

# GUIDE ON THE PREPARATION OF FINANCIAL STATEMENTS FOR SOLE PROPRIETORS

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1. INTRODUCTION:.....	2
2. BALANCE SHEET:.....	3
i) Accounting equation .....	3
ii) Assets.....	3
iii) Liabilities .....	3
iv) Owners Equity .....	4
3. INCOME STATEMENT: .....	4
i) Income .....	5
ii) Expenses.....	5
4. SOLE PROPRIETORS WHO DID NOT TRADE:.....	5
5.SUBMISSION:.....	6
6. WHICH SOLE PROPRIETORS NEED TO SUBMIT AUDITED FINANCIAL STATEMENTS.....	8
7. EXTENSIONS .....	8
8. STATUTORY FINANCIAL SOUNDNESS REQUIREMENTS: .....	9
9. EXEMPTION.....	10
10. TEMPLATE OF FINANCIAL STATEMENTS.....	11

## 1. INTRODUCTION:

In terms of Section 19 of the FAIS Act all authorised Financial Services providers are required to submit their financial statements to the FSB on an annual basis. A sole proprietor must submit their annual financial statements to the FAIS Department within 4 months of their financial year end. If for example your financial year end is 28 February then you would need to submit your financials to the FSB by no later than 30 June of each year.

### **What does financial year end refers to?**

Financial year end is a 12 month period and the financial statements are prepared as at the last day in that period. When one refers to e.g. 2012 financials, they refer to the year in which the financial period ended i.e. 28 February 2012

The information contained in this document has been put together to assist sole proprietors in compiling their own financial statements. An example is attached to this document which you can use to draw up your income statement and balance sheet.

**This template is only for use by sole proprietors and is merely a guideline and sole proprietors are not required to make use of the template.** If you select to use the template then you are more than welcome to adapt the template to your own business and circumstances. (the template is also available on our website)

**VERY IMPORTANT:** This template may only be used by a Category I sole proprietor who does not receive client funds and / or premiums.

If you are a sole proprietor that receives client funds or premiums you will not be able to use this template as you are required to submit annual financial statements which have been prepared by an auditor. If you require more information in this regard please download a copy of the FAIS newsletter volume 2 which is available on our website – [www.fsb.co.za](http://www.fsb.co.za)

### **What does receive client funds and/or premiums mean?**

When a FSP acts as an intermediary between the service provider and the clients and where the money is held in the FSPs bank account or paid into a separate bank account (trust account) of the FSP.

## 2. BALANCE SHEET:

A balance sheet summarises your assets, equity and liabilities at the financial year end.

E.g. as at 28 February 2012.

### i) Accounting equation

The balance sheet is based on the following fundamental accounting equation

Assets = Owners Equity + Liabilities (A = OE + L)

When compiling your balance sheet you need to keep the accounting equation in mind at all times.

As indicated above Assets = owner's equity + liabilities

Example your assets were R10 000 and your liabilities were R7 000 then your owner's equity would be R3 000 (R10 000 = R 3000 + R7 000)

### ii) Assets

An asset is something that belongs to the FSP. You get two types of assets namely:

- fixed assets; and
- current assets

A fixed asset is an asset that cannot easily be converted into cash and are generally not intended for sale (E.g. property, office furniture, equipment)

Current assets are liquid, meaning they can easily be converted to cash, assets such as cash or bank accounts.

### iii) Liabilities

A liability is an amount that you owe to another business or person, the debts of the business. You get two types of liabilities namely:

- long term liabilities; and

- current liabilities

A long term liability is an amount that you owe to another person or business and repayable over a period longer than one year. An example is a mortgage bond.

As soon as a portion of this is payable within the next financial year it becomes a current liability. A current liability is an amount that is repayable in less than one year. An example of a current liability is a bank overdraft

#### iv) Owners Equity

Owner's equity represents the interest the owner has in a business. It can also be referred to as the net of assets and liabilities of the business.

### 3. INCOME STATEMENT:

The Income Statement presents the results of the entities operations during the financial year end. The income statement is a tool for a business to give an indication of your profits / losses over a specific period of time. This period of time is usually 12 months and would stretch from the first day of your financial year to the last day of the financial year E.g. 1 March 2009 to 28 February 2010.

Please keep in mind when compiling your income statement that you should only complete information relevant to your business.

For example you:

- **cannot** include your children's school fees as an expense on your income statement as it is not applicable to your business;
- **should** include your levies that you paid and any stationary bought for the business as an expense on your income statement;

The equation to describe the income is

Net Income = Income (revenue) – Expenses

**i) Income** is money generated by a FSP by means of services rendered or goods sold  
i.e. it is the money brought into your FSP, example commission received.

**ii) Expenses** are incurred in the general running of the business  
i.e. costs related to the running of the business, example levies paid.

The FSPs Profit / Loss before tax are calculated by taking your total income amount and subtracting your total expenses amount. This will give you an indication of how much money you made before having to pay tax.

Once you have subtracted the amount that you owe in respect of tax you will be left with the amount of money that you actually made over the past 12 months – this is called your Profit / Loss after tax.

#### **4. SOLE PROPRIETORS WHO DID NOT TRADE:**

A sole proprietor can be defined as a type of business entity where a natural person is licensed in its own name as a financial services provider and where there is no legal distinction between the affairs of the natural persons and the business.

This means that:

- i. All profits and all losses accrue to the owner (subject to taxation).
- ii. All assets of the business are owned by the proprietor and all debts of the business are their debts and they must pay them from their personal resources.

As a natural person, a sole proprietor will have assets and liabilities in their own name, even if they are limited.

For example:

- Assets: house, car/s, office equipment, cash in your bank account, investments etc.
- Liabilities: bond, credit card debt, any clothing accounts, outstanding vehicle financing etc.

A sole proprietor will usually earn some sort of income from their business and will definitely have monthly expenses in respect of the business.

For example:

- Income: commissions (ongoing or once off), fees received, interest earned etc.
- Expenses: stationery costs, telephone costs, internet costs and all authorised FSPs are required to pay annual levies,

Due to the fact that there is no legal distinction between the owner and the business it cannot be claimed that the business of the sole proprietor was dormant during the financial year and / or that there are no financial statements available for submission.

In conclusion, this means that a sole proprietor must submit financial statements to this Office on an annual basis even if the sole proprietor did not use the FSP license during the financial year.

## **5. SUBMISSION:**

### **What must be submitted?**

The completed and signed income statement and balance sheet must be submitted

### **When must the financial statements be submitted?**

It must be submitted on or before 4 months after the financial year end of the FSP  
For example: the financial year end is 28 February, the financial statements must be submitted on or before 30 June

### **To whom must you submit the financial statements?**

The financial statements must be submitted to the FAIS Supervision Department

### **How do you submit the financial statements?**

Financial statements can be submitted to the Registrar via the following methods:

- i. **Preferred method** - electronic submission via the FAIS Online system. To submit the financial statements, log onto the FAIS Online system on the FAIS Page on the FSB's website. The FSP must capture the information on the system and attach a copy of the signed financial statements as an annexure. All key individuals and compliance officers can use the FAIS Online system. For assistance please refer to the FAIS Online manual or send an email to [faisfins1@fsb.co.za](mailto:faisfins1@fsb.co.za).
  
- ii. **Post** - the Financial Statements can be posted. If the financial statements are posted, it remains the FSPs responsibility to prove that it has been sent. It is therefore suggested that FSPs send all post per registered mail and retain the proof (tracking number) thereof. FSPs must allow for sufficient time to ensure that the statements are received by the Registrar before the due date. The statements must be addressed to:

The Registrar of Financial Services Providers  
**Attention: FAIS Supervision- Financial Statements**  
PO Box 35655  
Menlo Park  
0102

- iii. **Hand Delivery** - the financial statements can be hand delivered or couriered to:

The Registrar of Financial Services Providers  
**Attention: FAIS Supervision Department, Financial Statements**  
Riverwalk Office Park  
Block B  
41 Matroosberg Road  
Ashlea Gardens Extension 6  
Pretoria

Financial statements send via facsimile **will not be accepted** and such statements will not be regarded as having been submitted.

## 6. WHICH SOLE PROPRIETORS NEED TO SUBMIT AUDITED FINANCIAL STATEMENTS?

- i. Category I sole proprietors that receive short term insurance premiums in terms of Section 45 of the Short Term Insurance Act;
- ii. Category I sole proprietors who receive any client funds and / or premiums;
- iii. Category II sole proprietors;
- iv. Category IV sole proprietors

NOTE: The **only** Category I sole proprietors who receive client funds and / or premiums that are exempted from preparing audited financial statements on an annual basis would be a sole proprietor who is approved in Long Term A and / or Friendly Society benefits **only**.

These sole proprietors can submit financial statements and a Section 19(3) report prepared by an accounting officer.

## 7. EXTENSIONS

In terms of section 4(1) of the FAIS Act, FSPs may apply in writing to the Registrar for an extension to the period in which they must submit their financial statements. Such an application must be fully motivated i.e. you must provide a detailed explanation as to why you cannot submit your annual financial statements within 4 months of your financial year-end.

An application for extension can be submitted in the following manner:

- i. **Preferred method** - a request submitted electronically via the FSB's **FAIS Online system**. To submit a request for extension, log onto the FAIS Online system on the FSB's website and apply for extension online.
- ii. Send an email to [faisfins1@fsb.co.za](mailto:faisfins1@fsb.co.za) It is important that you include the word "Extension" as well as the FSP number in the subject line in order to expedite the request

- iii. Send a facsimile to (012) 422 2973. Specify the FSP number and the word “Extension” on the front page of the fax. Please **do not use any other fax number**.

**VERY IMPORTANT:**

All requests for extension must be done 15 days **prior** to the submission date.

Please note that no extension for submission of financial statements will be granted if an FSP’s compliance reports and/or financial statements for previous years are outstanding.

Only one extension will be granted for a particular financial year

## **8. STATUTORY FINANCIAL SOUNDNESS REQUIREMENTS:**

Please note that new statutory financial soundness requirements were published under the new Fit and Proper Requirements (Board Notice 106 of 2008).

In terms of this Board Notice a sole proprietor who is a Category I FSP and doesn’t receive client funds and / or premiums will need to ensure that their assets (excluding goodwill and other intangible assets and investments in related parties) must at all times exceed their liabilities (excluding any validly subordinated loans). What this means for you as a Category I sole proprietor who doesn’t receive client funds is that your Assets (A) will need to be more than your Liabilities (L) on your balance sheet.

### **When did the new statutory financial soundness requirements come into effect?**

- All sole proprietors granted a license after 31 December 2008 have to comply with the requirements from day one (i.e. from date of approval)
- All sole proprietors who were granted a license before 31 December 2008 have 24 months i.e. until 31 December 2010 to comply.

**VERY IMPORTANT:** The statutory financial soundness requirements described above are only for Category 1 sole proprietors who don’t receive client funds and / premiums.

If you are a sole proprietor and receive client funds and / or premiums then there will be different statutory financial soundness requirements that you will need to comply with

## 9. EXEMPTION

FSPs in respect of category I who are sole proprietors (natural persons) and do not receive premium or client funds or hold client assets are not required to:

- submit audited financial statements; or
- appoint an accounting officer;

Sole proprietors are required to register for the exemption and submit a copy of the application form to [Faisfins4@fsb.co.za](mailto:Faisfins4@fsb.co.za)

FSPs who are approved in subcategory 1.1 and / 1.19 only (funeral business and friendly societies) and receive client premiums are not required to submit audited financial statements but need to:

- register for the exemption;
- submit financial statements prepared by an accounting officer
- submit a section 19(3) report prepared by an accounting officer

Sole proprietors are required to submit annual financial statements that they may draw up themselves. Examples and guidelines are available on the FSB website, on the FAIS page [and examples have been included under section 10 to this document.](#)

**10. TEMPLATE**

**BALANCE SHEET OF .....AS AT..... 20.....**

**FSP NUMBER: .....**

**ASSETS**

**NON CURRENT ASSETS**

MOTOR VEHICLES  
 INVESTMENTS  
 FIXED PROPERTY  
 COMPUTER EQUIPMENT  
 OFFICE EQUIPMENT

R
R
R
R
R
R

**CURRENT ASSETS**

BANK  
 PETTY CASH  
 VAT RECEIVABLE  
 COMMISION RECEIVABLE

R
R
R
R

**TOTAL ASSETS**

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R
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**EQUITY AND LIABILITIES**

OWNERS EQUITY

R
---

**NON CURRENT LIABILITIES**

MORTGAGE BOND  
 LONG TERM LOAN

R
R
R

**CURRENT LIABILITIES**

CREDITORS  
 VAT PAYABLE  
 BANK OVERDRAFT  
 VEHICLE FINANCE  
 ACCOUNTS PAYABLE

R
R
R
R
R

**TOTAL EQUITY AND LIABILITIES**

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R
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**INCOME STATEMENT OF ..... FOR THE PERIOD ENDING ..... 20...**

**FSP NUMBER:** .....

**INCOME**

R

COMMISSION RECEIVED

R

FEES RECEIVED

R

INTEREST RECEIVED

R

**EXPENSES**

R

ADVERTISING

R

BANK CHARGES

R

CELLPHONE

R

COMMISSIONS PAID TO

R

COMPLIANCE OFFICER FEES

R

COMPUTER EXPENSES

R

ENTERTAINMENT

R

FINES AND PENALTIES

R

FSB LEVIES

R

INSURANCE

R

INTERNET

R

MAGAZINES

R

MARKETING

R

MEMBERSHIP FEES

R

PETROL

R

POSTAGE

R

PRINTING & STATIONERY

R

RENT

R

REPAIRS & MAINTENANCE

R

SALARIES

R

TELKOM PHONE

R

TRAINING

R

WAGES

R



WATER AND ELECTRICITY  
OTHER

R
R

**PROFIT / LOSS BEFORE TAX**

\_\_\_\_\_ **R**

TAX PAID

\_\_\_\_\_ **R**

**PROFIT / LOSS AFTER TAX**

===== **R**

I CONFIRM THAT NO CLIENT FUNDS AND / OR PREMIUMS ARE RECEIVED BY MY FSP.

SIGNATURE .....

DATE: .....