categories were selected. Seventy-eight percent of the companies originally selected in the first year (1997), were selected again due to their ranking in the following years. Of the 50 selections for the three years, 39 companies were selected for each of the years. Ten companies were selected in two of the years, leaving only 13 companies being selected only once. This results in a fairly stable group for interpreting the results (refer to annexure A). The fact that some of the companies may belong to the same group had not been discounted when the results were interpreted. Each company was treated as a stand-alone reporting entity.

### 3 Local statutory and regulatory disclosure requirements

Section 303 of the Companies Act, No 61 of 1973 requires every public company with share capital (other than a wholly owned subsidiary) to issue an interim financial report. 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. The interim financial report should 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 JSE Listing Requirements identifies supplementary disclosure requirements for listed companies. Both the statutory and regulatory requirements primarily relate to balance sheet, income statement and supplementary note disclosure, with little focus on cash flow information. The changes in equity statement is a recent and new development and does not yet form part of the above-mentioned requirements (refer to SAICA 1998a).

Twenty-five out of approximately fifty-five reporting requirements were deliberately selected to establish to what extent companies comply with certain disclosure requirements of the Companies Act and the JSE Listing Requirements in respect of interim financial reporting. The chosen requirements were those for which, in our opinion, there was a greater risk that information would be inappropriately dealt with.

The following key indicates the source of the requirements:

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.

Compliance with seven of the requirements could not be established with certainty due to insufficient information in the companies' interim financial reports. The results of the survey are therefore divided into two categories, namely compliance to those disclosure requirements which could be established with certainty (refer to Table 1) and those that could not, due to a lack of information provided in the reports (refer to Table 2).

### Results of the surveys

**Table 1: Percentage compliance with local statutory and regulatory requirements**

No	Requirement tested	Notes	1998	1997	1996
	<b>General disclosures</b>				
1	The interim financial report should cover a six month period (CS 303)		100%	100%	100%
2	The interim financial report should be issued within three months after the end of the six month period covered in the report (CS 303)		100%	98%	98%
3	Interim financial reports must be approved by the directors and signed on their behalf by two directors (CS 305(3))	1	8%	12%	8%
4	Amounts in respect of the immediately preceding corresponding interim period and the corresponding audited amounts in respect of the most recent financial period should be stated (SF 74(3))				
	– Income statement		100%	100%	100%
	– Balance sheet	2	94%	98%	96%
	<b>Income statement</b>				
5	If applicable, turnover should be disclosed (SF 76(1)(a))		100%	100%	100%
6	Depreciation should be disclosed (JR 8. 45 (c))		88%	88%	80%
7	Interest paid should be disclosed (JR 8. 45 (d))	3	58%	56%	58%

No	Requirement tested	Notes	1998	1997	1996
8	Net income before interest paid and taxation should be disclosed as a separate line item in the income statement (JR 8. 45(e))	3	14%	14%	35%
9	Net income attributable to ordinary shareholders should be disclosed (SF 76(1)(f))		100%	100%	100%
10	Dividends per share should be disclosed (SF 76(2)(d)) - Ordinary shares - Preference shares	4	96% 44%	100% 38%	98% 31%
11	Earnings per share should be disclosed (SF 6(1)(h))	5	92%	96%	100%
	<b>Balance sheet</b>				
12	The balance sheet must disclose non-interest-bearing debt (SF 76(2)(c)) and interest-bearing debt (SF 76(2)(d)) separately		60%	66%	68%
13	Net asset value per share should be disclosed (SF 76(2)(e))		84%	90%	88%
	<b>Supplementary information</b>				
14	The interim financial report must include sufficient information on the cash position of the company (SF 77)		88%	94%	88%
15	Information regarding capital commitments must be provided (SF 78 and JR 8. 47(b))		82%	88%	82%
16	Capital expenditure for the current period must be stated (JR 8. 47(a))		68%	64%	86%
17	An exceptional increase in borrowings during the period under review and the effect of such borrowings on earnings per share must be stated (JR 8. 47(g)) <i>(Number of companies that disclosed information divided by number of companies that had an exceptional increase in borrowings)</i>	6	0%	12%	29%
		6	(0 ÷ 9)	(2 ÷ 7)	(2 ÷ 7)

No	Requirement tested	Notes	1998	1997	1996
18	Changes in the relative holding in any subsidiary must be stated (SF 78) <i>(Number of companies that disclosed information divided by number of companies that submitted information regarding subsidiaries)</i>	7	63%	64%	62%
		7	(19÷30)	(14÷22)	(15÷24)

**Table 2: Number of companies that comply with local statutory and regulatory requirements**

No	Requirement tested	Notes	1998	1997	1996
	<b>Balance sheet</b>				
19	Disclosure of preference share capital (JR 8. 46(f)) - Disclose preference share capital - Do not disclose preference share capital although preference dividends were declared - Only ordinary share capital in issue - Uncertain TOTAL	8	9  0 15 26 <b>50</b>	12  1 15 22 <b>50</b>	Not tested
	<b>Supplementary information</b>				
20	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) - Disclose information - Uncertain TOTAL		26 24 <b>50</b>	22 28 <b>50</b>	30 20 <b>50</b>
21	Information regarding contingencies must be stated (SF 78 and JR 8. 47(d)) - Disclose information - Uncertain TOTAL		28 22 <b>50</b>	26 24 <b>50</b>	23 27 <b>50</b>

No	Requirement tested	Notes	1998	1997	1996
22	Finance and operating lease commitments must be stated: (JR 8. 47(c))				
	- Disclose finance lease commitments	9	1	0	1
	- Uncertain		49	50	49
	TOTAL		<b>50</b>	<b>50</b>	<b>50</b>
	- Disclose operating lease commitments	9	7	5	7
	- Uncertain		43	45	43
	TOTAL		<b>50</b>	<b>50</b>	<b>50</b>
23	Interest capitalised must be stated (JR 8. 47(e))				
	- Disclose information		7	8	8
	- Uncertain		43	42	42
	TOTAL		<b>50</b>	<b>50</b>	<b>50</b>
24	If applicable and material, full disclosure of all borrowings and off-balance sheet borrowings should be included (JR 8. 47(f))				
	- Disclose information				
	- Uncertain		0	4	1
	TOTAL		<b>50</b>	<b>50</b>	<b>50</b>
	<b>Supplementary information</b>				
25	Comments on acquisitions and disposals of subsidiaries must be included (SF 78)				
	- Include information		30	22	24
	- Not applicable		4	7	7
	- Uncertain	10	16	21	19
	TOTAL		<b>50</b>	<b>50</b>	<b>50</b>

### Notes to Tables 1 and 2

- For the purpose of our evaluation the actual signatures of the two directors were required, and not only their printed names. Only Anglo American Industrial Corporation Ltd, Edgars Stores Ltd, Iscor Ltd and the South African Breweries Ltd fully complied with this aspect.
- The companies which did not comply with the requirement only stated corresponding balance sheet amounts for the audited amounts in the

- most recent annual financial statements. However, this is in line with AC 127 and IAS 43 (refer to table 3, issue 2).
- 3 The companies that did not comply with this requirement only stated net interest paid. Schedule 4 paragraph 76(1)(c) requires net interest paid to be disclosed. This differs from the JSE Listing Requirement that interest paid should be disclosed. There appears to be some confusion about very similar yet different requirements contained in Schedule 4 and the JSE Listing Requirements. Most companies disclosed the line item net income before net interest paid and taxation, instead of net income before interest paid and taxation (refer to requirement 8).
  - 4 The percentage is based on the information contained under requirement 19 in table 2 for those companies which had issued preference shares.
  - 5 A new trend is developing in so far as companies contravening this requirement only disclose headline earnings per share.
  - 6 The companies furnished reasons for the exceptional increase in borrowings but did not disclose the effect on earnings per share. The percentages given in the table are based on only those companies which had exceptional increases in borrowings. According to the survey the following number of companies had exceptional increases in borrowings: 1998:9; 1997:17; 1996:7.
  - 7 The percentages are based on the information contained under requirement 25 in table 2, where the number of companies which disclosed acquisitions and disposals of subsidiaries was established.
  - 8 Schedule 4 paragraph 76(2)(b) requires that shareholders' funds should be disclosed (as a total). In contrast with this, the JSE Listing Requirements in section 8.46 clearly requires that ordinary and preference shareholders' funds should be disclosed. One can therefore argue that the uncertainty results in a contravention of the JSE Listing Requirement. It was decided to scrutinize the annual financial statements of the companies under review. It was established that a further ten companies had preference shares. These companies contravened the JSE Listing Requirements.
  - 9 These results seemed questionable, because we believed that far more companies would have finance or operating lease commitments. It was therefor decided to scrutinize the annual financial statements of the companies under review to establish if the requirement was applicable. It was established that not less than 42 companies had finance leases and 45 companies had operating leases. This means that companies do not provide the required information.



- 10 Companies group their acquisitions and disposal of fixed assets, businesses and subsidiaries together, making it, in the absence of an explanatory note, difficult to establish whether subsidiaries were involved.

#### **4 Conclusion – Statutory and regulatory disclosure requirements**

In contrast to the expectation that compliance with statutory and regulatory requirements would be high, it is rather unsatisfactorily low. Of the twenty-five requirements that were tested in 1998, only four requirements showed 100% compliance. The compliance with six requirements varies between 80%-96%, for four requirements between 50%-79% and compliance with a further four requirements was below 50%. Compliance with seven of the requirements could not be established with certainty (refer to Table 2). There was neither major improvement nor deterioration in compliance with requirements in the three years under review.

Reasons for such low compliance need to be found. It may be that there are too many regulations, or insufficient attention and lack of policing on the part of the Registrar of Companies or the JSE-Board, or that companies feel that the information is outdated and not of any use to the users of the interim financial statements in the light of the emerging accounting standards.

Whatever the reasons might be, the following weaknesses in reporting practices were identified, namely:

- Information is not adequately interpreted. For example when a company had an exceptional increase in borrowings, the reason for the increase would be given, but the effect on earnings per share would be ignored (refer to requirement 17).
- Correlation between requirements is ignored (refer to requirements 7, 8, 12 and 17). Interest paid relates to interest-bearing debt and an exceptional increase in borrowings and the effect thereof on earnings per share clearly relates to the distinction between interest-bearing and non-interest-bearing debt. If only net interest paid is disclosed and borrowings are not split up into interest-bearing and non-interest-bearing debt, users cannot make informed decisions. In the light of prevailing interest rates in South Africa, one can hardly argue that this information is not useful.
- There appears to be some confusion about apparently similar, yet different, disclosure requirements contained in Schedule 4 and the JSE

**Listing Requirements.** For example, confusion exists between disclosure of interest paid and net interest paid (refer to note 2 above) as well as the disclosure of shareholders' funds and disclosure of preference share capital and ordinary shareholders' funds (refer to note 7 above).

The following recommendations may help to improve the quality of reporting in interim financial statements:

- Section 303 of the Companies Act only states that the interim financial statements are required to fairly present the business, results and operations of the company or the group. This requirement is not linked to Generally Accepted Accounting Practice (GAAP) as is the case with annual financial statements. Linking the preparation and presentation of interim financial reports to GAAP (namely AC 127), will clear up uncertainties about the methods and principles adopted in preparing the reports.
- Only information that is peculiar to the South African context and which is not dealt with in the accounting standard AC 127, should be included in Schedule 4 and the JSE Listing Requirements, for example information about borrowings and interest paid due to interest rate fluctuations in South Africa. Corresponding disclosure requirements already dealt with in AC 127 should not be duplicated, for example dividends per share, stating comparative amounts, earnings per share, cash flow information and contingent liabilities.

## **5 International and local accounting standards**

Nineteen reporting requirements were selected covering all the disclosure requirements dealt with in AC 127 and IAS 34. The selected requirements also include reporting requirements for other relevant local accounting standards which, in our opinion, will enhance the quality of interim reports. The following reporting issues were selected for the purposes of the survey, because they were measurable in terms of the information available in the interim financial reports selected:

### **General:**

Issue 1: The method adopted for the preparation of the interim financial report is disclosed (AC 000).

Issue 2: Comparative amounts (AC 127 par. 21) and (IAS 34 par. 20) are stated.

**Income statement:**

Issue 3: Headline earnings per share is disclosed and a reconciliation of headline earnings is provided (AC 306).

Issue 4: Basic and diluted earnings per share are presented on the face of the income statement (AC 127 par. 12) and (IAS 34 par. 11).

**Statement of changes in equity:**

Issue 5: A condensed statement showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners should be furnished (AC 127par. 09(c)) and (IAS 34 par. 8(c)).

**Cash flow statement:**

Issue 6: A condensed cash flow statement should at least include the headings and subtotals of cash flows, namely cash flows from operating activities, investment activities and financing activities (AC 127 par. 09(d) and par. 11) and (IAS 34 par. 8(d) and par. 10).

**Selected note disclosure:**

Issue 7: A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements should be furnished (AC 127 par. 17(a)) and (IAS 34 par. 16(a)).

Issue 8: If the accounting policies and methods of computation have been changed, a description of the nature and effect of the change should be furnished (AC 127 par. 17(a)) and (IAS 34 par. 16(a)).

Issue 9: Explanatory comments about the seasonality or cyclicity of interim operations should be included (AC 127 par. 17(b)) and (IAS 34 par. 16(b)).

Issue 10: 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 (AC 127 par. 17(c)) and (IAS 34 par. 16(c)).

Issue 11: The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimate of amounts reported in prior years; if those changes have a material effect in the interim period, should be disclosed (AC 127 par. 17(d)) and (IAS 34 par. 16(d)).

Issue 12: Issuance, repurchases and repayments of debt securities should be stated (AC 127 par. 17(e)) and (IAS 34 par. 16(e)).

- Issue 13: Issuance, repurchases and repayments of equity securities should be stated (AC 127 par. 17(e)) and (IAS 34 par. 16(e)).
- Issue 14: Dividends paid (aggregate or per share) separately for ordinary shares and other shares should be stated (AC 127 par. 17(f)) and (IAS 34 par. 16(f)).
- Issue 15: Segment revenue and segment results for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting, should be included (AC 127 par. 17(g)) and (IAS 34 par. 16(g)).
- Issue 16: Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period should be disclosed (AC 127 par. 17(h)) and (IAS 34 par. 16(h)).
- Issue 17: The effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations should be disclosed (AC 127 par. 17(i)) and (IAS 34 par. 16(i)).
- Issue 18: Changes in contingent liabilities or contingent assets since the last annual balance sheet date should be disclosed (AC 127 par. 17(j)) and (IAS 34 par. 16(j)).
- Issue 19: Disclosure of narrative information regarding the performance of the enterprise since the last annual reporting date is regarded as more useful than relatively insignificant updates to information already reported in the notes in the most recent annual report (AC 127 par. 16) and (IAS 34 par. 15).

The results are divided into two categories namely those that could be established with certainty (refer to Table 3) and those that could not, due to insufficient information (refer to Table 4).

## Results of the surveys

Table 3: Percentage adherence to accounting standards

No	Reporting issues	Notes	1998	1997
1	Method adopted for the preparation of the interim financial report	1	24%	32%
2	Stating comparative amounts - Balance sheet: For the immediately preceding financial year - Income statement: For the comparable interim period of the immediately preceding financial year as well as the immediately preceding full financial year - Statement of changes in equity: For the comparable interim period of the immediately preceding financial year - Cash flow statement: For the comparable interim period of the immediately preceding financial year	2	100%  100% 4% 82%	100%  Not tested 94%
3	Headline earnings per share and a reconciliation of headline earnings	3	62%	52%
4	Basic and diluted earnings per share stated on the face of the income statement		92%	94%
5	Condensed statement of changes in equity		4%	Not tested
6	Minimum content of condensed cash flow statement	2	78%	76%
7	Statement on accounting policies and methods of computation in the body of the report	1	16%	24%
8	Description of the nature and effect of changes in accounting policies and methods of computation		100%	88%
	Issues 9 to 13 and 15 to 18 (Refer to table 4) Issue 14 (Refer to table 2, requirement 10)			
19	Narrative information regarding the performance of the enterprise since the last reporting date		98%	100%

**Table 4: Number of companies that adhere to the relevant accounting standards**

No	Reporting issues	Notes	1998	1997
9	Explanatory comments regarding seasonality or cyclicity of interim operations - Adherence - Uncertain TOTAL		7 43 <b>50</b>	15 35 <b>50</b>
10	Disclosure of items that are unusual because of their nature, size or incidence - Adherence - Non-adherence - Uncertain TOTAL	4	1 35 14 <b>50</b>	1 28 21 <b>50</b>
11	Nature and amounts of changes in estimates - Adherence - Uncertain TOTAL		0 50 <b>50</b>	Not tested
12	Issuance, repurchases and repayments of debt securities - Adherence - Non-adherence - Not applicable - Uncertain TOTAL		2 3 3 42 <b>50</b>	1 6 3 40 <b>50</b>
13	Issuance, repurchases and repayments of equity securities - Adherence - Non-adherence - Not applicable - Uncertain TOTAL	5	0 0 24 26 <b>50</b>	1 2 25 22 <b>50</b>
14	(Refer to table 2 requirement 10)			
15	Segment revenue and segment results for business segments or geographical segments - Adherence - Non-adherence - Uncertain TOTAL		12 23 15 <b>50</b>	13 24 13 <b>50</b>

No	Reporting issues	Notes	1998	1997
16	Subsequent events - Adherence - Uncertain TOTAL		12 38 <b>50</b>	22 28 <b>50</b>
17	The effect of changes in the composition of the enterprise during the interim period - Adherence - Non-adherence - Uncertain TOTAL		24 0 26 <b>50</b>	29 1 20 <b>50</b>
18	Changes in contingent liabilities or contingent assets since the last annual balance sheet date - Adherence - Non-adherence - Uncertain TOTAL	6	26 2 22 <b>50</b>	14 12 24 <b>50</b>

#### Notes to Tables 3 and 4

- 1 An important implication of one of the qualitative characteristics of financial statements, namely comparability, is that users of financial statements should be informed about the accounting policies adopted by an entity (SAICA 1990, par. 40). One of the major issues addressed in the Issues Paper (IASC 1996) was that of the method to be used in preparing interim financial reports. Two methods used in practice on that stage were under consideration, namely the integral method and the discrete (also called the stand-alone or year-to-date) method. AC 127 par. 17 (compare IAS 34 par. 16) makes it clear that the year-to-date method should be used to measure and recognise financial information. If a company's interim financial report complies with AC 127, this fact should be disclosed to make users aware of the principles applied in preparing the interim financial report without the need to enumerate those principles (compare IASC 1997b, par. 21-22; IASC 1998 par. 19; SAICA 1998c par. 20).

Twelve companies (1997 - 16) included a statement, either in the interim financial report or as part of the public announcement regarding the audit review, that the interim financial statements complied with GAAP - implying that the year-to-date method was used. Only eight companies (1997 - 12) provided the relevant information in the interim financial report itself.

- 2 A total of 42 Companies (1997 - 47) submitted a cash flow statement. One company did not give comparative amounts. Of the companies that submitted a cash flow statement only 39 (1997 - 38) provided the cash flow information as required by AC 127 par. 11.
- 3 Accounting opinion AC 306 on headline earnings, requires headline earnings to be disclosed in addition to earnings per share by all entities that normally disclose earnings per share (SAICA 1995, par. 06, 13 and 14). Paragraph 76(1)(h) of Schedule 4 of the Companies Act requires earnings per share to be disclosed in the interim financial report (compare with requirement 11 in table 2). It therefore follows that headline earnings should also be disclosed in the interim financial report.

An itemised reconciliation between headline earnings and earnings used in the calculation of earnings per share in accordance with AC 104 – *Earnings per share*, should be provided in terms of AC 306. The reconciliation should appear in the annual financial statements, the interim financial report and preliminary profit announcements (SAICA 1995, par. 15). The relationship between headline earnings per share and earnings per share is better understood if a reconciliation between the two figures is provided. Of the 43 companies (1997 - 35) that disclosed headline earnings per share, only 31 (1997 - 26) provided a reconciliation of headline earnings per share.

- 4 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, par. 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 financial reports. Although the specific requirement contained in AC 127 par. 17(c) addresses the effect of unusual items on various items in the financial statements, namely assets, liabilities, equity, net income and cash flows, our survey focuses only on separately disclosable items within profit or loss from ordinary activities, as discussed in accounting opinion AC 307 (SAICA 1996a:1-3).

Of the 36 (1997 - 29) companies that reported items which are disclosable because of their nature, size or incidence, 35 (1997 - 28) seem to be ignorant of the latest developments in GAAP on this issue (refer to AC 307 - SAICA 1996a).

- 5 In South Africa, until 1 July 1999, ordinary share capital could not be repurchased or repaid without a court order (Companies Act, section



84). For this reason we only applied the principle concerned to preference shares in the survey.

A total of 26 companies provided insufficient information regarding share capital movements. There was no movement on preference share capital, since the previous balance sheet date, of the nine companies that disclosed preference share capital. The remaining 15 companies only had ordinary share capital in issue.

The disclosure of movements between the opening and closing balances of equity securities is equally significant to interim financial reporting purposes and annual financial statements. AC 127 par. 9(c) requires the inclusion in the interim financial report of a condensed statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners. Equity can be interpreted as all share capital including preference shares. If this is the case, issue 13 becomes a duplication of what is already required by paragraph 17(e) in AC 127 (SAICA 1998c).

- 6 A total of 28 (1997 - 26) companies disclosed contingent liabilities in terms of Schedule 4 of the Companies Act (refer to requirement 21 in table 2). Twenty-six (1997 - 12) of these companies provided information on the changes in contingent liabilities or contingent assets.

## 6 Conclusion – International and local accounting standards

In contrast to expectations that compliance with the relevant accounting standards would have increased over the two-year period under review, it slightly decreased. By stating that the interim financial report complies with AC 127, most of the uncertainties regarding the absence of certain information (refer to Table 4) would be resolved.

Preparers of interim financial reports should pay attention to the following aspects:

- A statement of changes in equity should be provided.
- When headline earnings per share is stated, the reconciliation to earnings should also be given.
- The fact that the interim financial report complies with GAAP and with AC 127 should be stated.

By furnishing the above information, compliance with local and international accounting standards would improve significantly. This would make the information contained in the interim financial reports more useful and reliable to the users thereof.

## Annexure A: Alphabetical list of companies

	1996	1997	1998
1	AECI Ltd	AECI Ltd	AECI Ltd
2	African Oxygen Ltd	African Oxygen Ltd	African Oxygen Ltd
3	Anglo American Industrial Corp Ltd	Anglo American Industrial Corp Ltd	Anglo American Industrial Corp Ltd
4	Anglo Vaal Industrial Ltd	Anglo Vaal Industrial Ltd	Anglo Vaal Industrial Ltd
5	Barlow Ltd	Barlow Ltd	Barlow Ltd
6	C. G. Smith Ltd	C. G. Smith Ltd	C. G. Smith Ltd
7	Del Monte Royal Foods Ltd	Del Monte Royal Foods Ltd	Del Monte Royal Foods Ltd
8	Edgars Stores Ltd	Edgars Stores Ltd	Edgars Stores Ltd
9	Engen Ltd	Engen Ltd	Engen Ltd
10	Foodcorp Ltd	Foodcorp Ltd	Foodcorp Ltd
11	Foschini Ltd	Foschini Ltd	Foschini Ltd
12	Highveld Steel & Vanadium Corp Ltd	Highveld Steel & Vanadium Corp Ltd	Highveld Steel & Vanadium Corp Ltd
13	Imperial Holdings Ltd	Imperial Holdings Ltd	Imperial Holdings Ltd
14	Iscor Ltd	Iscor Ltd	Iscor Ltd
15	JD Group Ltd	JD Group Ltd	JD Group Ltd
16	Kersaf Investments Ltd	Kersaf Investments Ltd	Kersaf Investments Ltd
17	Malbak Ltd	Malbak Ltd	Malbak Ltd
18	McCarthy Retail Ltd	McCarthy Retail Ltd	McCarthy Retail Ltd
19	Metro Cash and Carry Ltd	Metro Cash and Carry Ltd	Metro Cash and Carry Ltd
20	Nampak Ltd	Nampak Ltd	Nampak Ltd
21	Pepkor Ltd	Pepkor Ltd	Pepkor Ltd
22	Pick 'n Pay Stores Ltd	Pick 'n Pay Stores Ltd	Pick 'n Pay Stores Ltd
23	Plate Glass & Shatterprufe Industries Ltd	Plate Glass & Shatterprufe Industries Ltd	Plate Glass & Shatterprufe Ind Ltd
24	Polifin Ltd	Polifin Ltd	Polifin Ltd
25	Premier Group Ltd	Premier Group Ltd	Premier Group Ltd
26	Pretoria Portland Cement Company Ltd	Pretoria Portland Cement Company Ltd	Pretoria Portland Cement Company Ltd
27	Rembrandt Group Ltd	Rembrandt Group Ltd	Rembrandt Group Ltd

30	Sappi Ltd	Sappi Ltd	Sappi Ltd
31	Sasol Ltd	Sasol Ltd	Sasol Ltd
32	Shoprite Holdings Ltd	Shoprite Holdings Ltd	Shoprite Holdings Ltd
33	South African Druggists Ltd	South African Druggists Ltd	South African Druggists Ltd
34	Sun International (South Africa) Ltd	Sun International (South Africa) Ltd	Sun International (South Africa) Ltd
35	The Bidvest Group Ltd	The Bidvest Group Ltd	The Bidvest Group Ltd
36	The South African Breweries Ltd	The South African Breweries Ltd	The South African Breweries Ltd
37	The Tongaat-Hulett Group Ltd	The Tongaat-Hulett Group Ltd	The Tongaat-Hulett Group Ltd
38	Tiger Oats Ltd	Tiger Oats Ltd	Tiger Oats Ltd
39	Wooltru Ltd	Wooltru Ltd	Wooltru Ltd
	<b>Selected twice</b>	<b>Selected twice</b>	<b>Selected twice</b>
	Alpha Ltd (40)	Alpha Ltd (40)	-
	ICS Holdings Ltd (41)	-	ICS Holdings Ltd (40)
	Johnnies Industrial Corporation Ltd (42)	-	Johnnies Industrial Corporation Ltd (41)
	Kohler Ltd (43)	Kohler Ltd (41)	-
	Murray & Roberts Holdings Ltd (44)	Murray & Roberts Holdings Ltd (42)	-
	Pep Ltd (45)	Pep Ltd (43)	-
	Sentrachem Ltd (46)	Sentrachem Ltd (44)	-
	Toyota South Africa Ltd (47)	-	Toyota South Africa Ltd (42)
		Illovo Ltd (45)	Illovo Ltd (43)
		Nasionale Pers Bpk (46)	Nasionale Pers Bpk (44)
	<b>Selected once</b>	<b>Selected once</b>	<b>Selected once</b>
	C. G. Smith Foods Ltd (48)	Distillers Corporation (SA) Ltd (47)	Adcock Ingram Ltd (45)
	Consol Ltd (49)	Dorbyl Ltd (48)	Cadbury Schweppes (SA) Ltd (46)
	Liblife Statagic Investments Ltd (50)	Siltek Ltd (49)	Dimension Data Holdings Ltd (47)
		Stellenbosch Farmers' Winery Ltd (50)	New Africa Investments Ltd (48)
			Persetel Q Data Holdings Ltd (49)
			Woolworths Holdings Ltd (50)

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