IFRS for SMEs: the current perception of South African practitioners

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Declaration

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Commerce at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere for the purpose of being awarded a degree or for examination purposes at any other university.

Waheeda Mohamed

02 August 2017
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Abstract

The purpose of this study was to obtain an understanding of the current perceptions of South African practitioners regarding the application of the IFRS for SMEs in the South African SME sector. This understanding would help assess whether the initial scepticism displayed when the IFRS for SMEs was first introduced in South Africa, has changed, and would also help assess what the drawbacks and benefits of the application of the IFRS for SME’s in South Africa are.

The perceptions of South African practitioners were analysed by reference to two phases- first according to the results of a structured questionnaire that was issued to a sample of SAIPA practitioners, and then according to the results of semi-structured interviews conducted with thirteen South African practitioners.

The primary conclusion drawn is that there appears to be an overall acceptance of the IFRS for SMEs in South Africa although there are also certain challenges of its application and certain aspects that affect the value of using the IFRS for SMEs as an accounting reporting framework. The uniformity that the IFRS for SMEs brings seems to be one of the more significant advantages. Factors, however, such as the age of the population of the practitioners; the use of automated software systems; and the legislative requirements regarding the application of the IFRS for SMEs, affect the relative merit of using the standard.

Keywords: practitioners; IFRS for SMEs
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Chapter 1: Introduction

1.1 Purpose of the study

The purpose of this research study was to obtain an understanding of the current perceptions of South African practitioners of the International Financial Reporting Standards for Small-Medium sized Entities (IFRS for SMEs) as a follow-up to a prior South African study that was conducted by Van Wyk and Rossouw (2009). In their study, Van Wyk and Rossouw (2009) investigated whether or not South African accounting practitioners believed that the then proposed IFRS for SMEs would ease the burden of financial reporting. The results of the study indicated that the simplifications contained in the IFRS for SMEs, especially those relating to a relaxation of the disclosure requirements, may not be sufficient to meet the financial reporting needs of smaller entities. The study also identified a relatively small pool of users of the financial statements of SMEs, thus suggesting that the financial statements produced for SMEs may be for limited purposes only. The IFRS for SMEs constitute a framework for the preparation of general purpose financial reports in order to meet the needs of a variety of users who are not in a position to demand tailor made reports. It was, therefore, recommended that a formal set of differential reporting standards be developed for smaller entities (Van Wyk and Rossouw, 2009). Initiatives aimed at the development of a simpler framework was promulgated but were subsequently abandoned on the basis that the IFRS for SMEs and the proposed simpler framework were too similar. Consequently, in South Africa, there are two formal, internationally recognised accounting frameworks only, namely, full IFRS and IFRS for SMEs.

As in the case of the study conducted by Van Wyk and Rossouw (2009), the researcher in this study believed that the insights of practitioners would reveal useful and valuable information about the application of IFRS to SMEs in South Africa because they are involved in the reporting of the financial information of entities, including SMEs. It was therefore deemed necessary for the purpose of the study to define what is meant by “practitioner”. In the context of this report, a practitioner is defined as a professional member in practice who has practical experience of the application of the IFRS to SMEs by virtue of their experience with SMEs. These practitioners include auditors, reviewers, preparers and analysts of financial statements prepared according to the IFRS for SMEs, and who may, although they are not required to, belong to a profession. As such practitioners in this context may include professional accountants (SA) or Chartered Accountants (SA).
This study was exploratory in nature and adopted an interpretative approach. Interpretive research usually adopts a qualitative approach (Coetsee, 2011). Qualitative research focuses on the discovery of common emergent themes as opposed to the interpretation of data (Donalek and Soldwisch, 2004). This study used a mixed methodology approach which consisted of two distinct phases. Firstly, the opinions of a sample of SAIPA practitioners were obtained through the administration of a survey and then analysed quantitatively and thereafter the qualitative results of in-depth discussions held with a sample of thirteen practitioners were explored. Although more weighting was given to the qualitative phase as compared to the quantitative phase, the results of both phases enabled the researcher to gain a detailed understanding of the current perception of practitioners in South Africa and to gauge whether or not these perceptions differed from those expressed in prior studies. It was the opinion of the researcher that neither phase in isolation could have provided the level of understanding acquired by the researcher. Furthermore, at the time of writing the report, the researcher was not aware of any study that has, since the adoption of the IFRS for SMEs in South Africa, explored the opinions of practitioners in such detail as did this study.

1.2 Context and significance of study

Several commentators have noted that existing research on IFRS for SMEs is scarce (Tudor and Mutiu, 2008; Eierle and Schönefeldt, 2010; Aboagye-Otchere and Agbeibor, 2012; Uyar and Güngörmüş, 2013). Prior research in South Africa into the IFRS for SMEs has focused on their early adoption and relevance in the South Africa context (Stainbank, 2008; Van Wyk and Rossouw, 2009; Schutte and Buys, 2011a; Van Wyk and Rossouw, 2011; Kriel, 2014). South Africa adopted the IFRS for SMEs in 2009. Prior to that date South Africa had been involved in the field testing of the proposed standard by adopting the exposure draft of the IFRS for SMEs (SAICA, 2012). It is generally believed that the time lapse of 10 years after its initial introduction in South Africa allowed practitioners a sufficient length of time to familiarise themselves with the intricacies of the framework, including acquiring an understanding of both its benefits and drawbacks. In the meantime the SME landscape in South Africa has also changed in a number of ways. The global financial crisis of 2008 and 2009, the new administration changes in government (SEDA, 2016) and effective as of May 2011 the inclusion of the IFRS for SMEs in legislation in terms of the Companies Act no 71 of 2008 are among the important factors that have impacted on the SME sector. It was thus within this context that this study explored the perceptions of practitioners in the contemporary, South African, SME market.
SMEs may play an important role in the development of a country’s economy, particularly in relation to the creation of employment opportunities (DTI, 2008; Bartůňková, 2012). The global economic crisis in recent years has triggered a knock-on effect in South Africa which in turn has increased the rate of unemployment in the country (DTI, 2013). In a country such as South Africa it becomes important that support be given to the promotion of SMEs to enable them to have a meaningful impact on the South African economy as a whole. Despite the low-growth economic environment prevalent in South Africa, the results of the 2016 National Small Business Survey showed that a large portion of small businesses were planning to expand their operations by seeking a broader customer base and increasing turnover (NSBC, 2016). A further illustration of growth prospects is grounded in results which show that a relatively large portion would consider expanding operations crossbroader (NSBC, 2016). This highlights the importance of SMEs from a global standpoint.

The DTI’s mandate also includes promoting the level of employment in South Africa while, at the same time, fostering the country’s economic growth rate (DTI, 2013). In order to do this the DTI has recognised the need to create an environment which balances good governance and effective regulation with the economic flexibility required to promote the economy (DTI, 2013). The accountability and reporting of an SME are some of the important factors that may contribute to the success of the SME. The provisions of the Companies Act 71 of 2008, which became effective in May 2011, provided for a regulatory framework that, among other things, enhanced governance and provided clarity on the accounting frameworks for businesses. In terms of the Companies Act 71 of 2008, the choice of accounting frameworks is between the full IFRS or the IFRS for SMEs (Act, 2008).

As in any accounting framework, the accounting practices contained in the framework for SMEs should provide information that is relevant and complete, thus enabling users to make economic decisions (Maseko and Manyani, 2011). In July 2009 the International Accounting Standards Board (IASB) issued the IFRS for SMEs – a simplified version of the International Financial Reporting Standards (IFRS) and designed to meet the needs of SMEs (IASB, 2015b). Although, as argued by Van Wyk and Rossouw (2009), the adoption of the IFRS for SMEs was a step in the right direction the adoption was also, arguably, premature as evidenced by the fact that the South African Institute of Chartered Accountants (SAICA) subsequently called for further simplification of the IFRS for SMEs and later began a process of developing micro GAAP (Schutte and Buys, 2011b; Ludolph, 2012).

In 2012 the IASB embarked on a comprehensive, initial review of the IFRS for SMEs to assess the experiences of entities that had implemented the standards on SME. The updated version of the
IFRS for SMEs is currently available. The majority of the changes made were intended to clarify existing requirements thereby reducing the burden of financial reporting by removing doubt. Three changes were significant in relation to policy choices and decreased the burden of resistance of adoption of the IFRS for SME’s. These three policy changes included the addition of the option to use the revaluation model for property, plant and equipment; the alignment of the main recognition and measurement requirements for deferred income tax with IAS 12, and the alignment of the main recognition and measurement requirements for the exploration and evaluation of assets with IFRS 6 (IASB, 2015b). These changes are discussed in greater detail in section 2.7.

The financial reporting framework applicable to SMEs may be said to be a relevant area of accounting research in view of the worldwide debate on the necessity of creating simplified frameworks for such entities – the so-called “differential reporting” regime (Quagli and Paoloni, 2012). Within the South African context initiatives for a framework for smaller, non-public entities, commonly referred to as micro GAAP were considered in 2008 (Ludolph, 2012). More recently the South African Financial Reporting Standards Council (FRSC) has proposed a reduced disclosure framework applicable to subsidiary companies, the parent of which applies full IFRS (FRSC, 2016).

This study was significant as it was envisaged that it would contribute to the body of existing literature in a number of ways. Firstly, it encapsulated the practitioners’ views on the IFRS for SMEs thereby contributing to the ongoing discussion on the benefits and challenges of applying the IFRS for SMEs within a South African setting. Secondly, it measured whether or not the initial scepticism expressed by practitioners regarding the IFRS for SMEs had changed since prior studies. Lastly, in view of the recent issue of the amended version of the IFRS for SMEs, this was one of the first studies to consider the impact of these changes on reporting for SMEs. All these aspects are important to the various regulatory bodies, such as SAIPA and SAICA, and which are actively involved in the promotion of differential reporting in South Africa.

1.3 Research questions

As discussed above, this research study aimed to investigate the perceptions of South African practitioners regarding the implementation of the IFRS for SMEs. This research objective was encapsulated in the following research questions:

R1: What are the overall views of South African practitioners on applying the IFRS for SMEs?
R2: Do the current perceptions of South African practitioners indicate a change in attitude as compared to the scepticism which was initially displayed when the IFRS for SMEs were first implemented in South Africa?

R3: Have the 2015 amendments to the IFRS for SMEs, that were made as part of the IASB’s initial comprehensive review of the IFRS for SMEs, adequately addressed the concerns of practitioners regarding the application of the IFRS for SMEs in South Africa?

1.4 Assumptions, limitations and delimitations

This study was exploratory in nature and adopted an interpretive approach. It was assumed that accounting and financial reporting is a social science. The study was limited to the views on the IFRS for SMEs from the perspective of South African practitioners and not the users of financial statements prepared according to the IFRS for SMEs (Wyk and Rossouw, 2009; Wyk and Rossouw, 2011). It was assumed that the purposeful selection of South African practitioners, who were members of SAIPA and who possessed an adequate level of knowledge on the IFRS for SMEs and were, thus, in the best position to answer the survey questions, would ensure the collection of the data required to address the research questions (Wyk and Rossouw, 2009; Wyk and Rossouw, 2011). Furthermore, it was expected that the respondents would answer questions truthfully and to the best of their ability (Leedy and Ormrod, 2013). The use of a mixed methodology approach (administration of a questionnaire followed by semi-structured interviews) was considered to be an appropriate way in which to obtain the data required to answer the research question. There was, however, no intention to draw conclusions about the entire population based on the statistical measures applied to the answers to the questionnaire.

1.5 Definition of terms

DTI – Department of Trade and Industry

IFRS – International Financial Reporting Standards

IFRS for SMEs – International Financial Reporting Standards for Small-Medium Sized Entities

SAICA – South African Institute of Chartered Accountants
SME – Small-Medium Sized Entity

1.6 Chapter layout

This research report is presented as follows. Chapter 2 begins with an in-depth analysis of prior literature on relevant aspects of SMEs and the IFRS for SMEs. The results of prior studies conducted both internationally and in South Africa are also analysed as a means of formulating the questions that were included in the structured questionnaire. Chapter 3 describes the research methodology that was applied, including the techniques used to analyse the results of both the surveys and the semi-structured interviews. Chapter 4 presents a discussion of the observations on the results obtained from the first phase of the research. Chapter 4A is a bridging chapter which explains the link between the results of the survey and the questions posed during the interview process. Chapter 5 presents a summary of and extracts from the second phase of the study during which the interviews were conducted. In Chapter 6 the researcher offers an analysis of the two phases of the study. Finally, a summary of the study, concluding remarks and areas for future research are presented in Chapter 7.

Chapter 2: Literature Review

The purpose of this chapter was to provide an overview of the existing literature on SMEs and on the IFRS for SMEs, and also to discuss the theoretical stance adopted by the researcher. The chapter also discussed the process that had led to the amendments that had been made as a result of the IASB’s first review of the IFRS for SMEs as well as the amendment themselves. The chapter was divided into a number of sections. Section 2.1 presented a discussion of the entity theory which provided a theoretical framework to evaluate the evidence obtained in this study. Section 2.2 provided an in-depth consideration of the type of entity that is deemed to meet the definition of the term SME. Sections 2.3 and 2.4 contained a historical discussion of the development of the IFRS for SMEs as a way of explaining the context in which the IFRS for SMEs were developed by discussing the need for differential reporting. Sections 2.5 and 2.6 discussed the results of prior studies on the IFRS for SMEs in relation to the perceived advantages and disadvantages of the standard as well as its content. Lastly, section 2.7 presented a discussion of the development of the most recent accounting standard on IFRS for SMEs.
2.1 Theoretical framework

This research study was undertaken with the aim of soliciting the opinions of South African practitioners on the application of an accounting standard (the IFRS for SMEs) intended to apply to the general purpose financial statements of entities that, in many countries, are referred to by a variety of descriptions, including SMEs (IASB, 2015b). The main objective of the IASB in developing accounting standards suitable for SMEs was to produce a single set of high quality, globally enforceable standards intended for non-publicly accountable entities that publish general purpose financial statements for external users (IASB, 2015b). The IFRS for SMEs is based on the full IFRS but with simplifications and modifications that were deemed to be appropriate in light of both the needs of users and the cost-benefit considerations. Thus, the IASB believes that the objectives of financial statements as per the framework of full IFRS are also appropriate for SMEs. According to the standards of the IFRS for SMEs, the objectives of financial statements of small and medium-sized entities may be stated as follows (IASB, 2015c):

To provide information about the financial position, performance and cash flows of the entity that is useful for economic decision making by a broad range of users of the financial statements who are not in the position to demand reports tailored to meet their particular information needs. Financial statements also show the results of the stewardship of management – the accountability of management for the resources entrusted to it (para 2.2 & 2.3).

The IFRS for SMEs was developed with reference to the fundamental concepts contained in the framework pertaining to the full IFRS (IASB, 2015b). According to the IFRS Conceptual Framework for Financial Reporting:

BC 1.8 The vast majority of today’s businesses have legal substance separate from their owners by virtue of their legal form of organisation, numerous investors with limited legal liability and professional managers separate from the owners. Consequently, the Board concluded that financial reports should reflect that separation by accounting for the entity (and its economic resources and claims) rather than its primary users and their interests in the reporting entity (IASB, 2010)

From this perspective, the financial statements of an entity that applies the full IFRS are based on entity theory. Entity theory recognises the personality of the entity as opposed to its proprietors
and, thus, it recognises that transactions, events and conditions that occur are separate from the owners and, therefore, should be accounted for separately. Shareholders are, in effect, considered to be no different to other third party creditors except with regards to the hierarchy of their claims (Suojanen, 1954). The IFRS for SMEs may be analogised to the full IFRS, thus making the entity theory applicable to those entities that prepare financial statements in accordance with the IFRS for SMEs. Both the IFRS and the IFRS for SMEs are used in the preparation of general purpose financial statements which are, in turn, financial statements intended to service the information needs of a broad range of users who are not in the position to demand tailor made reports. Owner-managers are not acknowledged by the IASB as users of the IFRS for SMEs. Theoretically, owner-managers may use the financial statements of SMEs for several purposes. The purpose of the IFRS for SMEs was not, however, to provide information to owner-managers to assist them in the making of management decisions despite the fact that general purpose financial statements do provide management with an insight into the business’s financial position, performance and cash flows (IASB, 2015b).

The IFRS for SMEs is applicable to a wide variety of entities despite the type of entity envisaged by the term SME and which may include forms of ownership that do not entail a distinction between management and proprietors. In this regard, however, two different considerations are important. Firstly, the majority of the total, active businesses of known size in South Africa are private companies or close corporations, both of which have legal personality (DTI, 2008). Secondly, this study considered focused on entities as defined in the Companies Act no 71 of 2008. In terms of the Companies Act, only those entities with a PI score of less than 100 points and that produce financial statements internally may opt not to adopt the IFRS for SMEs.

Management stewardship features as part of the objectives of financial reporting. According to Rosita (1975) the stewardship concept impacts on accounting theory. The concept of stewardship is affected by the prevalent social philosophy which in turn is determined by the business ideology in vogue. There are two business ideologies, namely, the classical and the managerial and these, in turn, result in two stewardship concepts, namely, the classical and the managerial. In terms of the classical stewardship concept, it is management’s sole responsibility to service the interest of the owners. Proprietary theorists, thus, see the business from the perspective of the owner. The classical stewardship concept was typically characterised by small firms held by owners. The
managerial stewardship concept, in contrast, holds management accountable for social interests, including those of the owners. Thus, this view is that of an entity theorist who considers the perspective of the business. The growth of firms from small owner-held firms has led to the prevalence of the managerial stewardship concept (Chen, 1975).

It would appear that the IFRS for SMEs was written in the spirit of entity theory. The proprietary theory, which supports the classical management stewardship concept, may be appropriate for owner-managed firms. While the structure of many SMEs may be owner-manager type ventures, there is always the potential for the entity to expand and adopt a different ownership structure. In addition, the results of management stewardship as being the objective of financial reporting appear to be somewhat secondary to the main objective of the IFRS for SMEs which is to provide useful information to a wide range of users, excluding the owner-manager. This study was exploratory in nature and viewed accounting as a social science moulded by both society and the structure of organisations. The study used the entity theory as a theoretical lens with which to evaluate the opinions of practitioners on a single set of accounting standards that was specifically tailored to meet the needs of a specific type of entity.

2.2 Definition of SMEs

The meaning encapsulated in the term “SME” was of the utmost importance to the aims of this research study. An SME may be described in a number of ways according to a number of different thresholds. It appears to be used as a general term that may encompass a wide range of ownership structures which range from very small to relatively larger entities. This seems to be the case both in the global context and in a local South African setting. The literature on SMEs does not provide a definitive definition of an SME (Maseko and Manyani, 2011) and there is no one definition that captures the concept’s parameters in terms of size, locality, industry and stage of development (Tudor and Mutiu, 2008; Maseko and Manyani, 2011). It is this variety that exists in terms of the definition that is one of the factors that make the adoption of a global reporting framework such as IFRS for SMEs difficult (Schutte and Buys, 2011c)

The IASB acknowledges that several jurisdictions have developed their own definition of the term SME for a wide variety of purposes. National and regional definitions include quantitative criteria
based on the entity’s revenue, assets, employees and other factors. The term is often used to describe entities, including very small entities, without regard to whether or not they publish general purpose financial statements for external users (IASB, 2015b). In South Africa, legislation such as the National Small Business Act and the Companies Act, has defined SMEs in different ways. The IASB has also developed its own definition for the purposes of correctly selecting those entities which may apply the IFRS for SMEs. The definitions are explained in greater detail below.

2.2.1 The IASB’s definition of SMEs

In developing the standards of the IFRS for SMEs, one of the primary issues that confronted the IASB was the class of entities for which the IFRS for SMEs would be intended. However, ultimately, the decision regarding which entities would use the IFRS for SMEs would rest with the national regulatory authorities and standard-setters. A clear definition of SMEs was, however, developed by the IASB for the purposes of the application of the IFRS for SMEs (IASB, 2015b). In section 1 the IFRS for SMEs describes the characteristics of small and medium-sized entities as follows:

1.2 Small and medium-sized entities are entities that

(a) Do not have public accountability and;

(b) That publish general purpose financial statements for external users (IASB, 2015b).

1.3 An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or if it is in the process of issuing such instruments for trading on a public market (a domestic or foreign stock exchange or an over the counter market, including local and regional markets.) or

(b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credits unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

This definition envisaged by the IASB was not restricted to one form of legal ownership (Wyk and Rossouw, 2009) and neither was the element of size quantified to define an SME (Aboagye-Otchere and Agbeibor, 2012). In this regard, the IASB noted that its standards are used in several countries,
thus making any form of quantification difficult. Jurisdictions may, however, choose to prescribe either quantified size criteria or what is meant by economically significant for the purposes of prescribing the IFRS for SMEs for use by entities (IASB, 2015b). Consequently, the definition of an SME is not restricted to private companies but may also include other legal forms or micro-entities such as sole traders, partnerships, trusts and non-profit organisations (Van Wyk and Rossouw, 2009).

2.2.2 The National Small Business Act

The National Small Business Act, 1996, classifies small businesses as micro, very small, small or medium-sized (SMMEs) according to a complex set of thresholds per industry (South Africa, 1996). According to the National Small Business Act, 1996, the Department of Trade and Industry (DTI) defines a small business as:

... a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule.

The National Small Business Act, thus, recognises the range of the possible sizes of an SME. It is not, however, within the scope of this research study to explore the complex set of thresholds by which the Act classifies an entity as an SME. Consequently, no further consideration is given to this aspect of the definition as cited above. What is, nevertheless, important is that these SMMEs include formally registered enterprises such as close corporations, private companies and co-operative entities, as well as informal enterprises such as street trading enterprises and backyard manufacturing and services. Entities falling towards the upper end of the range are comparable to the SMEs in developed countries (DTI, 2008a). As such, for the purposes of this research study, the definition of an SME included only those formally registered enterprises.
2.2.3 The Companies Regulations 2011

The Companies Regulations 2011, issued in terms of section 223 of the Companies Act 2008 (Act no 71 of 2008) by the DTI, prescribes the reporting framework to be used by different entities with reference to a public interest (PI) score (DTI, 2011). Table 1 below outlines the financial reporting standards to be used by the various categories of companies (DTI, 2011).

Table 1: Table showing the frameworks prescribed by section 27 of the Companies Regulation, 2011

<table>
<thead>
<tr>
<th>Description of Company</th>
<th>Prescribed Accounting Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Public companies not listed on an exchange.</td>
<td>IFRS or IFRS for SMEs</td>
</tr>
<tr>
<td>B Profit companies whose public interest score for a particular year is at least 350</td>
<td>IFRS or IFRS for SMEs</td>
</tr>
<tr>
<td>C Profit companies which hold assets in excess of R5m in a fiduciary capacity</td>
<td>IFRS or IFRS for SMEs</td>
</tr>
<tr>
<td>D Profit companies with a public interest score of at least 100 but less than 350</td>
<td>IFRS or IFRS for SMEs</td>
</tr>
<tr>
<td>E Profit companies with a public interest score of less than 100 and whose financial statements are independently compiled</td>
<td>IFRS or IFRS for SMEs</td>
</tr>
<tr>
<td>F Profit companies with a public interest score of less than 100 and whose financial statements are internally compiled</td>
<td>A financial reporting framework determined at the discretion of the company</td>
</tr>
</tbody>
</table>

The Companies Regulation defines a “medium” sized firm as a public company whose most recent PI score is less than 500 or any other company whose most recent PI score is less than 500 or more than 100. Small companies are defined as those companies with a PI score of less than 100.
According to Regulation 26 (2) of the Companies Regulations 2011, the calculation of the PI score of a company is calculated for each year by attributing a number of points to various aspects apparent in that company for a given financial year. These include the number of employees of the company; the level of third party liability; the level of turnover and the number of individuals who have a beneficial interest in the securities of a company. More specifically, an entity’s PI score is calculated according to Table 2 below (DTI, 2011)

Table 2: Calculation of the Public Interest Score in terms of Regulation 26 of the Companies Regulation, 2011

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>A number of points equal to the average number of employees of the company during the financial year</td>
</tr>
<tr>
<td>b</td>
<td>One point for every R 1 million (or portion thereof) in third party liability of the company at the financial year end</td>
</tr>
<tr>
<td>c</td>
<td>One point for every R 1 million (or portion thereof) of turnover during the financial year</td>
</tr>
<tr>
<td>d</td>
<td>One point for every individual who, at the end of the financial year, is known by the company</td>
</tr>
<tr>
<td></td>
<td>i. in the case of a profit company, to directly or indirectly have a beneficial interest in any of the company’s issued securities; or</td>
</tr>
<tr>
<td></td>
<td>ii. in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company.</td>
</tr>
</tbody>
</table>

2.2.4 Definition of an SME for the purpose of this study

In short, it was important to understand how the term SME was used in this study. The study is uniquely South African and specifically recognised the growing importance of SMEs in South Africa. The study paired the requirements set by the IASB with those enacted in legislation. The definition given by the IASB was deemed to be relevant as it serves as a pivotal point of reference in determining whether an entity should use the IFRS for SMEs. The definition excludes any reference to size of entity or form of ownership although elements related to the size of an entity are taken into account in the calculation of the PI score which, in turn, is used as a determining factor in the applicability of the IFRS to SMEs. Consequently, for the purposes of this report, the definition of an SME incorporated those entities as envisaged by the IASB. In addition, the study also included those formally registered entities that are either required to or have the option to adopt the IFRS for SMEs in terms of South African law. This includes entities with a PI score of less than 100. Despite the fact that no specific accounting framework is prescribed in the Companies Act 71 of 2008 for entities with a PI score of less than 100, the IFRS for SMEs remains a reporting framework option.
2.3 The development of the 2009 standard of the IFRS for SMEs and its adoption in South Africa

The development of the IFRS for SMEs was a five year long process. In 2001, the IASB embarked on a project to develop a set of accounting standards that would be suitable for small and medium-sized entities. A discussion paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*, was published by the IASB in 2004. The response to this discussion paper indicated a clear demand for accounting standards suited to SMEs while there was clearly a preference in many countries to adopt these standards in place of the relevant national standards that may have existed. Accordingly, the IASB decided to develop an exposure draft of an IFRS for SMEs. An exposure draft of a proposed IFRS for SMEs was published in February 2007 (IASB, 2015b). A field test programme involving 20 countries, one of which was South Africa, was conducted (SAICA, 2012; IASB, 2015b). Despite the resistance from several countries to accept the exposure draft on an IFRS for SMEs as its own, South Africa became the first country in the world to adopt this exposure draft as a Statement of GAAP for SMEs. This was done in order to provide relief for the limited-interest companies defined in the Corporate Laws Amendment Act of 2007 and in existence at the time. The adoption of the exposure draft was regarded as an interim measure until the IASB issued the 2009 edition of the standard. This provided the platform necessary to shape the way in which SMEs report on financial information (Mackenzie, 2009). However, as cited by Schutte and Buys (2011b), two months after the adoption of the IFRS for SMEs, the SAICA reported to the IASB that further simplification of the standard was needed and also that the requirements contained in the IFRS for SMEs were still too complicated, given the level of knowledge of both those drafting financial statements and the needs of users.

The IASB does not have the power to force entities to apply its standards. Instead, this power is vested in a country’s legislators and regulators (IASB, 2015b). The implementation of the Companies Act 71 of 2008, effective 01 May 2011, brought the IFRS for SMEs within South Africa’s legal ambit. South Africa is a country in which entrepreneurship is much encouraged and, thus, a burdensome regulatory reporting framework, such as a full IFRS, may be a potential hindrance to growth (SAICA, 2014). The implementation of the Companies Act of 2008 brought with it the vision of promoting entrepreneurship, reducing the regulatory burden of smaller companies and enhancing the transparency and accountability of larger corporations, particularly in view the fact that company law had become more aligned with contemporary trends and international best practice than had
previously been the case (DTI, 2010). In terms of the Companies Act 2008, South African GAAP may no longer be used to prepare financial statements. Table 1 in section 2.2.3 provides a description of companies that either have the option or are required to apply the IFRS for SMEs (DTI, 2011).

Van Wyk and Rosouw (2009) conducted empirical research using accounting practitioners as a representative sample. The majority of the respondents were affiliated with the SAIPA. Members of SAIPA traditionally have as their clients smaller, non-listed entities. Regarding whether or not they felt that the IFRS for SMEs would reduce the burden of financial reporting 45% of respondents only felt that this would, indeed, be the case. However, the majority of the respondents were sceptical and of the opinion that the IFRS for SMEs would not address the burden of a full IFRS or of the opinion that the IFRS for SMEs would relieve the burden to some degree only (Wyk and Rosouw, 2009).

A later study, also conducted by Van Wyk and Rosouw (2011), investigated in part whether practitioners believed that a three-tiered reporting framework was needed and whether there was a need for a third reporting framework to which entities this framework would apply. The majority of the respondents were in favour of a less complicated framework than the IFRS for SMEs with the majority also believing that the IFRS for SMEs was best suited to non-owner managed, private companies and that micro GAAP would be more suitable for owner-managed, private companies (Wyk and Rosouw, 2011). At the time of the study conducted by Van Wyk and Rosouw, the DTI published a comprehensive report on the SMME sector in South Africa (DTI, 2008a). The report indicated that, according to annual turnover, 3% only of economically active enterprises of known size were larger enterprises. The remaining 97% consisted of medium (4%); small (11%); very small (46%) and micro sized (36%) entities (DTI, 2008a). Furthermore, private companies and CCs comprised 98% of the total of active businesses of known size in South Africa (DTI, 2008a). Table 3 below presents the business register figures for the 2007 year according to the DTI’s report.

**Table 3: Business Register count of SMMEs in 2007**

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Business Register Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>200 377</td>
<td>37.4</td>
</tr>
</tbody>
</table>

23
The number of SMMEs in South Africa has since increased although only marginally (3%) with the greater proportion of this growth being attributable to the informal sector (SEDA, 2016).

Most of the respondents in Van Wyk and Rossouw’s (2011) study also indicated that micro GAAP should be required by South African law. As discussed above, the implementation of the Companies Act no 71 of 2008 in South Africa introduced differential reporting with reference to an entity’s PI score. At the time of this study only entities which compiled their financial statements internally and with a PI score of less than 100 were permitted to apply an accounting framework of their own choice (DTI, 2011). A relevant consideration in this research study included the reporting framework of an entity with a PI score of less than 100.

Based on the above, the following statements were included in the data collection instrument:

R1: Please indicate to what extent you are involved with the following types of entities that have the option to use IFRS for SMEs as per the Companies Act no 71 of 2008: (1 = Involved to a very large extent; 5 = N/A (Not involved at all))

A. Public company not listed on an exchange that applies IFRS for SMEs
B. Profit companies, PI score is at least 350 who apply IFRS for SMEs
C. Profit companies, who hold assets in excess of R5m in a fiduciary capacity and who apply IFRS for SMEs
D. Profit companies, PI score is at least 100 but less than 350 and who apply IFRS for SMEs
E. Profit companies, PI score is less than 100, and whose statements are independently compiled in accordance with IFRS for SMEs

F. Profit companies, PI score is less than 100, and whose statements are internally compiled.

R2: To what degree does each category of companies listed in question 1 (R1) apply a framework other than IFRS for SMEs? (1 = large degree; 5 = Not at all)

R3: To what extent do you agree that the adoption of IFRS for SMEs has relieved the burden of financial reporting for the companies listed in question 1 (R1) that have the option to apply IFRS for SMEs? (1 = Strongly agree; 5 = Strongly disagree)

2.4 Need for differential reporting

Differential reporting pertains to the situation in which different accounting frameworks are more suited to different entities and are applied as such (ASB, 2011). The choice of accounting frameworks before the formal adoption of the IFRS for SMEs in South Africa was South African Generally Accepted Accounting Statement (SA GAAP) which had been aligned with the full IFRS since 2005 (Stainbank, 2008). The requirement to apply full IFRS was a requirement irrespective of a company’s type, size, and the users of its financial statements – all of which may have differed from those of other companies (Stainbank, 2008). The full IFRS has been recognised as one of the most important systems of financial reporting (Bartůňková, 2012) and was developed to meet the reporting requirements of large and listed entities (Di Pietra et al., 2008). Most stock exchanges require listed companies to adopt full IFRS to facilitate cross-border investments and access to global capital markets (Schutte and Buys, 2011b; IASB, 2015b). However, the needs of SMEs may be different from those of larger, publicly accountable entities in terms of the users of the entity’s financial statements and their information needs; the manner in which the financial statements are utilised by the users; the extent to which accounting expertise is available to the entity and the ability of the SME in question to bear the costs involved in adopting the standards of larger entities (Hussain et al., 2012; IASB, 2015b). This, thus, suggests that the full IFRS may not serve the purpose of SMEs, therefore making a simpler framework such as the IFRS for SMEs a more attractive reporting option for smaller entities.

The introduction of the IFRS for SMEs in South Africa also meant the inception of differential reporting, thus enabling some entities to apply a less onerous accounting framework than before (ASB, 2011). The need for differential reporting is determined on both the basis of the needs of
The IASB’s objectives in developing the IFRS for SMEs included the provision of high quality, understandable, globally accepted and enforceable standards that enabled the participants in various capital markets of the world and other users of information to make economic decisions (IASB, 2015b). The users of the financial statements prepared in respect of SMEs may have less interest in some of the information contained in general purpose financial statements prepared under full IFRS. For example, the users of the financial information of SMEs may show a greater interest in short-term cash flows, liquidity of the entity and less interest in information that is intended to assist in the formulating of predictions of long-term cash flows, profit and value (IASB, 2015b).

The benefits of a country adopting a globalised set of accounting standards have been cited in several studies (Neag et al., 2009; BUNEA and SACARIN, 2012; Hussain et al., 2012). The consistent application of global financial reporting standards may enhance the quality and comparability of financial information while the presentation of high quality, comparable information improves the efficiency of the allocation and pricing of capital. In addition, global standards improve the consistency of audit quality and facilitate education and training. The benefits of global financial reporting standards are not, however, limited to those entities that trade their securities in public capital markets and SMEs and those that use the financial information of SMEs may benefit from a common set of accounting standards (IASB, 2015b).

In the main the users of financial statements of SMEs are not regarded as experts (Van Wyk and Rossouw, 2009). In developing the IFRS for SMEs, the IASB had in mind a certain category of users who would, hopefully, benefit from financial statements prepared according to the IFRS for SMEs. These users included banks that make loans to SMEs; vendors that sell to SMEs and use SME financial statements to make credit and pricing decisions; credit rating agencies, customers of SMEs that use SME financial statements to decide whether or not to do business with the SME and shareholders of SMEs who are not also managers of their SMEs. Taxation authorities and owner-managers were not included as users (IASB, 2015b). Hattingh (2001) argued that, in respect of the majority of non-listed companies, the users comprise the following three groups, namely, bankers, owners and tax authorities. The results of the study carried out by Van Wyk and Rossouw (2009) also showed that the most prominent users of such financial statements were the banks, SARS and owner-managers. However, these groups are all able to obtain further information if required and,
thus, there is no need for complex reporting (Hattingh, 2001). Owner-managers, for example, may have access to the management accounts and usually have a sound understanding of the trading operations of the business. Consequently, they do not need the information presented in the form of financial statements, suggesting impartiality towards the accounting framework used. In practice entities are required to complete a tax return in the form of the ITR14 form which contains various fields to facilitate the collection of financial information. The Tax Administration Act does not state that financial statements are required to accompany the tax return (SARS, 2011).

In light of the above the following questions were included in the data collection instrument:

R4: To what extent has the application of IFRS for SMEs addressed the needs of the following users? (1 = Strongly agree; 5 = Strongly disagree)

- R4.1 Banks that make loans to SMEs
- R4.2 Vendors that sell to SMEs and use SME financial statements to make credit and pricing decisions
- R4.3 Credit rating agencies
- R4.4 Customers of SMEs that use SME financial statements to decide whether to do business
- R4.5 SMEs shareholders that are not also managers of their SMEs

2.5 Perceived advantages and disadvantages of the IFRS for SMEs

Prior studies have identified both the advantages and the disadvantages associated with the implementation of the IFRS for SMEs as perceived by those who prepare the accounting information (Arsoy and Sipahi, 2007; Bartůňková, 2012; Uyar and Güngörmüş, 2013; Kiliçaa et al., 2014). Arsoy and Sipahi (2007), for example, provided an analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis) involved in the adoption of the IFRS for SMEs while Uyar and Güngörmüş (2013) explored the perceptions of accounting practitioners within a Turkish context. The main perceived obstacles arising from the adoption of the IFRS for SMEs were found to be the inadequate training of personnel and the lack of training provided by professional bodies(Uyar and Güngörmüş, 2013). Hussain et al. (2012) argued that the major challenge encountered in the successful adoption of the IFRS for SMEs is the adequate provision of the training necessary to equip practitioners with the ability to prepare financial statements while an even bigger challenge faced practitioners who
have not prepared reports in accordance with the IFRS. These sentiments were echoed by Bartůňková (2012) who found that main factor that reduced the willingness to prepare financial statements was a lack of knowledge of the accounting standard.

The perceived advantages of the adoption of the IFRS for SMEs included the ease in soliciting financing sources, the comparability of the financial statements of SMEs, the increased reliability of the SME financial statements, enhanced efficiency in auditing, ease of rating SMEs by credit rating agencies, ease in transition to full IFRS, and increase in efficiency of cross-border activities(Uyar and Gungörmüş, 2013). Kiliçaa et al. (2014) based the questionnaire they used in their study on prior literature in order to ascertain the perceptions of accounting practitioners. A list of the advantages and disadvantages arising from the use of the IFRS for SMEs was compiled and included in the questionnaire as follows:

R5: To what extent, do you agree that the following are advantages of applying IFRS for SMEs in South Africa? (1 = Strongly agree; 5 = Strongly disagree)

R5.1 IFRS for SMEs has eased the transition to the full set of IFRS for growing SMEs
R5.2 Adopting IFRS for SMEs has improved the opportunities to obtain financial assistance from the banking sector
R5.3 Adopting IFRS for SMEs has improved the efficiency and effectiveness of our company’s financial reporting
R5.4 IFRS for SMEs has increased the relevance and reliability of the information
R5.5 The transparency of information has increased
R5.6 Financial statements are more understandable
R5.7 SMEs will be able to reach cross-border markets by applying IFRS for SMEs

R6: To what extent do you feel the following are disadvantages of implementing IFRS for SME’s? (1 = Strongly agree; 5 = Strongly disagree)

R6.1 In relation to those entities that have adopted IFRS for SMEs, the costs of new information technology have been high
R6.2 Training of staff is time-consuming and costly
R6.3 IFRS for SMEs are too high level and does not provide adequate guidance
R6.4 IFRS for SMEs are written in a style for general accounting use making it difficult to apply
R6.5 IFRS for SMEs are too difficult to apply because of the detail given per topic in the standard
R6.6 IFRS for SMEs requires disclosure of information making its application cumbersome
R6.7 The SMEs in South Africa do not have the staff that is sufficiently qualified to apply IFRS for SMEs

2.6 Content of the IFRS for SMEs

The standards of the IFRS for SMEs were developed by extracting the fundamental concepts contained in the framework and by taking into account the modifications that were deemed to be appropriate in light of the users’ needs and cost-benefit considerations. The intended simplification process included, in part, the omission of certain topics found to be irrelevant to SMEs (IASB, 2015b). Schutte and Buys (2011b) classified the sections of the IFRS for SMEs according to various levels of importance within the South African context. The table below highlights the results of this study by Schutte and Buys (2011b):

<table>
<thead>
<tr>
<th>Highly Important</th>
<th>Moderately Important</th>
<th>Low Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets and liabilities</td>
<td>Provisions and contingencies</td>
<td>Hyperinflationary economics</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>Agriculture</td>
<td>Foreign currency translation</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Borrowing costs</td>
<td>Share-based payments</td>
</tr>
<tr>
<td>Revenue</td>
<td>Intangible assets other than goodwill</td>
<td>Extracting activities</td>
</tr>
<tr>
<td>Equity</td>
<td>Impairment of non-financial assets</td>
<td>Service concessions</td>
</tr>
<tr>
<td>Inventories</td>
<td>Events after the end of the reporting period</td>
<td></td>
</tr>
<tr>
<td>Leases</td>
<td>Government grants</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountings policies, estimates and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>errors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The measurement and recognition principles contained in the full IFRS were also simplified by the inclusion of the simpler option only in cases where the full IFRS provided more than one option (IASB, 2015b). Uyar and Güngörmüş (2013) found that practitioners were moderately informed in respect of certain measurement or valuation concepts (Uyar and Güngörmüş, 2013). A survey conducted by SAICA in order to gain an understanding of the experiences encountered when applying the IFRS for SMEs indicated that the more difficult concepts contained in the IFRS for SMEs included the investment
property’s fair value model; the residual values of PPE and reassessing the useful life of PPE; the components approach in the PPE section; the identification of intangible assets in a business combination and the accounting for deferred payment in the revenue section (Kriel, 2014). However, the SAICA survey included a limited number of concepts only when soliciting views on the level of either ease or difficulty involved in applying the IFRS for SMEs framework. The level of difficulty or ease when applying other concepts contained in topics that were either regarded as highly important or moderately important is, thus, significant. The degree to which these concepts are applied in practice would assist in gaining an understanding of the perceptions surrounding the application of the IFRS for SMEs. As suggested by Hussain et al. (2012) this consideration is important as, while the IFRS for SMEs relieved the burden of financial reporting, there was already relief in a region such as Fiji as the simplification of disclosures and certain issues had had no impact on SMEs in that area.

Based on the above results, the following statements were included in the questionnaire as the data collection instrument (Appendix A):

R7: To what extent are the following components encountered in practice? (1 = Very often; 5=N/A)

R7.1 PPE component approach
R7.2 PPE reassessing useful lives
R7.3 PPE residual values
R7.4 Investment property- fair value model
R7.5 Leases-straight-lining of leases
R7.6 Revenue accounting for extended payments
R7.7 Deferred tax
R7.8 Financial assets and liabilities fair valuing
R7.9 Inventory write down to NRV
R7.10 Employee benefits-defined benefit plan

R8: To what degree is it easy or difficult to apply the following components of IFRS for SMEs? (1 = Very difficult; 5 = N/A)

R8.1 PPE component approach
R8.2 PPE reassessing useful lives
R8.3 PPE residual values
R8.4 Investment property fair value model
R8.5 Leases-straight-lining of leases
R8.6 Revenue accounting for extended payments
R8.7 Deferred tax
R8.8 Financial assets and liabilities fair valuing
R8.9 Inventory write down to NRV
R8.10 Employee benefits-defined benefit plan
R8.11 Employee benefits-defined benefit plan
R8.12 Provisions and contingencies – management’s best estimate
R8.13 Impairment of non-financial assets – recoverable amount

R9: To what degree are the following components of IFRS for SMEs significant in a South African context? (1= Very significant; 5 = Very insignificant)

R9.1 PPE component approach
R9.2 PPE reassessing useful lives
R9.3 PPE residual values
R9.4 Investment property fair value model
R9.5 Leases-straight-lining of leases
R9.6 Revenue accounting for extended payments
R9.7 Deferred tax
R9.8 Financial assets and liabilities fair valuing
R9.9 Inventory write down to NRV
R9.10 Employee benefits-defined benefit plan
R9.11 Employee benefits-defined benefit plan
R9.12 Provisions and contingencies – management’s best estimate
R9.13 Impairment of non-financial assets – recoverable amount
2.7 2015 Amendments to the IFRS for SMEs

2.7.1 Background (IASB, 2015b)

The IASB commenced its initial review of the IFRS for SMEs in 2012 with the aim of assessing the experience of entities which had adopted the IFRS for SMEs and also of determining whether there was a need for any amendments. The first step in the initial review involved the issuing of a Request for information (RFI), the objective of which was to obtain an understanding of the views of those who had been applying the IFRS for SMEs in order to determine whether there was a need to make any amendments to the standard, and, if so, the type of amendments to be made. An advisory body to the IASB, the SME Implementation Group (SMEIG), the mandate of which was to support the international adoption of the IFRS for SMEs and to monitor its implementation, was established in 2010. Comment letters were received on the RFI and details contained in these letters presented to the SMEIG members.

2.7.2 2013 Exposure Draft (2013ED)

Based on the commentary received, the IASB issued an Exposure Draft (2013ED) of the proposed amendments to the IFRS for SMEs in October 2013. Fifty seven amendments were proposed in the 2013 ED. Section 29 Income Tax was altered significantly by aligning its principles with those of the full IFRS in IAS 12. Besides these fifty-seven amendments the other amendments affected a few sentences or words only in the IFRS for SMEs. The majority of these amendments were intended to clarify existing requirements or to provide additional guidance. The amendments were, thus, expected to enhance the understanding of existing requirements, thereby reducing the burden of doubt (IASB, 2015b).

Most of the changes proposed in the 2013ED were supported by the respondents to the ED, although a number of other issues were raised. The most common criticism voiced was the IASB’s decision not to introduce an option to revalue items of property, plant and equipment (PPE). Subsequently, the option to revalue items of PPE was included in the 2015 amendments of the IFRS for SMEs. This was the result of the IASB acknowledging that the exclusion of the revaluation option had appeared to be a significant impediment to the adoption of the IFRS for SMEs in some jurisdictions. This was primarily based on the response that not including the revaluation model may affect an entity’s prevailing borrowing arrangement and also impact on the entity’s ability to raise finance in the future (IASB, 2015b). The ability of SMEs to raise finance is of particular concern in a country such as South Africa where it is becoming difficult to raise finance (NSBC, 2016; Panday, 2017). The results of the study conducted by Van Wyk and Rossouw (2009), revealed that PPE was one of the topics considered “fundamental” to
SMEs in South Africa. Likewise Schutte and Buys (2011b) also found PPE to be an important section. Consequently, the option to revalue PPE is discussed in further detail in Section 2.7.3.

Income taxes were also found to be a relevant topic in the context of South African (Van Wyk and Rossouw, 2009; Schutte and Buys, 2011b). The majority of respondents to the 2013ED supported the alignment of Section 29 with IAS 12 although further simplifications or modifications were requested (IASB, 2015b). This particular change is discussed in further detail in Section 2.7.3.

The full IFRS is designed to meet the needs of public capital markets by providing information for the investors and creditors in such markets. As such the full IFRS is appropriate for publicly accountable entities. A common concern raised by the respondents to the 2013ED was the scope of the IFRS for SMEs. More specifically, the general consensus was that the scope should not be restricted to non-publicly accountable entities. As a result, the IASB considered whether the scope was too restrictive and whether jurisdictions should have the ability to allow publicly accountable entities to use the IFRS for SMEs. In this regard, the IASB noted that the IFRS for SMEs were specifically designed for SMEs and, as such, would not be appropriate for a wider group of entities. In addition, a widening of the scope to include some publicly accountable SMEs may have created pressure to change the requirements of the standard to accommodate a wider group of entities, thereby increasing the complexity of the standards for SMEs. Consequently, the IASB decided not to widen the scope of the IFRS for SMEs (IASB, 2015b).

In terms of the Companies Regulation 2011, public companies that are not listed may choose to adopt the full IFRS or IFRS for SMEs as their reporting structure. The choice of the IFRS for SMEs is subject to the entity meeting the scoping requirements developed by the IASB (DTI, 2011).

Another common concern raised in relation to the scope of the IFRS for SMEs was the disparity that existed between the scope of the IFRS for SMEs and the primary aim of the IASB in developing the IFRS for SMEs. The primary aim of the IASB in developing the IFRS for SMEs was the provision of a stand-alone, simplified, reporting framework for non-publicly accountable entities that, as compared to other entities, are characterised by less complex transactions and possess limited resources to apply the full IFRS. On the one hand, the respondents also expressed concern over whether this would mean that the reporting requirements of larger, more complex, non-publicly accountable entities would be met. The
IASB made no particular amendment in this regard but did note that SMEs with very complex transactions or those which deemed that their comparability with their publicly accountable peers is important, would possess sufficient expertise to refer to the detailed guidance in the full IFRS or to apply the full IFRS. On the other hand, many of the respondents also felt that the IFRS for SMEs was too complex for small, owner-managed entities. The IFRS for SMEs are intended for entities that either choose or are required to produce general purpose financial statements. SMEs often produce financial statements for owner-manager use or for the tax authorities but this does not, necessarily, amount to general purpose financial reporting. Furthermore, the IASB noted that the IFRS for SME’s was not intended for small, owner-managed entities which prepared financial statements solely for tax purposes but that such entities may find the IFRS for SMEs helpful in this regard (IASB, 2015b). The results of the study conducted by van Wyk and Rossouw (2009) indicated that most SMEs included in the data they collected were those operating as CCs, partnerships, sole proprietors and trusts. In general, these type of entities tend to be small to medium sized and, possibly, micro-entities (Van Wyk and Rossouw, 2009). Furthermore, Van Wyk and Rossouw (2009) asserted that the primary users of the financial statements of SMEs in South Africa were the tax authorities, banks and owners-managers, thus implying that the financial statements of SMEs within a South African context are for a limited purpose only. As such, Van Wyk and Rossouw (2009) argued that the IFRS for SMEs may not relevant for smaller and micro-entities in South Africa.

2.7.3 Amendments to the IFRS for SMEs as a result of the initial comprehensive review

In May 2015 the IASB issued 2015 Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The result of the deliberations on the issues identified during the review process was that the IASB made 56 changes to the IFRS for SMEs. These are categorised in Table 4 below.

Table 4: The categorisation of the changes made to the IFRS for SMEs during the review process conducted by the IASB

<table>
<thead>
<tr>
<th>Type of Change</th>
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<td>1 Significant changes</td>
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2. Relatively minor changes or clarifications based on new and revised full IFRS standards

3. Exemptions from the requirements of the IFRS for SMEs in special cases

4. Changes to the recognition and measurement requirements

5. Changes to the presentation and measurement requirements;

6. Clarifications that are not expected to change current practice

As discussed above, PPE and income taxes were found to be topics relevant to SMEs in South Africa (Van Wyk and Rossouw, 2009) and are thus discussed below.

### 2.7.3.1 Option to revalue items of property, plant and equipment

The respondents to the 2013ED expressed a common concern over the IASB’s decision not to include an option to revalue items of property, plant and equipment (PPE). The feedback received from preparers, standard-setters, accounting firms and other interested parties indicated that not having the option to revalue items of PPE constituted a barrier to the implementation of the IFRS for SMEs in areas where it was commonplace to revalue PPE. Some of the respondents also indicated that current value information was potentially more useful than historical cost. On this basis the IASB concluded that the benefits of adding the revaluation option outweighed its perceived costs to users and preparers of the
financial statements. The IASB also noted that the change resulted in a policy option and not a requirement. In light of this concern, the IASB decided to include the revaluation model as a measurement option in section 17 of the IFRS for SMEs (IASB, 2015b).

2.7.3.2 Accounting for income taxes

Section 29 of the IFRS for SMEs was initially based on the approach proposed in an exposure draft of amendments to IAS 12. The proposals in the exposure draft were criticised in comment letters and were withdrawn. As a result, the differences between IAS12 and the IFRS for SMEs were formulated and perpetuated. In the 2015 amended version of the IFRS for SMEs with the IASB taking the decision to align the main recognition and measurement requirements of Section 29 with those in IAS 12. The IASB noted that, in many areas, entities including SMEs, applied IAS 12. The alignment with IAS 12 would, thus, have the benefit of enabling SMEs to use their prior experience in accounting for income taxes (IASB, 2015b). Based on the feedback received on the 2013ED the IASB noted that some respondents supported the inclusion of an undue cost or effort exemption for certain requirements in section 29. However, the IASB did not include such exemptions on the basis that most SMEs would do similar type transactions each year and that, once the deferred tax implications were understood, the subsequent accounting would be relatively straightforward (IASB, 2015b).

Based on the above the following statements were included in the questionnaire as the data collection instrument (Appendix A):

R11: To what extent do you agree with the following statements? (1 = Strongly agree; 5 = Strongly disagree)

R11.1. The updated version of IFRS for SMEs has provided clarification of its requirements giving a better understanding of IFRS for SMEs

R11.2. The inclusion of the revaluation option in section 17 of IFRS for SMEs has encouraged the adoption of IFRS for SMEs in South Africa

R11.3. The alignment of income taxes with IAS 12 has not added to the complexity of the accounting for income taxes for SMEs
Chapter 3 - Methodology

3.1 Research design

This research study employed a mixed methods approach as this was considered to be the most suitable method in order to answer the research question. The mixed method approach was also deemed appropriate to the purposes of the study as it incorporates both quantitative and qualitative elements and often provides a clearer picture of a phenomenon than either approach would provide in isolation (IVANKOVA et al., 2006; Clark and Creswell, 2011; Leedy and Ormrod, 2013). When used in combination, the strengths of one approach compensate for the weaknesses of the other (Clark and Creswell, 2011). Thus, this study used the mixed methods approach to help to acquire an in-depth understanding of and to highlight the complexities surrounding the application of the IFRS for SMEs by practitioners in South Africa (O’Dwyer et al., 2011).

The mixed method approach employed entailed two distinct phases, namely, a quantitative phase followed by a qualitative phase (Clark and Creswell, 2011). For ease of reference an overview of the method used is presented in Figure 1 below.

![Mixed Methodology Approach](image-url)

*Figure 1: Overview of the methodology employed in the research study*
The researcher first administered a questionnaire to a sample of respondents in order to collect the requisite quantitative data. Thereafter, semi-structured interviews were conducted to obtain the qualitative data required to elaborate on the results from the quantitative phase. The rationale for this approach was grounded on the belief that the quantitative data obtained would provide a general understanding of the perceptions of South African practitioners of the application of the IFRS for SMEs in South Africa and that the qualitative data collected would assist the researcher to refine the generalisations made by ensuring an in-depth understanding of the views of the participants (Clark and Creswell, 2011).

An important consideration was the priority or weighting given to the quantitative and qualitative elements of the study (IVANKOVA et al., 2006). This research study was exploratory in nature. Furthermore, it followed an interpretive approach as this was considered to be the most suitable approach for this type of study with interpretive research being used to seek a deeper understanding of the accounting practice and, as such, was deemed appropriate to use to research the application of accounting standards such as the IFRS for SMEs in practice (Coetsee, 2011). In the main interpretive research follows a qualitative approach (Coetsee, 2011). Qualitative research involves an “organised, systematic exploration of some portion of the human experience. It is not concerned with the interpretation of data but rather with the discovery of common emergent themes” (Donalek and Soldwisch, 2004). According to Maroun (2012), an interpretive approach may be conceptually superior to quantitative styles and research papers based on positive paradigms may not always suit the investigation of practical issues faced by the profession in question. On the other hand, qualitative techniques have the ability to generate descriptions, thus allowing social and cultural issues to be explored to a larger extent as may be the case with quantitative research. Consequently, more weighting was given to the qualitative aspect of the research design as the purpose of this research study was to obtain an in-depth understanding of the perceptions of South African practitioners of the adoption and application of the IFRS for SMEs in South Africa.

Another important consideration was the definition of a practitioner in the context of this study. For the purposes of this study which specifically investigated the application of the IFRS for SMEs, a practitioner was defined as a professional member in practice and who had had an adequate level of practical experience with the IFRS for SMEs. Such professionals could include auditors and those who draft financial statements and who may have belonged to professional bodies, such as SAIPA or SAICA, although this was not the determining factor. Professional designation may include professional
accountants (SA) or chartered accountants (SA). The questionnaire was issued to a sample of South African practitioners who had had experience of the application of the IFRS for SMEs so as to enable the researcher to obtain a general understanding of their perceptions regarding the adoption and implementation of the IFRS for SMEs in South Africa. The questionnaire was based on the themes that had emerged from prior literature. The development of the questionnaire is discussed in further detail in under section 3.3. The results of the questionnaire were then used to create an agenda for the purpose of conducting the semi-structured interviews. Interviews are often used in qualitative studies where the researcher is interested in gaining insights into or an understanding of beliefs and attitudes (Rowley, 2012). Thus, the interviews conducted provided additional data which enabled the researcher both to explore the research question in greater depth and to obtain a better understanding of the practitioners’ insights into the IFRS for SMEs and to gauge the extent to which these perceptions were in line with the survey results from the first phase of the study and in line with the results of prior studies. The interview process is discussed in further detail in under section 3.3.

3.2 Population and sampling

3.2.1 Structured questionnaire

In January 2017 the questionnaire was sent to a sample of qualified professional accountants, all of whom are members of the South African Institute of Professional Accountants (SAIPA) as these practitioners traditionally, tend to be involved in accounting services for smaller and non-listed entities (Wyk and Rossouw, 2009). Such practitioners are assumed to be knowledgeable in accounting and to understand the information needs of their clients (SMEs) with regards to financial reporting (Wyk and Rossouw, 2009). It was thus assumed that these knowledgeable practitioners who participated in the study would be able to provide appropriate responses.

As already discussed, a mixed methodology method was employed, with the questionnaire that was administered being used to assist with the development of the interview schedule for the semi-structured interviews. While the results of a descriptive study may be used to make generalisations about the entire population, this was not the intention of the researcher. There was no intention either to quantify results or to test hypotheses (Leedy and Ormrod, 2013). Consequently, convenience sampling (a form of nonprobability sampling) was used to determine the proposed sample size of potential questionnaire respondents. In view of the intended use of the questionnaire and its statistical results, convenience sampling was considered to be the most suitable form of sampling as there was no
need to identify a representative subset of the population concerned (Leedy and Ormrod, 2013). Although the researcher attempted to maximise the response rates a low response rate would not have invalidated the study findings as the data from the questionnaires was secondary to the data collected from the interviews. The sample size of 103 respondents was, thus, considered to be appropriate.

3.2.2 Semi-structured interviews

The semi-structured interviews were conducted with 13 (including the pilot study) accounting practitioners as recommended by Rowley (2012). The sampling was purposeful as the practitioners were selected to be part of the interview process (Rowley, 2012). The interviewees were selected from a variety of different backgrounds and geographical areas so as to enable the researcher to capture the true essence of the perceptions of South African practitioners. The interviewees could be categorised as follows: three professionals who played a regulatory role in the application of the IFRS for SMEs; eight professionals involved in the preparation of financial statements of a relatively large SME client-base; one professional involved in business consultancy and advisory with a wide knowledge of the IFRS for SMEs; and one auditor of a medium-sized audit firm that was typically involved in SMEs. The geographical profile of each respondent was as follows: one professional from Durban; three professional from Cape Town; one professional from Potchefstroom; and eight professionals from Johannesburg.

The purposeful selection of a relatively small group of experts may lead to bias. However, the practitioners selected to participate in this study included independent auditors and preparers of financial statements with experience in the application of the IFRS for SMEs for smaller and non-listed entities. Thus, in turn, ensured that the participants chosen were able to provide the insights required to answer the research question based on their knowledge and experience (Rowley, 2012).

The interviews took place between 25 February 2017 and 12 May 2017 in Johannesburg. It was essential that the qualitative sample was large enough to incorporate all or most of all perceptions but not to the point that the information provided became repetitive. Qualitative studies often reach a point of diminishing returns and a larger amount of data collected does not necessarily lead to more information. Although several factors affect sample sizes in qualitative studies, the point at which data saturation occurs is generally used as the guiding principle in relation to sample size (Mason, 2010). In this study saturation point had been reached by the 13th interview (Maroun and van Zijl, 2016).
3.3 Data collection instrument and data collection

3.3.1 Structured questionnaire

Similar to studies conducted by Van Wyk and Rossouw (2009; 2011), the quantitative data required in this study was collected through the administration of a questionnaire. The questionnaires were distributed to the participants who were attending various SAIPA seminars in Johannesburg and Pretoria in January 2017. The confidentiality of the respondents was guaranteed by assuring that only the researcher would have access to the data collected. Although the distribution of the questionnaires via e-mail or other online platforms was considered, the distribution of the questionnaires at seminars meant that potential respondents were captivated. Typically, the response rate of a questionnaire when there is a captive audience is high, if not 100% (Leedy and Ormrod, 2013). Furthermore, prior studies conducted in this manner have yielded a high response rate (Wyk and Rossouw, 2009; Wyk and Rossouw, 2011).

In order to ensure construct validity, the design of the questionnaire was based on emergent themes evident from prior literature (Van Beest et al., 2009; Dimi et al., 2014). A detailed literature review had been undertaken with the aim of identifying those aspects that would shed light on the experience of practitioners when applying the IFRS for SMEs. The aspects or themes identified were then translated into relatively short questions in order to solicit that information essential to the research effort (Leedy and Ormrod, 2013). Accordingly, the respondents were required to answer a structured questionnaire consisting of eleven, close-ended, Likert-type questions (Appendix A). Likert-type data is quantifiable and enabled the researcher to perform various descriptive statistics procedures on the data. As such, initial descriptive statistics, which included the mean and standard deviation, were generated using the statistical program, SPSS. In order to enhance reliability of the actual findings, a pilot study was conducted in early January 2017 (Leedy and Ormrod, 2013). The feedback that was received from the respondents who had formed part of the pilot study was then used to refine the questionnaire (Leedy and Ormrod, 2013).

3.3.2 Semi-structured interviews

There were two main reasons for the choice of semi-structure interviews as a means of data collection. Firstly, they are well-suited to the exploration of individuals’ perceptions and opinions of complex issues. Secondly, it was possible that the professional and educational profiles of the sample group could have varied between the different individuals and this, in turn, would have made the use of a
standardised interview schedule difficult (Barriball, 1994). The open-endedness of the questions mitigated the risk of rehearsed responses (Rowley, 2012), thereby enhancing both the validity and the reliability of the data.

The clarity, adequacy and suitability of the intended interview questions were tested by conducting a pilot interview. The findings of this pilot study were used in the analysis of data and, as such, were incorporated into the findings discussed in Chapter 5. In addition, the results of the pilot study were used to update and refine the interview agenda and this, then, enhanced research validity (Leedy and Ormrod, 2013; Wallington, 2014; Maroun and van Zijl, 2016).

A total of thirteen interviews, including the one interview conducted in the pilot study, were conducted. Nine of the thirteen semi-structured interviews were conducted face-to-face to facilitate the collection of the qualitative data (Rowley, 2012; Leedy and Ormrod, 2013). Face-to-face interviews are generally the preferred way of conducting interviews as they tend to generate the highest response rate due to the fact that they have the distinct advantage of enabling the researcher to build a rapport with the interviewees, thereby increasing the likelihood of their co-operating (Barriball, 1994; Leedy and Ormrod, 2013). The friendliness, approach and manner towards potential participants which are possible in a face-to-face meeting greatly increase the validity and reliability of the data collected (Barriball, 1994). The remaining four interviews were, however, conducted telephonically owing to the geographical location and time constraints of the respondents. The researcher made a deliberate choice to include candidates in various geographical locations so as to ensure a more holistic approach to answering the research question.

Before the interviews were scheduled, the interviewees were contacted telephonically and their participation in the study was requested. The interview formalities were also explained in detail. The interviewees were then formally emailed to ensure that they understood the nature and purpose of the research study. The interview agenda and the survey questionnaire were attached as part of this formal email to enable the participants to familiarise themselves with the purpose and the nature of the meeting so that appropriate responses could be given to enable the researcher to answer the research question (Rowley, 2012; Wallington, 2014; Maroun and van Zijl, 2016). In both the communications with the participants it was emphasised that the interviews would be conducted and analysed on an anonymous basis. These procedures helped to build rapport (Leedy and Ormrod, 2013) and also reduced the amount of time spent during the interview explaining the formalities, thus allowing more time to be spent on discussing the important aspects necessary to answer the research question. The interviews
varied in length with the determining factor being the length of time necessary to obtain sufficient data to generate worthwhile findings and to allow theoretical saturation to occur (Rowley, 2012; Wallington, 2014).

Each interview was recorded using a recording application on an iPad 4 mini. Permission to record each interview was obtained prior to the commencement of the interview. The main reasons for recording the interviews included ensuring the accuracy of the interview data as well as the avoidance of any constraints which may, otherwise, have resulted from the researcher having to take detailed notes (O’Dwyer et al., 2011; Rowley, 2012; Wallington, 2014; Maroun and van Zijl, 2016). It was also explained to the interviewees that the interviews would be transcribed and that a copy of the transcription would be made available to them upon request, thus enabling them to make any corrections or amendments as they saw fit (Rowley, 2012; Wallington, 2014).

As already mentioned, the interview agenda was developed based on the outcomes of the questionnaires. In view of the fact that the questions in the structured questionnaire had focused on a broad range of topics, a number of the questions in the interview agenda were focused on these same aspects. However, the interview questions were also more focused on those results from the survey that required further substantiation or exploration and, as such the interview questions, were classified into themes. The link between the outcomes of the questionnaires and the questions included in the interview schedule is explained in detail in Chapter 4A. Once these central questions had been posed, prompts were used in order to better understand the stance of the interviewee. The open-endedness of the interview questions resulted in issues being discussed in different sequences in the various interviews although each theme was addressed in each interview (O’Dwyer et al., 2011).

3.4 Data analysis and interpretation

3.4.1 Structured questionnaire

Before conducting any statistical procedures, the data from the questionnaires was manually aggregated into an electronic spreadsheet in Microsoft Excel as a way of organising the dataset. Each row in the Excel spreadsheet represented a respondent from the survey sample while each column represented the response to a question posed in the survey questionnaire (Leedy and Ormrod, 2013). This task was facilitated by both the identification of themes based on prior literature and the formulation of the questions in a Likert-type style. The data was then aggregated by a statistician into the statistical program, SPSS. The scores were used to generate a data frequency table as well as descriptive statistics.
in the form of the mean and standard deviation in order to obtain an understanding of the spread of the data (Leedy and Ormrod, 2013). In order to gain additional insights, the results from each question were displayed graphically, thus helping the researcher to gain an understanding of the way in which the responses varied. The researcher was aware that the measures of central tendency and variability portray a picture of the data. In order to extract the meaning of the results and to interpret the results, semi-structured interview were then conducted (Leedy and Ormrod, 2013). The purpose of the survey was to facilitate the formulation of the questions posed in the semi-structured interviews. No attempt was made to formulate conclusions or make generalisations about the entire population and, as such, no inferential statistics were performed (Leedy and Ormrod, 2013).

3.4.2 Semi-structured interviews

The data obtained during the interview process was analysed using a formal process of data reduction; data display and data verification (O’Dwyer et al., 2011; Wallington, 2014; Maroun and van Zijl, 2016). Shortly after each interview, the researcher listened to the recording and made notes on important points noted during the interview and on any practical aspects that may have affected subsequent interviews. The intention of listening to the recordings was to enable the researcher to become familiar with the key points that had been made.

This process of familiarisation continued with the transcription of the data into text form (Rowley, 2012). The interviewees were also informed that the interviews were to be transcribed. The confidentiality of both the interviews and the transcripts was guaranteed with the researcher informing the interviewees that only the researcher would have access to the data (O’Dwyer et al., 2011). The interview transcripts were sent to interviewees upon request, thus affording them the opportunity either to correct or approve data the data (Rowley, 2012).

The transcripts were entered into Microsoft Word as it was believed that this would result in a database of an appropriate structure. For this purpose the use of computer packages to manage the dataset was considered. However, since the dataset was relatively small, the researcher preferred to work with a Microsoft Word document and to move the text around (Rowley, 2012). The researcher perused the entire dataset several times so as to obtain an understanding of what it contained as a whole. The researcher re-arranged text so that all the answers to specific questions were presented together (Rowley, 2012). General themes and sub-categories were then identified from the dataset to obtain a general sense of the emerging patterns. This helped to provide some indication of what the data meant.
The themes were then codified, and the text of the transcript arranged according to the various codes developed. In order to avoid research bias, the classification and coding of the data was reviewed by two other researchers (Rowley, 2012). A summary of and extracts from the data obtained during the interview process are presented in Chapter 5. Based on the classification and coding, the researcher then analysed the data. The data analysis is discussed in Chapter 6.

3.5 Validity and reliability

The administration of the questionnaires followed by the corroborative, semi-structured interviews allowed for the collection of sufficient evidence to answer the research question, thereby contributing to reliability and validity of the study (Leedy and Ormrod, 2013). The design of the interviews (semi-structured) provided the opportunity for the researcher to gain an in-depth understanding of the practitioners’ viewpoints on the IFRS for SMEs in a reliable manner (Cohen and Crabtree, 2006). The development of rapport and the dialogue between the interviewer and interviewee were facilitated by the interview being tape-recorded and later transcribed (Cohen and Crabtree, 2006). The responses from the interviews were transcribed and the transcripts then sent to the interviewees for them to correct or amend them (Rowley, 2012). In addition, interviews were conducted until data saturation point was reached (O’Dwyer et al., 2011; Wallington, 2014; Maroun and van Zijl, 2016). Suitably experienced and knowledgeable participants were included in the questionnaire and interview samples, further contributing to the validity of the study (Wyk and Rossouw, 2009; Wallington, 2014). The questionnaire was grounded on the findings from existing literature (O’Dwyer et al., 2011; Maroun and van Zijl, 2016) while the interview schedule was derived from the results of the questionnaire, thus enhancing the validity and reliability of the study findings. Both the questionnaire and the interview agenda were reworked based on the results of their respective pilot studies (Leedy and Ormrod, 2013; Wallington, 2014; Maroun and van Zijl, 2016). The confidentiality of the potential respondents and interviewees was also maintained.

Chapter 4: Findings

This chapter is divided into two sections, namely, Chapter 4 and Chapter 4A. Chapter 4 presents the results of the structured questionnaire administered to SAIPA practitioners as part of the first phase of the research. This chapter first identifies the opinions of the sample of 103 SAIPA practitioners in a
general sense with reference to the responses received from the administration of the structured questionnaire. Chapter 4A may be seen as a bridging section between phase one and phase two of the study. It identifies aspects of the results of the survey upon which emphasis was placed, thus providing a context to some of the aspects covered during the interviews. Chapter 5 presents a summary of and extracts from the data of the semi-structured interviews which were conducted during the second phase of the study.

The intended use of the results of the survey was to obtain an overall idea of the beliefs of practitioners regarding the use of the IFRS for SMEs in order to assist in the development of the interview agenda. For this reason the survey results were interpreted primarily with reference to the 100% stacked bar charts and, in some cases, the mean values which were calculated for each question in the structured questionnaire. The mean value of each question was interpreted relative to the 5-point scale that was used to indicate the respondent’s answer. Values below the middle value of 3 were treated as indicating that a larger proportion of the respondents selected the lower values of 1 and 2 on the scale as opposed to the proportion that selected the higher values of 4 and 5. The results of the survey are discussed in the sections that follow. In cases where the questions related to the same or similar aspects of the IFRS for SMEs, the results are discussed and presented together.

4.1 Question 1 and 2: Practitioners’ involvement with the IFRS for SMEs

4.1.1. Question 1: The extent of the practitioners’ involvement with the various types of profit companies

The respondents were asked to indicate their level of involvement with profit companies that were either required to, or had the option to, apply the IFRS for SMEs as per the regulations contained in the Companies Act 71 of 2008. The results are graphically displayed in Table 5 below. For ease of reference the companies are referred to as type A; B; C; D; E and F which corresponds to the numbering given in the question.
There was a larger proportion of the respondents involved with profit companies with a PI score of at least 100 but less than 350 (D); profit companies with a PI score of less than 100 but whose financials were independently compiled (E); and profit companies with a PI score of less than 100 whose financial statements were internally compiled (F) (all of which used the IFRS for SMEs) as compared to the proportion of respondents involved in other entities. On the other hand, a relatively large proportion of the respondents were not involved in public companies that were not listed on an exchange but applied the IFRS for SMEs (A); profit companies with a PI score of above 350 and applied the IFRS for SMEs (B); and profit companies with an excess of R5m in fiduciary assets and applied IFRS for SMEs (C).

As may be seen from Table 5 above the most frequently encountered type of company in the sample was a company with a PI scores of less than 100 and whose financial statements were independently compiled (E). Profit companies with a PI score of at least 100 but less than 350 also appeared to be relatively common (D). The least common type of company that applied the IFRS for SMEs in the sample was public companies not listed on an exchange (A). This category also has the highest mean of 3.83. In this context a higher mean was associated with a lower level of involvement and was interpreted relative to a 5-point scale. There was limited research available with which the researcher could compare the results of this study and to substantiate the hierarchy of companies in terms of the
framework the companies applied. It must, however, be remembered that the respondents were members of the SAIPA and, as such, were typically involved with smaller entities (Van Wyk and Rossouw, 2009). In this light it was not surprising that the practitioners exhibited a relatively larger degree of involvement with companies with lower PI scores of below 350.

4.1.2. Question 2: The extent to which a framework other than the IFRS for SMEs was applied for profit companies

The respondents were asked to indicate the extent to which a framework other than the IFRS for SMEs was applied in respect of those profit companies listed in Question 1. The question was phrased in such a way that only if a respondent, when answering Question 1, had indicated involvement in the particular type of company, was the respondent asked to respond to Question 2. It is for this reason that the number of responses received in respect of the different categories of companies differed.

Table 6 below displays the results of Question 2. Table 6 reflected that the majority of the respondents were of the opinion that there was relatively little use of accounting frameworks, other than the IFRS for SMEs, by each type of company. The mean values were also above the middle value of 3 in respect of each type of company. In this case the higher mean values corresponded with a wider application of the IFRS for SMEs. These observations revealed a consistent use of the IFRS for SMEs which reflected a widespread application of the IFRS for SMEs by the practitioners in the sample.

The practitioners surveyed were also asked about alternative types of frameworks that were employed by SMEs if they did not use the IFRS for SMEs. Unfortunately, none of the respondents provided any such indication. Chapter 4A elaborates on the process followed in light of the above results and discusses the non-responses received to the question of specifically identifying alternate accounting frameworks.
4.2 Question 3: Relief from the financial burden of reporting

The respondents were asked whether or not they agreed that the IFRS for SMEs had relieved the burden of financial reporting in respect of those companies which, as per the Companies Act 71 of 2008, either had the option or were required to apply the IFRS for SMEs. For ease of reference these companies were referred to as types A; B; C; D; E and F which corresponded to the numbering given in the question. The results are presented in Tables 7 and 8 below.

The number of responses in respect of each category of companies is presented in Table 7 below. The number of responses was all less than the sample size of 103. Similar to the reasons given for the response rate to Question 2, the response rate to this question was due to the fact that each category of company referred to pertained to a respondent only if the respondent was involved in the type of company in question. Thus, the respondents’ perceptions were related to the level of practical experience they had with a particular category of company.

The stacked bar chart in Table 8 shows that the proportion of responses for each type of company was to be found towards the lower end of the scale (with lower values being associated with a higher level of agreement). This finding, together with the mean value of below the middle value of 3 for each type of
company, confirmed that the general tendency in the sample was to agree that the IFRS for SMEs had, in fact, relieved the burden of financial reporting in respect of each type of profit companies mentioned. With the exception of type A companies (public companies not listed on an exchange), the mean scores for all the other types of companies were similar and ranged between 2.08 to 2.13. The proportions of responses of each company, as presented in Table 8, appeared to be somewhat uniform when compared to each other. A larger percentage of the practitioners who gave their opinions in respect of type A companies were uncertain about the relief provided by the use of the IFRS for SMEs as compared to other types of companies. The above results are explained in Chapter 4A below.

*Table 7: Descriptive statistics showing the extent to which practitioners believed that the IFRS for SMEs had relieved the burden of financial reporting in respect of companies that have the option to apply the IFRS for SMEs*

<table>
<thead>
<tr>
<th>Type</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3A Public company not listed on an exchange that applies IFRS for SMEs</td>
<td>63</td>
<td>1</td>
<td>4</td>
<td>2.29</td>
<td>.906</td>
</tr>
<tr>
<td>Q3B Profit companies, PI score is at least 350, who apply IFRS for SMEs</td>
<td>74</td>
<td>1</td>
<td>4</td>
<td>2.09</td>
<td>.878</td>
</tr>
<tr>
<td>Q3C Profit companies, who hold assets in excess of R5m in a fiduciary capacity and who apply IFRS for SMEs</td>
<td>75</td>
<td>1</td>
<td>4</td>
<td>2.08</td>
<td>.912</td>
</tr>
<tr>
<td>Q3D Profit companies, PI score is at least 100 but less than 350 and who apply IFRS for SMEs</td>
<td>87</td>
<td>1</td>
<td>5</td>
<td>2.13</td>
<td>.950</td>
</tr>
<tr>
<td>Q3E Profit companies, PI score is less than 100, and whose statements are independently compiled in accordance with IFRS for SMEs</td>
<td>96</td>
<td>1</td>
<td>5</td>
<td>2.08</td>
<td>.991</td>
</tr>
<tr>
<td>Q3F Profit companies, PI score is less than 100, and whose statements are internally compiled</td>
<td>87</td>
<td>1</td>
<td>5</td>
<td>2.10</td>
<td>1.046</td>
</tr>
</tbody>
</table>
Table 8: Stacked bar chart showing the extent to which practitioners believed that the IFRS for SMEs had relieved the burden of financial reporting in respect of companies that have the option to apply the IFRS for SMEs

4.3 Question 4: Users of the financial statements

The simplification process that had resulted in the creation of the IFRS for SMEs had been based, in part, on the needs of the users (IASB, 2015b). The application of the IFRS for SMEs was intended for the preparation of general purpose financial statements. General purpose financial statements are those financial statements which are intended to meet the needs of users who are not in the position to expect an entity to prepare tailor made reports to suit their specific purposes (IASB, 2015c). The respondents were asked whether or not they agreed that the application of the IFRS for SMEs addressed the needs of the following five categories of users, namely, those users who had been acknowledged by the IASB and included banks that made loans to SMEs; vendors that sold to SMEs and used the SME financial statements to make credit and pricing decisions; credit rating agencies, customers of SMEs that used the SME financial statements to decide whether or not to do business with the SME in question.
and the shareholders of SMEs who were not also managers of the SMEs in question (IASB, 2015b). The results are displayed in Table 9 below.

Table 9: Stacked bar chart showing the extent to which practitioners believed that the IFRS for SMEs had addressed the needs of the users of the financial statements of SMEs

<table>
<thead>
<tr>
<th>Question</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4.1 Banks that make loans to SME’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.2 Vendors that sell to SME’s and use SME financial statements to make credit and pricing decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.3 Credit rating agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.4 Customers of SME’s that use SME financial statements to decide whether to do business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4.5 SME’s shareholders that are not also managers of their SME’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The graphical representation of the responses to this question in respect of each user group showed that a larger proportion the responses were towards the lower end of the scale. Lower values were associated with a higher level of agreement which, in turn, showed that the respondents believed that the IFRS for SMEs was suitable for the purpose of serving each of the relevant user groups. In addition, the mean value calculated for each user group was below the middle value of 3 and closer to a value of 2. This confirmed that, in a general sense, the respondents were of the opinion that the IFRS for SMEs had addressed the needs of each user group. SME financial statements were perceived as being of the most useful to vendors that sell to SMEs for the purposes of making credit and pricing decisions and also to banks that made loans to SMEs as these two users groups were found to have the highest average scores of 2.25 and 2.23 respectively.

4.4 Questions 5 and 6: Advantages and disadvantages of applying the IFRS for SMEs

The sample of practitioners included in the survey was asked about the extent to which they agreed with a list of seven advantages and seven disadvantages related to applying the IFRS for SMEs. As discussed in Chapter 2 the list of advantages and disadvantages was compiled from the previous studies.
4.4.1 Perceived advantages

The graphical representation of the responses received in relation to the advantages of applying the IFRS for SMEs in South Africa is displayed in Table 10 below. This graphical representation confirmed that majority of the respondents felt that the seven advantages included in the list were, indeed, applicable in a South African context. The mean values of each advantage were all below 3 and close to 2. This showed that, in general, the respondents agreed with each advantage. It appeared that the main advantages related to the manner in which the IFRS for SMEs had helped in the SMEs’ transition to the full IFRS, and the improvement of a company’s financial reporting system in terms of efficiency and effectiveness. These two advantages exhibited the highest mean scores of 2.02 and 2.13 respectively, as well as the largest proportion of respondents who agreed with the respective advantages.

Table 10: Stacked bar chart showing the extent to which practitioners believed advantages to be applicable to the use of the the IFRS for SMEs

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q5.1 IFRS for SMEs has eased the transition to the full set of IFRS for growing SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.2 Adopting IFRS for SMEs has improved the opportunities to obtain financial assistance from the banking sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.3 Adopting IFRS for SMEs has improved the efficiency and effectiveness of our company’s financial reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.4 IFRS for SMEs has increased the relevance and reliability of the information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.5 The transparency of information has increased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.6 Financial statements are more understandable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5.7 SMEs will be able to reach cross-border markets by applying IFRS for SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.2 Perceived disadvantages of applying the IFRS for SMEs

Table 11 below presents the results relating to the extent to which practitioners agreed with a list of seven disadvantages in the form of a 100% stacked bar chart. As may be seen, there did not appear to be a particular pattern to the relative proportions between the various disadvantages. Accordingly, Table 12 below was included to assist in the observations made in relation to this question. Mean values above the middle value of 3 were interpreted as a general tendency on the part of the respondents to
disagree with the disadvantage listed with the mean values below the middle value of 3 confirming the tendency to agree with the disadvantages. As may be deduced from Table 12 below, in a general sense, the respondents disagreed with four of the disadvantages and agreed with three. More specifically, respondents believed that the IFRS for SMEs had imposed a high cost burden in relation to the acquisition of new information technology on entities. In addition, the IFRS for SMEs had also proved to be burdensome in terms of the cost and time invested in training. It was also believed that the staff members of SMEs were not sufficiently qualified to apply the standards and would, therefore, require training by or the services of a practitioner.

Regarding the technical aspects associated with the standard, the following was observed. As may be seen from Table 11, the majority (54%) of the respondents disagreed that the IFRS for SMEs was of too high a level and should incorporate additional guidance. On the other hand, 36.9% only of respondents were of the opinion that the IFRS for SMEs was written in a style suited to general accounting, thus making it difficult to use. Of the remaining 63.1%, the majority (45.7%) either disagreed or strongly disagreed with this disadvantage while the remaining 17.5% was uncertain. The majority of the respondents (55.3%) believed that the IFRS for SMEs was not too difficult to apply because of the detail accorded to topic. In comparison with the 43.6% who disagreed that the IFRS for SMEs required the disclosure of information, thus making its application cumbersome, 34.9% only of the respondents agreed that this was a disadvantage.

The biggest obstacles appeared to relate to the cost and time constraints involved in staff training and the level of competency of staff in respect of the application of the IFRS for SMEs. This observation was based on the fact that most of the respondents (51.4%) believed that staff training was both time-consuming and costly and that the SMEs in South Africa did not have staff sufficiently qualified to apply the IFRS for SMEs. In addition, both these disadvantages demonstrated the highest average response rate of 2.76.
Table 11: Stacked bar chart showing the extent to which practitioners agreed with the disadvantages of the use of the IFRS for SMEs

<table>
<thead>
<tr>
<th>Question</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Uncertain</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q6.1 In relation to those entities that have adopted IFRS for SME's, the costs of new information technology have been high</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.2 Training of staff is time-consuming and costly</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.3 IFRS for SMEs are too high level and does not provide adequate guidance</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.4 IFRS for SMEs are written in a style for general accounting use making it difficult to apply</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.5 IFRS for SMEs are too difficult to apply because of the detail given per topic in the standard</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.6 IFRS for SMEs requires disclosure of information making its application cumbersome</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Q6.7 The SMEs in South Africa do not have the staff that is sufficiently qualified to apply IFRS for SME's</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Table 12: Descriptive statistics showing the extent to which practitioners agreed with the disadvantages of the use of the IFRS for SMEs

<table>
<thead>
<tr>
<th>Question</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q6.1 In relation to those entities that have adopted IFRS for SME's, the costs of new information technology have been high</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.93</td>
<td>1.140</td>
</tr>
<tr>
<td>Q6.2 Training of staff is time-consuming and costly</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.76</td>
<td>1.200</td>
</tr>
<tr>
<td>Q6.3 IFRS for SMEs are too high level and does not provide adequate guidance</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>3.26</td>
<td>1.234</td>
</tr>
<tr>
<td>Q6.4 IFRS for SMEs are written in a style for general accounting use making it difficult to apply</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>3.13</td>
<td>1.186</td>
</tr>
<tr>
<td>Q6.5 IFRS for SMEs are too difficult to apply because of the detail given per topic in the standard</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>3.36</td>
<td>1.153</td>
</tr>
<tr>
<td>Q6.6 IFRS for SMEs requires disclosure of information making its application cumbersome</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>3.09</td>
<td>1.164</td>
</tr>
<tr>
<td>Q6.7 The SMEs in South Africa do not have the staff that is sufficiently qualified to apply IFRS for SME's</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.76</td>
<td>1.324</td>
</tr>
</tbody>
</table>
4.5 Questions 7, 8 and 9: Contents of the IFRS for SMEs

Questions 7, 8 and 9 of the structured questionnaire focused on a few of the technical aspects contained in some of the topics of the IFRS for SMEs. It was not, however, the intention of the researcher to formulate a comprehensive list of these technical aspects and neither was it the purpose to carry out an extensive analysis of the contents of the IFRS for SMEs. Instead, the list of aspects selected for the purposes of the questions posed in the survey represented the more difficult to apply concepts referred to in the IFRS for SMEs and were grounded on the findings of prior studies. This was explained in greater detail in Chapter 2. It was anticipated that an indication of the extent to which the selected concepts had been encountered in practice, together with an idea of how difficult or easy it was to apply these concepts as well as their perceived significance, would provide a clearer picture of pertinent content in the IFRS for SMEs for the purposes of enhancing the understanding of the contents of the IFRS for SMEs.

4.5.1 Question 7: The extent to which the selected components of the IFRS for SMEs are encountered in practice

Question 7 of the survey asked the respondents about the degree to which each component had been encountered in practice. The results of Question 7 are presented in Tables 13 and 14 below. In relation to each component, a mean score above the middle value of 3 implied that practitioners encountered these aspects less often as a higher rating signified a lower level of experience. A mean of below 3 was interpreted as being associated with lower scores with lower scores relating to higher levels of experience with the component in practice.

The average score of the majority of the components was below the middle value of 3, thus indicating a general tendency on the part of the respondents to perceive the component as being encountered relatively often. The results in Table 13 were represented by showing the mean scores in ascending order. It was only PPE’s component approach which had an average response of 3.18 and defined benefit plans under employee benefits with a mean score of 3.40 which appeared to be encountered less often than the other components with the practitioners in the sample seeming to have a relatively high level of experience of these other components.
Table 13: Descriptive statistics showing the extent to which selected components of the IFRS for SMEs were encountered by practitioners in practice

<table>
<thead>
<tr>
<th>Component</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q7.7 Deferred tax</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.53</td>
<td>1.219</td>
</tr>
<tr>
<td>Q7.8 Financial assets and liabilities – fair valuing</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.54</td>
<td>1.109</td>
</tr>
<tr>
<td>Q7.4 Investment property – fair value model</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.69</td>
<td>1.237</td>
</tr>
<tr>
<td>Q7.5 Leases – straight-lining of leases</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.73</td>
<td>1.246</td>
</tr>
<tr>
<td>Q7.3 PPE – residual values</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.81</td>
<td>1.180</td>
</tr>
<tr>
<td>Q7.2 PPE – reassessing useful lives</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.86</td>
<td>1.172</td>
</tr>
<tr>
<td>Q7.9 Inventory – write down to NRV</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.89</td>
<td>1.111</td>
</tr>
<tr>
<td>Q7.6 Revenue – accounting for extended payments</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>2.95</td>
<td>1.124</td>
</tr>
<tr>
<td>Q7.1 PPE – component approach</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>3.18</td>
<td>1.297</td>
</tr>
<tr>
<td>Q7.10 Employee benefits – defined benefit plan</td>
<td>103</td>
<td>1</td>
<td>5</td>
<td>3.40</td>
<td>1.070</td>
</tr>
</tbody>
</table>

The results in relation to the fair valuing of financial instruments and the fair valuing of investment properties were of particular interest. The graphical representation in Table 14 above shows that the majority (more than half) of the practitioners in the sample were of the opinion that these two aspects were the aspects encountered the most often in practice. These components also had, relative to the other components, high average response rates of 2.54 and 2.69 respectively. Despite the fact that the frequency indicator in the question related to the practitioners’ experience of these aspects of the IFRS for SMEs and not the number of SMEs with the characteristic in question, the relatively high level of experience was, nevertheless, unexpected. The fair valuing of items in the financial statements is often a costly exercise for smaller type entities. Research conducted by Schutte and Buys (2011a) also suggested that fair value accounting is not a popular practice with the SMEs in South Africa with the
The majority of the financial assets observed in a sample of 100 SMEs being made at cost and 4% only of the sample reflecting investment properties (Schutte and Buys, 2011a). Accordingly, these two items were included in the interview agenda.

4.5.2 Question 8: Rate of difficulty in applying components of the IFRS for SMEs

The respondents were asked to indicate the degree of difficulty they had experienced in the application of the relevant components. These results are displayed in Table 15 below. Based on the results, it would appear that deferred tax, the fair valuing of financial instruments, investment property’s fair value model and the application of the Impairment recoverable amount represented areas that were relatively more difficult to apply as compared to others.

Table 15: Stacked bar chart showing the perceived rate of ease or difficulty in applying selected components of the IFRS for SMEs
4.5.3 Question 9: Significance of the components of the IFRS for SMEs in a South African context

In Question 9 of the survey the respondents were asked whether they felt that each component of the IFRS for SMEs was significant in a South African context. The researcher was aware that different definitions could have been attached to the word ‘significant’. For purposes of this study ‘significant in a South African context’ was interpreted as being appropriate to the SME sector in South Africa, irrespective of whether the practitioner believed the component in question was encountered often in practice. The mean scores for each component are presented in Table 16 below and the graphical representation of the results of question 9 is presented in Table 17 below.

Table 16: Descriptive statistics that show the perceived level of significance of selected components of the IFRS for SMEs

<table>
<thead>
<tr>
<th>Component</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q9.3 PPE – residual values</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.37</td>
<td>.964</td>
</tr>
<tr>
<td>Q9.4 Investment property – fair value model</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.37</td>
<td>.954</td>
</tr>
<tr>
<td>Q9.8 Financial assets and liabilities – fair valuing</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.39</td>
<td>1.016</td>
</tr>
<tr>
<td>Q9.5 Leases – straight-lining of leases</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.40</td>
<td>.978</td>
</tr>
<tr>
<td>Q9.7 Deferred tax</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.45</td>
<td>1.096</td>
</tr>
<tr>
<td>Q9.9 Inventory – write down to NRV</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.46</td>
<td>1.012</td>
</tr>
<tr>
<td>Q9.2 PPE – reassessing useful lives</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.48</td>
<td>.972</td>
</tr>
<tr>
<td>Q9.1 PPE – component approach</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.60</td>
<td>.967</td>
</tr>
<tr>
<td>Q9.6 Revenue – accounting for extended payments</td>
<td>101</td>
<td>1</td>
<td>5</td>
<td>2.61</td>
<td>.916</td>
</tr>
<tr>
<td>Q9.11 Provisions and contingencies – management’s best estimate</td>
<td>101</td>
<td>1</td>
<td>5</td>
<td>2.65</td>
<td>.899</td>
</tr>
<tr>
<td>Q9.13 Government grants – recognition of grant as income</td>
<td>101</td>
<td>1</td>
<td>5</td>
<td>2.65</td>
<td>.994</td>
</tr>
<tr>
<td>Q9.12 Impairment of non-financial assets – recoverable amount</td>
<td>101</td>
<td>1</td>
<td>5</td>
<td>2.66</td>
<td>.909</td>
</tr>
<tr>
<td>Q9.10 Employee benefits – defined benefit plan</td>
<td>102</td>
<td>1</td>
<td>5</td>
<td>2.79</td>
<td>1.037</td>
</tr>
</tbody>
</table>
The mean scores for each component were all below the middle value of the scale of 3 – some more than others. This result, together with the graphical representation of the responses shown in Table 17, showed that, with the exception of employee-benefit plans and accounting for extended payments, more than half of respondents had selected lower values on the scale as opposed to higher values on the scale. In this case lower values pertained to the perception of an item as either very significant (1 on the scale) or significant (2 on the scale). The results in Table 16 above were been arranged in order of the most significant to the least significant in relation to their mean scores. Consistent with the results of Question 7, the components with the highest mean scores were perceived as the relatively more significant aspects of the IFRS for SMEs and included PPE’s residual value; the fair value model under investment property; the fair value model under financial instruments; the straight-lining of leases and deferred tax.
4.6 Question 10: Measurement of the concepts contained in the IFRS for SMEs

Many of the important aspects of the IFRS for SMEs relate to measurement or valuation concepts. The study conducted by Uyar and Gugormus (2013) found that practitioners were moderately informed regarding certain valuation concepts contained in the IFRS for SMEs. Similar to the Turkish study, the respondents were asked about the extent to which selected valuation concepts were understood by practitioners. The results of this question are depicted graphically in Table 18 below.

Table 18 clearly indicates that, with the exception of intrinsic value, a larger percentage of respondents chose lower scores as compared to those who selected higher. The lower scores correlated with higher levels of understanding of the concepts. Conversely, higher scores showed a tendency on the part of the participants to agree that the concepts were relatively less understood. With the exception of the intrinsic value with an average response of 3.06, all the other valuation concepts had mean scores that were below 3. These results reflect that, in a general sense, valuation methods were believed to be relatively well understood by the practitioners.

Measurement concepts as related to historical cost and carrying amount were perceived as the best understood. The findings of the Turkish study also indicated that historical cost and carrying amount were the best known valuation methods or concepts (Uyar and Güngörmiş, 2013). There was also very little difference between the averages of these two concepts at 1.80 and 1.83 respectively. This finding was to be expected.

The measures of fair value and residual value did not appear to be problematic as each had relatively low mean scores of 2.10 each. It was possible that the respondents had answered the question in a theoretical sense and without any particular reference to the practical application of these valuation methods. This may not, however, have been the case for fair value as the results from Question 7 and Question 9 had showed that both the fair valuing of investment properties and the fair valuing of financial instruments were often encountered and deemed to be relatively significant. In addition, the responses to Question 8 had confirmed that both the fair valuing of investment property and the fair valuing of financial instruments were relatively easy to apply.

The mean scores of the measurement concepts related to the impairment of assets were similar – fair value less costs to sell (2.17); value in use (2.38); and recoverable amount (2.23). It would, thus, appear that fair value less costs of disposal was generally better understood than value in use. Also, fair value, it
would appear, was a concept better understood by practitioners. These results seemed to be in line with the results from Question 8. The responses to Question 8 had identified that the application of the recoverable amount was ranked as relatively easy as compared to the application of the other concepts and that the percentage of respondents who believed its application to be easy was greater than those who believed it to be difficult. In this regard refer to Table 15 above.

Table 18: Stacked bar chart showing the perceived level of understanding of the valuation concepts/methods

![Stacked bar chart showing the perceived level of understanding of the valuation concepts/methods](image)

4.7 Question 11: Amended version of the IFRS for SMEs

The respondents were asked about the extent to which they agreed with three statements pertaining to the updated version of the IFRS for SMEs. The first statement enquired about whether or not the 2015 version of the IFRS for SMEs had resulted in an enhanced understanding of the framework by clarifying its requirements. The second statement focused on whether it was believed that the introduction of the revaluation option under section 17 of the IFRS for SMEs has made a positive impact in the SME sector of South Africa by encouraging entities to adopt the framework while the third statement related to the significant amendments noted in section 29 of the standard and, more specifically, whether this section, because it generally mirrored the requirements of IAS 12, had made a difference in the reporting of tax. The responses are depicted graphically in Table 19 below.
All the respondents replied to statement 11.1, thus resulting in a 100% response rate. The majority of the respondents either strongly agreed or agreed with statement 11.1, but with a larger proportion agreeing (67%). The graphical representation presented in Table 19 also showed that, of the percentage of respondents who did not agree with statement 11.1 (33%), a larger percentage had answered that they were uncertain about the statement (27.2%) as opposed to those disagreeing with the statement (5.8%). In addition, the relatively low mean of 2.28 confirmed that, on average, the sample of practitioners perceived the updated version of the IFRS for SMEs to constitute an enhancement based on the various clarifications given.

Statement 11.2 was also answered by all the respondents. The majority of the respondents (56.3%) indicated that allowing SMEs the option to revalue items of PPE had made the standard a more attractive option and had encouraged its adoption in South Africa. In comparison to statement 11.1, a larger percentage of respondents answered either that they were uncertain (35%) or that they disagreed (8.7%). As such, the average score of 2.44 was slightly higher than that of statement 11.1. On average, however, there is a sense of general agreement regarding the inclusion of the option to revalue items of PPE.

Statement 11.3 was answered by all but one respondent. Table 19 showed that there was an approximate 50/50 divide between those who agreed and those who were either uncertain or disagreed. However, the mean of 2.58 provided evidence that, in general, the sample of practitioners believed that section 29 of the IFRS had brought about relief.
Chapter 4A

This chapter should be regarded as a bridging chapter between Chapter 4, which presented the results of the structured questionnaire, and Chapter 5, which presented the results of the interview process. As discussed in the chapter outlining the methodology employed in this study, the survey was performed as a means of facilitating the development of the agenda to be used during the semi-structured interviews that were conducted during the second phase of the study. Thus, this chapter was a means of explaining those aspects that had been observed from the results of the structured questionnaire and required corroboration or further explanation during the interview process. These aspects are discussed below.

4A.1 Alternate accounting frameworks

While the results of the structured questionnaire reflected a widespread use of the IFRS for SMEs by practitioners, the results did not reflect the use of alternate frameworks by practitioners. The question regarding alternate frameworks was not specifically included in the interview agenda. However, in so far as a discussion of possible alternative frameworks was relevant to answering other questions contained in the interview agenda, these frameworks were discussed during the interview process.

4A.2 Relief of the burden of financial reporting

The results of question 3 of the structured questionnaire showed that, on average, the practitioners believed that the IFRS for SMEs had relieved the burden of financial reporting in respect of each type of category that could, or was required, in applying the IFRS for SMEs in terms of the Companies Act. This result stood in contrast to the views initially expressed in the study conducted by Van Wyk and Rossouw (2009). The manner in which the IFRS for SMEs had had a positive impact on financial reporting was explored by including a question to this effect in the interview agenda.

4A.3 Advantages and disadvantages of applying the IFRS for SMEs

The results of the structured questionnaire revealed that the two most cited advantages of the IFRS for SMEs related to the manner in which it eased the burden of transition to a full IFRS in respect of growing SMEs as well as the manner in which it had improved the efficiency and effectiveness of an entity’s reporting system. In view of the fact that these two advantages were identified as the more prominent, an in-depth analysis of the manner in which the IFRS for SMEs has brought about these positive changes in South Africa, if at all, was explored via the semi-structured interviews.
The list of advantages cited in the structured questionnaire was in no means exhaustive and, therefore, the researcher used probing during the interview process in order to gain a better understanding of any other possible advantages or to elaborate on any of the advantages listed in Question 5 of the structured questionnaire.

In addition, in order to acquire a more concrete understanding of the challenges encountered during the application of the IFRS for SMEs in South Africa the interviewees were asked to give their opinions on what these challenges may be. Consequently, a question on the disadvantages of applying the IFRS for SMEs was included in the interview agenda.

4A.4 Users of the financial statements based on the IFRS for SMEs

The results of the questionnaire indicated that it would appear that the IFRS for SMEs was satisfying the needs of those users cited by the IASB particularly for the banks that make loans to SMEs and vendors that sell to SMEs on credit. The study conducted by Van Wyk and Rossouw (2009) identified banks as one of the primary users of the financial statements prepared for SMEs and, thus, the findings of this study corroborated the findings of the study by Van Wyk and Rossouw (2009). However, the study by Van Wyk and Rossouw (2009) also identified SARS and owner-managers as key users, particularly SARS with SARS being ranked as the most significant user, followed by the banks and then owner-managers.

While it appeared that the findings from the questionnaire do seem to confirm that the IFRS for SMEs is addressing the needs of each category of users, the relative importance of each type of user as well as the extent to which SARS and owner-managers are, in fact, users of SME financial statements were explored via semi-structured interviews. Accordingly, a question relating to whom the interviewees felt was the most significant users was included in the interview agenda.

4A.5 Contents of the IFRS for SMEs

The interviewees were not asked directly about measurement concepts but, instead, the application of measurement concepts was referred to indirectly by asking participants about the areas in the financial statements they felt were significant.

4A.6 Amended version of the IFRS for SMEs

While the survey did yield some positive results about the impact of the IASB’s changes to the IFRS for SMEs, the researcher was seeking a more detailed perspective on this impact. Thus, a question on the
sentiments of practitioners towards the updated version of the IFRS for SMEs was included in the interview agenda.

Chapter 5: Results of the semi-structured interviews

This chapter presents an analysis of the semi-structured interviews which were conducted. In total, thirteen interviews, including the interview which was held as part of the pilot study, were conducted shortly after the data from the survey had been collected. All the interviewees came from a background that would enable them to provide an informed opinion on the application of the IFRS for SMEs in South Africa. In addition, the respondents’ differing backgrounds also ensured a more holistic approach to answering the research question and enabled the researcher to analyse the IFRS for SMEs from the various perspectives of the practitioners. The categorisation of the interviewees was explained in Chapter 3.

The questions contained in the interview agenda were based on the themes that had emerged from the results of the survey conducted in January 2017 as well as those aspects of the IFRS for SMEs that the researcher had felt should be explored. The interview agenda is presented in Appendix B. The data collected from the interviews was summarised according to the emergent themes. Each theme that emerged is represented by a sub-section below. Section 5.1 presents an overall picture of the SME sector as perceived by the practitioners while section 5.2 discusses the perceptions of the interviewees regarding the easing of the burden of financial reporting. Section 5.2 also explains two apparent factors in South Africa that seem to affect the way in which the IFRS for SMEs has been received in the country. Section 5.3 discusses practitioners’ perceptions of the advantages and section 5.4 discusses the disadvantages of the IFRS for SMEs in respect of the SME sector of South Africa. Section 5.5 contains a discussion on the users of financial statements prepared in accordance with the IFRS for SMEs. More specifically, it focuses on whom the most important users are and whether or not the IFRS for SMEs satisfies their particular needs. Section 5.6 considers the contents of the IFRS for SMEs and, lastly, Section 5.7 discusses the impact of the amended version of IFRS for SMEs. This, in turn, deepened the researchers’ understanding of the acceptance of the IFRS for SMEs in the South African context.
5.1 Perceptions of the South African SME sector

A range of responses were given when the respondents were discussing the SME sector in South Africa or, rather, their perception thereof. Some of the respondents emphasised the importance of the SME sector in South Africa. It was argued that it was a “vibrant sector (R3),” and a “driver of the economy” in two ways – firstly, in the sense that it provides employment and, secondly, because it makes up a relatively large percentage of South Africa’s GDP (R7).

I think that it is probably the largest accounting sector compare to a listed space. I think that there are very few of these very large listed companies and most of our economy is made up of the SME sector. I think it’s crucial that we have sufficient guidance for the sector (R1).

The sector was also described as misunderstood. According to one of the respondents the SME sector includes individuals with a well-thought-out method of starting and growing a business as well as those who start informally as survivalists (R3).

[...]ou sit with people you know who say “I’ll start a business, I’ll sell apples on the side of the road” to the guy who has a very considered approach to business and says “I will start a business. I need a marketing plan; I need a business plan” and all of those things. It’s an interesting market because we sit on both sides but it’s not a unique market because the experience I have had … with practitioners across the world, is that wherever we sit in that SMME space, you get the same thing (R3).

Although not directly asked about their understanding of the SME concept, the respondents clearly had different ideas about what is meant by an SME. Their understanding appeared to be based on their individual dealings with SMEs. For example, one respondent involved in business advisory and business consultancy stated the following:

I don’t operate in an SME market- I operate in a business market. Either you are in business or you are not in business. The only thing that will define where you fit into it will depend on what your business model is and what your business ambitions are and what your business strategy is … when people come to me and they tell me they an SME … I tell them I can’t help them because they either in business or they not in business (R7).

Another respondent identified an SME as “fundamentally [being] an owner-managed activity that could be incorporated or unincorporated” (R2).
5.2 Relief from the financial burden

5.2.1 Overall picture

All the respondents identified some positive impact that they believed the adoption of the IFRS for SMEs had had in South Africa. However, their opinions on these positive effects differed. Several of the respondents perceived the relief of the burden of financial reporting as relating to the reduction and relaxation of reporting requirements when compared to the requirements in the full IFRS (R1, R4, R6, R8, and R9). Others identified the sense of standardisation achieved by the IFRS for SMEs as the positive impact of the adoption of the IFRS for SMEs in South Africa (R3, R5, R7; R10; R12; R13). In this regard it was, however, noted that standardisation does not necessarily lead to an improvement in the integrity and quality of financial reporting (R7). It was also felt that the standardisation had facilitated the creation of software packages which had helped to relieve the burden of financial reporting (R7):

[I]t’s easy to say I go and I don’t think about it, I just put my information through a financial reporting system and out will pop my financial statements … the package is an interpretation of the standard in a given set of circumstances (R7).

The reliance of the practitioner on automated software was identified as one of the factors that affect the value of the IFRS for SMEs. It was felt that the responses of the interviewees in relation to these software packages merited further analysis and, as such, this issue is discussed in more detail below in section 5.2.3.

5.2.2 Factors influencing the value of the IFRS for SMEs

During the interview process it became apparent that certain factors prevalent in South Africa were affecting the value of the IFRS for SMEs. These factors were categorised as follows: the maturity of the practitioners in the SME market; the regulatory framework that governs reporting in South Africa; and the widespread use of automated IT systems that assist practitioners with the drafting of financial statements. Each of these factors is discussed below in more detail.

Maturity of the population of practitioners

Several of the respondents commented on the effect of the maturity of the population of practitioners on the perceived usefulness of the IFRS for SMEs (R3, R1, R5, R8, R10). It appeared that the potential for the IFRS for SMEs to make an impact depends on the willingness of the practitioner to better understand the IFRS for SMEs (R3; R13).
Yes and no. Yes for those who are willing to experience what IFRS for SMEs gives to you. No for those that are beyond the 45/50 age and are finding it difficult to change. Because when you ask those guys they still talk about GAAP ... and so we have this hybrid system ... (R3).

It was interesting to note that the younger practitioners were quicker to recognise the value of the IFRS for SMEs as compared to their older counterparts (R5). This may be related to the contemporary education system in South Africa. Despite the fact that there is considerable reliance placed on teaching the full IFRS, the principles contained in the IFRS for SMEs are generally aligned to those in the full IFRS. The focus on learning full IFRS may, however, disillusion the practitioner who applies the standards designed for SMEs based on his/her knowledge of the full IFRS as the practitioner may not have “fully understood and appreciated the differences (R1)”.

Also, it is only since its adoption in 2005 that the full IFRS has been incorporated into teaching programmes at tertiary institutions and many practitioners have studied accounting frameworks such as GAAP. This presents a challenge to a particular age group of practitioners who are forced to delve into the details of the standard in order to understand it (R3, R8). Furthermore, it is often difficult to “unlearn” previous principles which were studied unless the practitioner is willing to undergo a “re-education” by investigating the standard in a university setting which examines and assesses the outcomes of it (R3).

I think that we have in South Africa a large population of practitioners who studied prior to 2005 ... I think that a large proportion of our practitioners have not engaged in a formal university environment with all the other standards and so I think that there would be very different levels of understanding. I think that there might be not enough understanding of concepts ... (R1).

It’s [Gaap] an area of comfort. So something you have not seen and now have to learn from scratch and, in some cases, the 45 years olds are ok. We have got members that are in their mid-60s, 70s and those are the ones ... what is actually interesting is that sometimes they say I’ve been doing this all along and then you sit and say ok let’s ... analyse what it is you have been doing. And then they realise that it’s not really the standards that they have been following. Even the SA gaap that they say they are following – it’s not even that (R5).

When I go to the 45 below to, say, mid 30s, I think it’s a little more acceptable but it depends on the person and whether they willing to experience the education again because it’s a re-education. Then when you go below that, depending on where you studied and what the curriculum has said, you have been exposed to IFRS (R3).
It was suggested that creating an awareness of the merit of the IFRS for SMEs may help to reduce the fear and discomfort associated with using the standard. It is, in fact, for this reason that training in the form of SAIPA workshops, for example, is offered or articles are written on specific sections of the IFRS for SMEs (R5). However, training does not necessarily mean that we go back to the standards because “we have enough knowledge of debits and credits to make sense of it” and the full IFRS to carry us through (R1).

Practitioners should be going down and understanding what the definition is and going through each component of the standards to understand the standard again and we have kind of lost, I think, somewhere along the way, what education and CPD means. We kind of just do it. We do it for 3 hours – whether we listen or not if we have attended. Whether we learn or not is a different situation. Whether you go back and apply what you have learnt, so unfortunately, and I mean it’s true of most of the SMP (small medium practice market) - there isn’t time to learn (R3).

**Regulatory framework in South Africa**

The researcher did not detect any perceived difficulties being experienced in relation to understanding and applying the regulatory requirements that prescribe the accounting framework to be used as per the Companies Act. In addition, the respondents appeared to be comfortable with the calculation of the PI score and its use in the determination of the accounting framework to be used. It was, however, argued that adherence to a regulatory framework may have resulted in the application of the IFRS for SMEs being based on the need to comply rather than the need to produce financial statements based on the needs of users (R2; R11; R13). One respondent alluded to the following regarding the scoping requirements of the IFRS for SMEs:

I think that with regards to checking the scoping requirements of IFRS for SMEs, I think that less importance is placed on that. I think the bigger focus generally in South Africa is placed on our legislative requirements. So you would ideally look at the Company’s Act requirements and don’t always look at the scoping requirements of IFRS for SMEs (R1).

As is discussed in more detail below, SARS and the financing institutions such as banks were identified as key recipients of the financial information of SMEs. For example, SME clients prepare financial statements in the event of an audit by SARS while banks require financial statements for lending purposes. It was further argued that the need to comply with these regulations results in the denigration of the value of the IFRS for SMEs (R7).
Unfortunately, the standards are written in terms of principle based but the practitioners apply it as a rule. And that is where the value of the standards is being undervalued... (B)ecause the banks require a set of financial statements, SARS requires a set of financial statements ... that becomes the rules and therefore the standards are now treated as the rules rather than the principles (R7).

Reliance on automated software accounting packages

Automated IT software which enables accountants and auditors to draft financial statements according to frameworks such as the IFRS for SMEs is now available. The most commonly used drafting system appears to be CaseWare. It would appear that the use of software such as CaseWare is widespread in South Africa (R1; R3; R5; R7; R8; R9; R10; R13).

The views about the extent to which practitioners rely on such automated systems were split. In addition, the interviewees also expressed differing views about whether or not this reliance impairs professional judgement. Those participants from a regulatory background expressed concern over the use of automated systems such as CaseWare by practitioners for the purpose of drafting financial statements (R1; R5; R8) with the financial statements prepared using CaseWare and other drafting software being described as being of inferior quality (R1). Generic information which may not be relevant to the users is often presented in these financial statements (R1; R3; R5; R8; R10: R13). In addition, it is also possible that this reliance on automated systems may prevent the practitioner from going back to the detail of the standard and understanding its requirements (R1; R8). Thus, the practitioner may be unable to apply his/her mind and this, in turn, may be detrimental to the client (R1; R5; R6; R10; R13).

(T)he fact that it makes it easier, does it mean that you are actually assessing the risks? Whereas in Excel you can’t just decide to insert lines and remove lines at will ... so you can’t just decide to add a diversification of investments without taking into consideration the cash implications without taking into consideration the disclosure requirements without taking into consideration the recognition and the measurement ... I am happy with CaseWare if the framework entrenchment is recognition, measurement, classification and disclosure -that they still going to apply that principle without relying on CaseWare to do it for them (R6).

However, it also appeared that practitioners believed that the use of CaseWare or similar software may result in the appropriate and correct application of the standard (R3).
Practitioners only started applying IFRS for SMEs much more after the introduction to Draftwork Pastel ... I can tell you now if I take their electronic tool away of complying with IFRS that none of them will comply with IFRS because then it becomes too complex ... IFRS for SMEs has assisted them primarily because they got now a tool of compliance (R7).

As discussed above, it is perhaps the unpacking of the standards that is required if the IFRS for SMEs is to realise its true potential. In order to acquire the detailed level of understanding required, practitioners would have to be willing to invest the necessary time (R3; R5). However, many practitioners may not have the amount of time needed available and, thus, it may be that this time constraint is promoting the reliance on CaseWare (R3).

‘It’s [CaseWare] good as it’s forcing people to keeping structure but it’s a bad because it’s not allowing them to delve deeper and think about the issue that you are reporting on. Because essentially you are reporting – you have the right to say this company’s policies are not in keeping because it is not cost effective and list them down. But people don’t do that (R3).

In contrast to the views expressed above, the majority of those practitioners making use of the software were under the impression that the manual intervention that is required to utilise the software was sufficient to ensure that there were sufficient checks on the accuracy and validity of financial statements and, thus, that the integrity of the financial information remained uncompromised (R4, R9, R11; R12). The advantage of using the software is that it saves time (R4; R5; R6). In addition, it is also easier to put financial information together in the form of financial statements (R6) and this, in turn, affords practitioners time to invest in other meaningful work while allowing the system to take care of the “tedious” work (R5).

5.3 Perceived advantages of applying the IFRS for SMEs in South Africa

The results of the survey conducted in January 2017 showed that one of the most prominent advantages of applying the IFRS for SMEs in South Africa was that it has assisted with SMEs’ transition to reporting under the full IFRS in instances where the SMEs were already making use of the IFRS for SMEs. It was felt that another important advantage was that the IFRS for SMEs had increased the efficiency and effectiveness of a company’s reporting system. The respondents were asked about their views on this in order to unearth explanations of these results. Other advantages of applying the IFRS for SMEs were highlighted and are discussed below.
5.3.1 The IFRS for SMEs helps the transition involved in growing SMEs to full IFRS

Some of the respondents answered in a hypothetical sense by agreeing that SMEs would, in fact, benefit from the application of the IFRS for SMEs if the SMEs were to expand and, ultimately, transition to full IFRS (R1; R8; R9; R11; R12; R13). The revaluation option under PPE included the 2015 amended version of the IFRS for SMEs was cited as an area that would facilitate this transition and allow it to happen at a faster pace (R8). Other interviewees agreed that this was an advantage based on what they had practically encountered even if this had been to a limited extent (R2; R5; R6, R11). However, one practitioner qualified this by stating that, in view of the users of the financial statements, this would not be perceived as an advantage although, from the point of view of practitioner, it would ease the transition.

I say to people you start off as a micro entity but you do not run the business to remain a micro business. One day you want it to grow, you want it to get to a big corporate. So the transition will not be too much if already you were using a framework that will carry you irrespective of the size of the business. So that way it is making a difference (R5).

Group structures appear to be relatively common in the SME market (R11). Group structures are evidently on the increase given the economic conditions in South Africa with many businesses failing and, as a result, merging in order to sustain themselves (R5). In the context of a group structure in which a smaller SME-type subsidiary applying the IFRS for SMEs joins the group and has to transition to full IFRS, the IFRS for SME basis has eased the transition as the principles are the same (R1; R5). In this regard, however it was mentioned that, if a group structure which contains material subsidiaries, although these material subsidiaries could apply a simpler framework such as the IFRS for SMEs, they are forced to comply with the full IFRS as this is the less burdensome option from the group’s point of view (R1).

5.3.2 The IFRS for SMEs improves the efficiency and effectiveness of a company’s reporting system

The extent, to which the respondents agreed that the IFRS for SMEs improved the efficiency and effectiveness of a company’s reporting system was an advantage, as well as the fact that the IFRS for SMEs played a role in enhancing an entity’s financial reporting system, differed. It was argued that the use of a common set of accounting standards created uniformity in preparing financial statements (R1; R8; R12) and that has enhanced the users’ understanding of financial information (R1; R8). The fact that
a set of financial statements has been prepared on an IFRS for SME basis created confidence in the accuracy of the numbers as far as the third party users were concerned (R4; R10). From the viewpoint of the practitioner, the IFRS for SMEs represents the minimum information that is required to accompany financial figures and, as such, forces the practitioners to consider the economic reality of the transactions, events and conditions of the entity in question (R5). In addition, it has enabled the professionals to accommodate the financial development of their SME clients by creating a reporting environment that is small business friendly (R6). In addition, the simplification of the disclosures reduces the time taken to produce financial statements (R9). SME clients also have to reach a certain level of maturity in terms of understanding the need to comply with reporting requirements (R3) and, therefore, the attitude of the client determines the enhancement that the IFRS for SMEs could bring about (R12; R13). To a certain extent in relation to specific items such as related parties, fixed asset disclosures and third party loans, the IFRS for SMEs has made the directors more aware of the reporting requirements in terms of both the IFRS and tax. For example, before the application of the IFRS for SMEs the flow of money between the two entities which were part of the same group would not have been as closely managed. However, in view of the disclosures in respect of related parties, entities have to make sure that they repay such loans, thus resulting in improved financial control. The trading entity may initially have given a loan to a property entity, the property entity over time would accumulate sufficient cash reserves but would not necessarily use these reserves to repay the loan. Thus, the IFRS for SMEs has created a certain awareness. (R11).

5.3.3 Other advantages

The IFRS for SMEs has improved the quality of financial reporting in South Africa (R1; R3) and this, in turn, has enhanced South Africa’s reputation globally (R1) with this helping to attract foreign investors as people are less hesitant than before to invest in South Africa (R1).

Accounting frameworks such as client-specific policies may require an interpreter because the basis varies from client to client.

It’s easier to use the framework for all of them rather than having two formats of preparing your financial statements. It’s easier for anyone who comes to your client to understand how you have arrived at your financial information because you don’t have to explain it. With the accounting policies, somebody has to be there all the time your financials are being interpreted because they need to understand the basis that you have used ... Whereas ... the minute you say you have used IFRS for SMEs then they should be able to understand what you have done in your financial statements (R5).
It would appear that GAAP left considerable room for interpretation (R4, R11) and, thus, the structure created by the IFRS for SMEs “now ... gives you a set way of doing thing (R4)”. This sense of uniformity was deemed to be a significant advantage (R10; R13) and, in some cases, the only advantage (R2; R7).

Before IFRS for SMEs you could basically decide on your own accounting policies. As long as they sort of worked ... you could get away with it and it was quite acceptable. And that made it difficult for users of financial statements – for banks and other users. And I think that is where the most positive impact actually is (R10).

Furthermore, a consistently applied standard has also resulted in comparability and this has aided investment decisions (R1). Furthermore, it creates awareness and an understanding on the part of the directors or shareholders that a certain level of information is required and, as such, it makes them more responsible than may previously have been the case (R11).

When describing the advantages of applying the IFRS for SMEs, one interviewee described the potential of the IFRS for SMEs as follows:

If you use IFRS for SMEs properly then there are more advantages than what I have been saying. Because if you apply your mind then you will see you have much better information that can be used for the decision making, both internally as well as externally. At the moment I can tell you 99.9% of financial statements are not even looked at by the owners. Now that tells me there is a problem. You can't tell me that there is compliance but the principal user who is the owner does not even look at it (R7).

5.4 Perceived disadvantages of applying the IFRS for SMEs in South Africa

5.4.1 Onerous nature of the IFRS for SMEs for micro-entities

It was agreed that the IFRS for SMEs was less burdensome than the full IFRS (R1). For the very small entities or the so-called micro-entities, however, it was still described as onerous (R1; R3).

I think that even though the Company’s Act is trying to reduce the financial reporting burden by putting in the PI score, I think that more could be done. It might still be burdensome to prepare a set of IFRS for the SME financial statements for a micro-entity. But, that is assuming that we have a third-tiered reporting system which we do not currently have (R1).

It was, however, suggested that the correct application of the standard, which requires a more detailed understanding of the various cost benefit exemptions, may help alleviate its seemingly onerous nature (R1; R3).
Maybe that comes down to the application of IFRS for SMEs and taking the exemptions, such as undue cost and effort actually applying it or maybe it comes down to understanding the standard and understanding that all the disclosures may not necessarily be required … So, I don’t know if reducing the burden further is just the proper application of the IFRS for SMEs or if we actually need an even simpler reporting framework because we have these micro-entities … (R1).

Some respondents agreed that a simpler reporting framework would be worthwhile but noted that there would be a challenge regarding how to do this (R1, R3, R11). If, for example, more options are included and the discretion lay with the practitioner, the resulting framework would be similar to GAAP and would lack comparability (R3).

I think that, if we do have third-tier reporting, it would have to be based on something that is reliable and valid with has those underlying qualitative characteristics. So, its probably going to be that the starting point will be IFRS for SMEs because that makes the most sense. And, so, then the challenge will be what to leave out and why and that was why my earlier point was that I don’t know if it’s that people are not applying IFRS for SMEs correctly because the disclosure requirements and the requirements of the standards are not a tick box exercise (R1).

5.4.2 Affordability

Many of the SMEs are not willing to incur the costs of implementing the IFRS for SMEs in respect of audit fees and the drafting of financials because the main purpose of their financial statements is primarily to satisfy SARS or the banks (R11). From the standpoint of the SME, the affordability of suitably qualified staff may be burdensome for the smaller sized entity (R5). However, from the standpoint of the practitioner, it was argued that the cost and time involved may be burdensome but only initially (R5; R9; R10).

I think that, for some companies the initial implementation was costly because they would have financial statements that … were not of a good standard. And first implementation of IFRS for SMEs there would have to have been restatements and all types of things as the standard prescribes. So, that would definitely have been costly and that would have taken time. And, then, I think, yes, training of staff, training of practitioners. So they would have tried to, maybe, recoup some of those costs from their clients but I think also internally the guys would have had to change their systems a little bit and would have had to do their accounting a little bit differently – a little bit more diligently or in a different detail and that would have been one of the teething issues (R10).
Furthermore, the lack of a uniform accounting standard in an accounting practice necessitates the creation of client-specific costs which may actually be more costly (RS: R13).

Yes, the first year of adoption will take a lot of time that you need to invest but, once you have a system, you apply a system to all of the your clients and it actually works out easier and it saves you costs in the long run because, now for each new client, you need to design a specific framework. Whereas here you have a standard one and you apply it to all your clients (RS).

The IFRS for SMEs is a simplified version of the full IFRS. The researcher deduced that the direction of the IFRS for SME adoption would probably affect the cost of adoption. For example, it was noted that, when GAAP was no longer a reporting option, the mandatory transition from GAAP to IFRS had been difficult. However, the subsequent transition from the full IFRS to the IFRS for SMEs was much easier (R4).

5.4.3 Narrative style of the IFRS for SMEs

Several respondents, in fact, believed that the IFRS for SMEs was easily understandable and easy to read (R8; R9). When describing the various disadvantages of the IFRS for SMEs, one interviewee did, however, express concern over the style in which the IFRS for SMEs is written:

[I]t’s a framework that is written in a simpler style ... English is not everyone’s first language and so we have socio-economic circumstances ... our landscape might suggest that it is still a “difficult” to apply compared to a more developed economy. So it may still be a high cost of compliance for us (R1).

Another respondent criticised the manner in which the standard conveys the principles on which the IFRS for SMEs is based. It appeared that the narrative style was contributing to the fact that practitioners apply the standard as rule rather than from a conceptual point of view (R7).

There is not enough guidance as to what are the key principles. I can tell you, for me, there are four principles that cover the standards and they are not written in that way. It’s classification, recognition, measurement and disclosure ... for example ... revenue must be directly linked to your primary business activity. Now, what are your primary business activities? Your business model. Now, nowhere in the framework in the revenue standard does it speak about that. It speaks about core business but it doesn’t tell you that your core business fits into your business model (R7).
5.5 Users of the financial statements prepared for SMEs

In Chapter 5 it was noted that, on average, the practitioners in the sample surveyed had agreed that the IFRS for SMEs addressed the needs of the standard’s intended users appropriately. Those entities which offered finance, such as vendors that sell to SMEs on credit and banks that make loans to SMEs, were identified as the most prominent set of users. The perceived usefulness of a set of financial statements prepared in compliance with the IFRS for SMEs was further explored by the interviewees being asked whom they felt were the most important users and whether or not they felt that the IFRS for SMEs served the needs of these users. The question regarding the identification of the users was posed in an open-ended manner and without reference to any specific user group so as to avoid influencing the perception of the respondent.

Every respondent confirmed that those entities which offered finance, such as banks and similar institutions, constituted an important user group of the financial statements prepared by small and medium sized entities. Banks require financial statements for the purpose of granting and reviewing credit facilities.

... 90% of the time needing to meet banks’ deadlines. Yes, we meet the Company’s Act deadlines ... but it’s about the bank. Because my overdraft facility is important and I need to increase (R3).

One respondent described the need for finance as one of the biggest problems faced by SMEs (R7).

SARS was also identified by all but one respondent as an important user (R2; R3; R4; R5; R6; R7; R8; R9; R10; R11; R12; R13). It appeared that financial statements were still being produced as a point of reference in case of an audit by SARS (R2, R11; R12). In this regard, however, as noted by respondent 11, in the event of an audit from SARS, SARS does not necessarily look at the disclosure surrounding items but, instead, it drills down to source document level. As such the tests conducted by SARS tend to more from a test compliance point of view. For example, SARS may want to see the details of a related party loan and the interest attached to the loan. However, despite the fact that the IFRS for SMEs provides transparent disclosures surrounding such transactions, SARS would not necessarily look at the disclosure included in the notes of the financial statements even though the disclosure may help to identify certain transactions. There also appears to be a problem with the mentorship structure at SARS and this is seen to be filtering into the basic queries that the practitioner receives (R11).
While there may have been agreement among the interviewees regarding SARS and the banks as representing the most important users of the financial statements of SMEs, their opinions regarding the relative usefulness of a set of financial statements based on the IFRS for SMEs and a set of financials statements prepared according to another framework differed. Some felt that financial statements prepared in accordance with the IFRS for SMEs were likely to hold more weight and, thus, elicit less questioning from representatives of either the bank and/or SARS (R5; R9; R10). Banks are starting to require financial statements to be based on the IFRS for SME format (R13) and appreciate some form of compliance with a globally recognised accounting framework such as the IFRS for SMEs (R12). It was argued that the IFRS for SMEs is a superior framework as it is accrual-based as opposed to the cash basis which is often “rejected” by the bank (R7). It was also argued that the IFRS for SMEs does cater for the needs of the bank but that it lacks the qualitative disclosure of IFRS 7. The latter is particularly important in view of the emphasis on liquidity as a result of the general, low-growth, economic environment South Africa was facing at the time of the study (R1).

I do not know if a financial reporting framework can necessarily cater for a change in the economic cycle. But, we have seen from general regulation that everything is becoming disclosure focused because of the fact that there is so much uncertainty in the market (R1).

On the other hand, another respondent felt that the disclosures concerning liabilities and contingencies helped the bank to make financing decisions (R10).

Some of the respondents indicated that the framework upon which the financial statements are based does not make a difference in respect of meeting the needs of SARS (R13) and the banks (R3; R6; R7; R11).

It [IFRS for SMEs] will become more relevant if the practitioners can stress the importance of the financial statements to both internal and external users. Say, for example, SARS and the banks will... say we don’t need financial statements. We just need your bank statements, then IFRS will become irrelevant. Because the information requirements are now different (R7).

It was explained that queries and explanations in relation to financial figures still arose. Banks, for example, operate their own systems for the purpose of extending credit. These systems do not necessarily “talk” to the IFRS for SMEs (R3). As a result, figures are often presented to banks in a different way to enable banks to make their crediting rating assessments correctly (R3; R11). This may also be related to a lack of understanding of the framework on the part of the user.
We are finding a problem in terms of the banking sector where there aren’t people qualified enough to interpret all that information and so we would get comebacks (R11).

One of the delimitations of this study, however, was that it does not consider the use of financial information from the perspective of the user.

The typical ownership-management structure of SMEs was confirmed by a number of the respondents (R1; R2; R4; R5; R6; R8; R10; R11; R12; R13). Owner-managers are, however, not regarded as an important user of financial statements as these individuals tend to be extremely conversant with the figures as a result of their interactions in the business (R2, R7, R8, R10; R12; R13).

I am almost certain that 90% of the shareholders and directors don’t even look at the financial statements – they just want to look at the bottom line (R11).

In so far as there is a difference between ownership and management, however, owners are also deemed to be an important user group (R1; R9).

5.6 The contents of the IFRS for SMEs

The focus of this research was on obtaining an understanding of the perceptions of practitioners regarding the application of the IFRS for SMEs. This included acquiring an understanding of the technical aspects associated with the standard. Questions 7, 8 and 9 of the structured questionnaire were technically orientated. These questions were designed to analyse, although to a limited extent, selected concepts within selected topics contained in the IFRS for SMEs. The results of these questions were analysed according to their perceived significance in a South African context, the rate of applicability of these concepts in practice and the rate of ease or difficulty experienced by practitioners in the application of these concepts.

While the list of concepts used was not intended to be exhaustive, the results did appear to reveal certain anomalies regarding both the fair valuing of investment property and the fair valuing of financial instruments. The results of Question 10 in the structured survey showed that fair value accounting was relatively well understood by the practitioners. It was, thus, possible to deduce that the areas where fair values could be applied, such as investment property and financial instruments, may not pose any particular problems. This deduction, however, merited clarification as the standards were formulated on the basis of providing a simpler option for the less complex entities.
Things around fair value measurement would be difficult to apply because those are more sophisticated techniques ... things outside cost measurement, I think, would be difficult to apply (R1).

Investment property and financial instruments, including the use of the fair value model in the context of these topics were discussed during the interviews. This is discussed below. In addition, the results of the discussion on other areas that had been identified as significant by the respondents are also presented below.

5.6.1 Investment property

Accounting for investment properties seems to be a widespread phenomenon in the SME market (R4; R5; R6; R9; R10; R11; R12; R13). This statement was based on the practical experience of many of the practitioners interviewed. One respondent with a well-established client-base explained that this could be due to the way in which individuals had procured properties under the apartheid regime. Individuals would acquire property and register the property in the name of an entity specifically set up to house the property (R4; R6). Another respondent mentioned that individuals often set up property companies for the purpose of estate planning and that this type of setup lends itself to the SME market (R11).

A number of CCs, if you look at the database that CIPC or the old Cipro had, a big majority of those CCs were just for... property (R5).

However, the choice of using either the cost model or the fair value model depends on the client. One respondent, who served a relatively large number of property rental companies, explained that the need to fair value the investment property posed a problem when the IFRS was the only reporting option for such companies. However, since the adoption of the IFRS for SMEs, a consideration of the cost benefit exemption provided for in the investment property section allows the item to be carried at cost, thus providing relief. It was further noted that most SME clients prefer to keep items of property at cost (R4, R11; R12). Another respondent agreed with this statement and elaborated on it by explaining that accounting for investment property at cost could also be related to the shortage of valuers of assets and the lack of reference to an active market (R5).

On the other hand, another interviewee, also with relatively extensive experience with investment property, noted that the fair valuing of investment property was relatively common (R9). The intention of the client in reporting the figures may be the cause of the difference in response. If, for example, the client wanted a statement of financial position, fair valuing of investment property would be one area
where this could be done (R10). The fair valuing of investment property may also become more important in instances where the client is selling his/her business (R13) or is interested in selling the item of property in question (R12).

### 5.6.2 Financial instruments

Financial instruments had been encountered by all the respondents, although to varying degrees. It would appear that the basic financial instruments such as accounts payable and accounts receivable were the main the more predominant types of financial instruments encountered by the interview participants. The fair valuing of financial instruments had also been experienced in varying degrees. Some of the types of financial instruments that would require a fair value measurement included foreign loans (R7); share portfolios (R9, R11) and derivatives (R1). It was explained that foreign loans which arise as foreign forms of finance are apparently easier to obtain than South African loans. For example, a European loan is more easily obtained than a South African loan as the European financiers are often interested in promoting the economy (R7). Some financial instruments are also inflation targeting given the high level of inflation that South Africa is experiencing and may be one possible explanation of the results from the survey. In relation to these financial instruments that require fair valuing, the researcher did not note any level of difficulty being expressed during the interview process and, in general, the participants seemed comfortable with accounting for fair value movements. It was also noted that the reduction in the disclosures surrounding financial instruments, as compared to the full IFRS, was regarded as a significant advantage (R9).

### 5.6.3 Other areas of the financial statement identified as significant

Several interviewees clarified that areas of significance in financial statements depended on the nature of the client (R4; R9). PPE was, however, identified as relatively important (R4; R5; R8; R9; R12; R13). Aspects such as the residual value (R4; R8; R12) and component approach had not often been encountered by the participants (R4; R8; R12; R13). In addition, their experience with such concepts depended on the nature of entity (R8). For example, mining entities are likely to adopt the components approach (R4) as are manufacturing entities (R8). A possible explanation for this phenomenon is that several SMEs buy assets with the intention of using them for many years, resulting in a very small residual value (R4). In contrast to this view, if items are depreciated over a useful life that is shorter than their true lifespan, then residual values become relevant (R10). In instances where residual values had been encountered, the difference between the IFRS for SMEs and the full IFRS was recognised as a relief
to the extent that concepts such as residual values and the re-assessing of the useful life of an asset need not be done every year and only if there is an indication that such estimates have changed. This is particularly true if the item of PPE is considered to be complex and the use of an expert may be required to make the assessment (R8).

Impairments were noted as being important in the SME space (R1; R5). Some respondents noted an increase in impairments possibly as a result of the economic downturn in South Africa (R1) while others have not had much experience with impairments (R9; R10). The measurement principles related to the impairment of assets are not necessarily difficult to apply where, for example, a fair value may be obtained (R5). It was interesting to note that one interviewee had alluded to the fact that practitioners often calculate the fair value less cost of disposal and not value in use as they do not know how to calculate the value in use (R5).

**5.7 2015 Amendments to the IFRS for SMEs**

The effective date of the amended version of the IFRS for SMEs was 01 January 2017. Some respondents were not able to comment on the effect of the clarifications of existing requirements and any added cost/benefit exemptions included in the updated version (R6; R9). One respondent felt the standard would have more meaning if the basis of conclusions was incorporated into the body of the standard because this would add more value to the standard as it would “tell (one) the spirit in which those standards written and the environment that it is projected for” (R7).

**5.7.1 PPE’s revaluation model**

The IASB did permit the early adoption of the updated standard. It was noted that such early adoption suited some SMEs due to the inclusion of the PPE’s revaluation model permitted under Section 17 for the purpose of attracting better funding (R1) and promoting a business in instances where the entity may have been unhealthy but had assets that were undervalued (R8, R10).

I have seen clients who are keen to early adopt IFRS for SMEs because of that revaluation option. But again that it is because we are in an economic downturn and we need to make our balance sheets look better to get funding. So I am a little bit wary of the intention behind it. So it is making it attractive in this environment but I don’t think that that was ever the intention (R1).

These sentiments were echoed by several respondents who agreed in that early adoption would assist the procurement of funding (R3, R11; R13) and because it provided a better perspective of a business as
a whole (R5; R10). There may, however, then be additional deferred tax liabilities that would have to be explained to the bank (R11). In respect of the medium sized type of SMEs which may have possessed the resources required to revalue PPE, the inclusion of the revaluation option has given them the choice of showing their PPE at its fair value and reducing the potential for bias, but without having to meet the other burdensome requirements of the full IFRS (R8).

However, it appeared that most SME clients would find the cost of the revaluation too high and, thus, would prefer to retain the items of PPE at cost (R4; R11). Accordingly, this was seen as a superfluous inclusion (R4).

5.7.2 Deferred tax

The results of the structured questionnaire indicated that deferred tax is encountered fairly often in practice; it is relatively well understood by practitioners and is perceived as significant in the SME market. A range of responses were received on deferred tax during the interview process. Its frequent appearance in financial statements was reiterated by some respondents (R1; R3; R7) while other respondents had dealt with deferred tax less often (R12; R13). It was explained that the reason for this was that some entities depreciate assets according to the wear and tear allowance granted by SARS, thus minimising the difference between taxable income and profit before tax and, thereby, eliminating deferred tax. A few of the respondents noted that deferred tax was a complicated issue (R4; R10) and often presented a challenge in practice even for practitioners with several years of experience (R10). The alignment of the principles of section 29 with those of IAS 12 was seen in a positive light as IAS 12 was the basis upon which graduates are taught and could ease the perceived burden of its application in the workplace (R10). To some, however, it did not appear to matter whether the section had been updated (R2; R7) as, although deferred tax is a common occurrence, it is ignored by many as they do not have an electronic tool with which to deal with it (R7).

Some of the participants mentioned that they had found the old deferred tax section in IFRS for SMEs difficult to apply, even more so than IAS 12. Thus, the alignment of the principles of section 29 with those of IAS 12 should make practitioners’ lives easier (R1). Two respondents indicated that they made use of IAS 12 in any case and, thus, they felt that the amendments had not added to the complexity of accounting for tax, including deferred tax (R5; R9).
Chapter 6: Analysis of results

Chapters 4 and 5 presented the results of the first and second phases of the study respectively. Chapter 4 presented the observations made by the researcher with reference to the mean scores as well as graphical representations of the responses. Chapter 4A was a bridging chapter that contained an explanation of the link between the results of the survey and the questions included in the interview agenda while Chapter 5 presented extracts from the interviewees’ responses as well as a summary of interviews based on common themes which had been noted during the interview process.

This chapter contains an analysis of the first and second phases of the study in light of each other and also in light of existing literature. It, thus, serves as a direct means of answering the research question which, as explained in Chapter 1, was broken down into three sub-questions. Firstly, this research study was conducted to obtain an understanding of the overall views of South African practitioners in relation to applying the IFRS for SMEs. This included investigating the practical challenges that may exist in the SME market and that are related to the preparation of financial statements in accordance with the IFRS for SMEs and possible solutions to these challenges. Secondly, this research study focused on assessing whether or not the overall views of the practitioners indicated a change in attitude in respect of the scepticism which had initially been displayed when the IFRS for SMEs was first implemented in South Africa. Finally, this research study was aimed at investigating whether the 2015 amendments to the IFRS for SMEs, which were made as part of the IASB’s initial comprehensive review of the IFRS for SMEs have adequately addressed the concerns of practitioners regarding the application of the IFRS for SMEs in South Africa.

In view of the fact that the research problem was broken down into three subcomponents, this chapter is also divided into three parts, namely, 6A, 6B and 6C. Each of these sections contains an analysis of the data in order to answer the relevant sub-question.

Chapter 6A: The overall perceptions of the South African practitioner regarding the adoption and application of the IFRS for SMEs

6A.1 Diverse nature of an SME and a one-size-fits-all standard

An analysis of existing literature indicated that a variety of definitions may be ascribed to the term “SME” (Act, 1996; Act, 2008; Tudor and Mutiu, 2008; Schutte and Buys, 2011b; IASB, 2015b). This is true both locally and globally. In South Africa, for example, various pieces of legislation, such as the Small
Business Act and the Companies Act, define an SME according to different sets of thresholds (Act, 1996; Act, 2008). While the researcher accepts that the Companies Act is the only legislation that governs the reporting framework of SMEs in terms of complying with the IFRS for SMEs, the lack of a universal definition in itself may create a sense of disunity among practitioners and this may then add to the resistance to the adoption of the IFRS for SMEs as a practitioner may be inclined to resist the adoption of the IFRS for SMEs for clients on the basis of a different interpretation of the meaning of SME. While it may be the case that the Companies Act has enforced a sense of structure in relation to which companies may or are required to use the IFRS for SMEs, the potential threat of adoption becomes especially true for the smaller companies that, in terms of the Companies Act, have a PI score of less than 100 as these companies are not obligated to adhere to any specific framework (Act, 2008). For the practitioner with a client base of entities with a PI score of below 100, the argument of applying the IFRS for SMEs may become one of compliance based on an arbitrary PI score of less than 100 rather than being based on the actual merit of using the standard.

Financial statements prepared according to the IFRS for SMEs are designed to assist users in the making of economic decisions. However, misunderstanding the true value of the IFRS for SMEs means that its relevance becomes lost and this may, in turn, be detrimental to the users of financial statements. While the results of the structured questionnaire confirmed that the needs of the IASB’s intended users were, in fact, being met, the results of the interview discussions confirmed that of these users, banks only were considered as a key user although SARS was also considered a prominent user. Furthermore, there was disagreement among the respondents as to whether or not the IFRS for SMEs satisfy the respective needs of SARS and the banks, thus bringing into question the merit of the IFRS for SMEs in general. The perceived usefulness of the IFRS for SMEs deserved further commentary and, thus, an analysis is presented in section 6A.4 below.

Neither the data from the structured questionnaire nor the data collected from the interviews was suggestive of any perceived difficulty regarding the calculation and application of the PI score in terms of the Companies Act. However, despite this finding, the range of descriptions of the SME sector that emerged during the interview process was not relayed with any reference to the public accountability of an SME or PI scores. This confirms the vastness of entities on the SME spectrum and is, perhaps, suggestive of a disconnect between the requirements of the Companies Act and the true essence of an SME. One respondent maintained that the term SME was irrelevant for the purpose of a business,
arguing that being labelled an SME creates a tunnel vision which often restricts growth of the business in question (R7).

An understanding of the term “SME” becomes important when an element of standardisation is introduced. In this study such standardisation referred to a global set of accounting standards designed for SMEs. This is particularly true when one is trying to establish whether or not the use of this common framework has benefited South Africa. Public companies that are listed on an exchange are distinguished by exactly that, namely, their listing on an exchange, whether local or foreign. This element makes their regulation relatively easy in terms of applying a global framework. However, SMEs are not bound by a common factor and, as a result, there exists a broad range of entities distinguished by no specific criterion. The IASB’s definition of an SME has done little to assist with the narrowing down of the term, leaving it to discretion of jurisdictions to set and define the thresholds of SMEs. Accordingly, in South Africa, regulatory bodies are left with the task of deciding which entities are eligible for its application.

It is the very broadness of the term SME that makes the adoption of a uniform set of accounting standard such as the IFRS for SMEs difficult. This, in turn, raises the issue of the need for a third tier in South Africa’s reporting framework. This is discussed below.

6A.2 The merit of a third-tiered reporting system in South Africa

The IASB’s definition of an SME excludes criteria such as turnover and asset-base value. While it does take into consideration the number of employees, this has been done to a limited extent and was not intended to be a determining factor of what, in fact, constitutes an SME. The IASB initially used a benchmark of 50 employees as a guideline to determine the kinds of transactions, events and conditions present in an entity employing 50 members (IASB, 2015b). Accordingly the IFRS for SMEs may be considered as a reporting framework option for micro-entities (IASB, 2015b). Van Wyk and Rossouw (2009) expressed concern over whether the reporting of micro-entities in terms of the IFRS for SMEs was, in fact, suitable. The majority of participants in their study indicated that there was a need to simplify the reporting for micro or smaller entities (Van Wyk and Rossouw, 2009). In South Africa, the development of a third accounting framework that could be used by very small entities or micro-entities was promulgated by the SAICA. However, due to concerns that this proposed micro GAAP would be too similar to the IFRS for SMEs, the development of micro GAAP was not completed (Ludolph, 2012). At the time when initiatives to develop this micro GAAP was still underway, another study conducted by Van
Wyk and Rossouw (2011) on this proposed micro GAAP highlighted the need for a third tier in the reporting framework in South Africa, thus suggesting that the IFRS for SMEs did not meet the needs of all non-public entities.

There still appears to widespread support amongst practitioners in South Africa for a third-tiered system of reporting. Several respondents indicated during the interview process that a simpler framework for smaller entities on the continuum of SMEs could be beneficial. Such opinions seem to confirm that the prior challenge of dealing with a one-size-fits-all framework is still prevalent in South Africa at the time of the study and that further differentiation in the existing reporting framework is necessary. However, while the participants in this study may have indicated a preference for a simpler framework, they did not suggest a concrete way in which to go about doing so. No particular topic in the standard was considered either irrelevant or misplaced. It was, however, suggested that the starting point of such a simplification would have to be the IFRS for SMEs. This in itself is suggestive of the value of the framework.

However, it may be that the reason as to why no concrete suggestion was made by the interviewees and, perhaps, the reason as to why no third-tier in the reporting system has been successfully developed and implemented, lie in the way in which the current framework, the IFRS for SMEs, was being used at the time of the study. The manner in which the IFRS for SMEs was being used at the time of the study did not do justice to its potential as a set of differential reporting standards in South Africa. The relevance of the IFRS for SMEs has been lost, possibly owing to the practitioners’ need to comply with regulation. One respondent argued that the standard had become the rule as opposed to its being applied based on principle and that this has rendered the standard irrelevant. At this point it is also interesting to the note that the results of the study conducted by Van Wyk and Rossouw (2011) on the proposed micro GAAP had showed a strong orientation on the part of practitioners towards obtaining legal backing for the proposed micro GAAP. Although the proposed micro GAAP never reached a conclusive state, it was deduced that accountants required some type of support when adopting a certain framework (Van Wyk and Rossouw, 2011). There may, thus, be a trade-off between establishing thresholds that force compliance with the IFRS for SMEs but, in doing so, diminishing value, and using professional judgement in the absence of such thresholds. This gives rise to a thought process enhancing and promoting the value of the IFRS for SMEs. Another noteworthy consideration is that, if South Africa were to adopt a third-tier in its reporting structure, this may create the need for compliance and, as
discussed in the previous discussions, the need to comply with a standard results in the diminution of its value.

Two other factors were raised during this study that may be related to the undervaluing of the IFRS for SMEs. These include the use of drafting software systems and the adequacy of the training that is received by practitioners. These two aspects are further analysed below.

6A.2.1 Use of automated drafting software

The researcher is not aware of any prior research performed in South Africa investigating the IFRS for SMEs in the context of the technological innovations that have occurred in relation to automated software systems. The use of automated IT packages that assist with conducting audit procedures and the drafting of financial statements appears to be significantly more commonplace now than it was when the IFRS for SMEs was first implemented 10 years ago. The evolution of technology has allowed the practitioner to report faster, for example, by drafting financial statements with the aid of automated software tools such as CaseWare. CaseWare is a global leader in the auditing and financial software. Their products include CaseWare Enterprise which may be used to prepare a full set of financial statements according to the IFRS for SMEs. As has already been discussed, SMEs are playing a critical role in the economic growth in South Africa. Despite this, however, South Africa has one of the lowest survival rates of SMEs while SMEs are faced with a variety of challenges that threaten both their existence and their ability to attain sustainable growth. In this light, it becomes particularly important for SMEs in South Africa to embrace technology and understand the manner in which it may have a positive and meaningful impact on business development (Panday, 2017).

The use of automated software systems such as Caseware has brought about relief in the preparation of financial statements in terms of both time and cost. It was, in fact, even argued that its existence has enabled practitioners to apply the IFRS for SMEs and, in this way, to act as a catalyst for providing relief. However, one of the implications of using Caseware when preparing financial statements based on the IFRS for SMEs is that its use may lead to an over-reliance on the software. In turn, an over-reliance on the software may impair the level of professional judgement exercised and the level of due care given when drafting financial statements. During the interview process, several repercussions of such reliance were noted. These are discussed and analysed below.

Firstly, an impairment of professional judgement limits the ability of the practitioners to apply their minds. This may render the preparation of financial statements a tick-box exercise facilitated by the use
of the drop-down options that are part of the package. The result of this may be a display of generic information in financial statements which is of little relevance to the users. Consequently, the quality of financial statements becomes compromised, thus undermining the objective of financial reporting. Secondly, if the judgement of the practitioner is impaired, it is possible that the practitioner may develop a distorted idea of the simplifications and complexity surrounding the use of the IFRS for SMEs with such simplifications actually lying in the use software system itself, thus masking the complexities.

In the results of the survey conducted in the study, a general sense of acceptance of the IFRS for SMEs was observed by making reference to the findings arising from Questions 3, 5 and 6 in the structured questionnaire. In Question 3 the respondents were asked about the relief from the burden of financial reporting that the IFRS for SMEs would bring about in relation to the various types of companies categorised in the Companies Act. Question 5 of the structured questionnaire enquired about the advantages associated with the application of the IFRS for SMEs in South Africa while Question 6 asked about the perceived disadvantages of applying the IFRS for SMEs. The responses received to each question were relatively consistent. The results of Question 3 suggested that the IFRS for SMEs had, in fact, relieved the burden of financial reporting in a general sense. Question 5 supported this view as the mean scores of all the advantages discussed indicated that, in general, the practitioners agreed with each advantage. In addition, the results of Question 6 showed that, of the seven disadvantages listed, three only were considered to be disadvantages, perhaps indicating that there are a limited number of disadvantages to applying the IFRS for SMEs. The respondents disagreed about aspects of the difficulty experienced in relation to the technical aspects. The IFRS for SMEs was neither thought of as too high-level nor was there a perceived problem regarding the manner in which it was written. In addition, the respondents appeared to be comfortable with the detailed requirements of the various topics, including the disclosures required by the standard. As discussed in Chapter 4, on average, the respondents seemed to be inclined to disagree with the disadvantages. For ease of reference, the disadvantages are presented in the Table 21 below. The mean score of each disadvantage is also given and the disadvantages are arranged in order from the lowest mean to the highest mean. It is worth noting that it is possible that that the over-reliance of IT may have masked the true complexity of the standard, thus prompting practitioners to disagree with the disadvantages listed.

Table 20: Mean scores of the disadvantages of applying the IFRS for SMEs

| Q6.6 IFRS for SMEs requires disclosure of information, making its application cumbersome | 3.09 |
In short, there are clearly both advantages and disadvantages to the use of automated, drafting software. The main advantage lies in the fact that, if used properly, the software systems such as CaseWare may reduce time constraints, thus allowing practitioners the opportunity to allocate their time to other activities required to promote the activities of the SME. The main disadvantage related to the potential of the practitioner to become complacent when making use of an automated tool and this, in turn, may affect the integrity of the financial information produced.

6A.2.2 Training on the IFRS for SMEs

The main perceived disadvantages of applying the IFRS for SMEs in South Africa appear to relate to the cost and time-constraints associated with the training of staff and also the lack of understanding on the part of staff regarding the application of the IFRS for SMEs. Both these disadvantages demonstrated the highest average response rate of 2.76. Interestingly, these two disadvantages related to a certain extent to the perceived obstacles identified in the Turkish study conducted by Uyar and Güngörmüş (2013). Uyar and Güngörmüş (2013) found that the complexity involved in understanding the IFRS for SMEs was deemed to be less of a disadvantage than the inadequacy of accounting personnel’s training and the regulatory bodies’ neglect of adequate training. In addition, Hussain et al. (2012) argued that the main challenge in the successful adoption of the IFRS for SMEs is the provision of adequate training which is necessary to equip practitioners with the ability to prepare financial statements. In addition, practitioners who have not prepared reports in accordance with the IFRS face a formidable challenge. These sentiments were echoed by Bartůňková (2012) who found that main factor that reduced the willingness to prepare financial statements was a lack of knowledge of the accounting standard.

As discussed in Chapter 5, a common concern raised by the respondents was that the potential of the IFRS for SMEs to have a meaningful impact on the burden of financial reporting was correlated with the age of the practitioner. More specifically, those practitioners beyond a particular age were more resistant to accepting the IFRS for SMEs than their younger counterparts. This may be related to the education system in South Africa at the time of the study as leading universities in South Africa tend to
focus on the full IFRS but relatively few also focus on the IFRS for SMEs. This was not necessarily regarded as a flaw in the education system as, although there is considerable reliance on teaching the full IFRS, in the main, the principles in the IFRS for SMEs are aligned to those in the full IFRS. However, this may not inspire a practitioner to take an active role in understanding and appreciating the differences between the two frameworks and the practitioner may very well believe that, based on the similarities between the frameworks, a knowledge of the full IFRS equates to a knowledge of the IFRS for SMEs.

In their study, Uyar and Güngörmüş (2013) suggested that the experience of a practitioner does not impact on his/her knowledge of the IFRS for SMEs but, rather, that aspects such as training and level of education have a larger impact on the understanding of the IFRS for SMEs. In light of this finding it would be worthwhile for leading tertiary institutions that offer accounting courses to consider incorporating the IFRS for SMEs into their curricula as this may foster an understanding and appreciation of the accounting framework from the outset. This is particularly relevant in view of the fact that, by 2025, 75% of the global workforce is expected to be made up of the individuals who were born after 1980 (Yadao, 2017) and, as such, a large percentage of them will probably encounter the IFRS for SMEs during their tertiary education. It may be that the focus on the full IFRS details at the time of the study is less beneficial than an understanding of the application of the principles that underlie the accounting standards and which benefit both large and small businesses. Regulatory bodies such as the SAICA and SAIPA may also need to reconsider the methods of training offered to practitioners. An assessment of learning outcomes may, perhaps, enhance the quality of the knowledge conveyed during training sessions, thus, in turn, enhancing the quality of financial statements. Effective training may also alleviate the problems associated with an over-reliance on IT and allow practitioners to benefit from the efficiency of using an automated package while remaining mindful of the IFRS for SMEs and maintaining due professional care.

6A.3 Contents of the IFRS for SMEs

In Chapter 4 it was noted that, on the whole, the narrative style used in the IFRS for SMEs did not seem to present a problem to practitioners. This finding was based on the fact that, on average, the sample of practitioners surveyed neither believed that the IFRS for SMEs was of too high a level nor that the IFRS for SMEs was written in the style of general accounting, thus making it difficult to apply. In may, however, be the case that an over-reliance on CaseWare and similar automated tools has concealed the true reality of the possible complexities or simplicities of the standard. However, during the interviews,
the simplicity of the IFRS for SMEs was highlighted as an advantage of the standard by certain interviewees who felt that it was relatively easy to understand the IFRS for SMEs. Two of the thirteen interviewees only criticised the narrative style of the accounting framework although the factors to which they referred as affecting the narrative style related to the manner in which the standard conveys conceptual principles and the possible language barrier, given that the standards are written in English but are being applied in a country that has 11 official languages. In this regard, it may be helpful if the standards were translated into the most prominent of these 11 languages, for example, Afrikaans and Zulu.

It was not the intention of the researcher to specifically analyse the contents of the IFRS for SMEs although due regard was given to several aspects of the topics of the IFRS for SMEs in order to better understand the prevailing perceptions of practitioners regarding the technical application of such aspects of the IFRS for SMEs which are, arguably, more difficult to apply than others. The general impression of the researcher, based on the results of the survey and the interviews, was that the IFRS for SMEs appears to be relevant to the SME sector in terms of its content. In addition, the respondents to the structured questionnaire in this study did not perceive the IFRS for SMEs to be technically burdensome. This assertion was supported by the fact that the survey respondents disagreed about aspects pertaining to the level of difficulty experienced in relation to the technical aspects of the standard. To elaborate, when ascertaining the disadvantages associated with the application of the IFRS for SMEs, the respondents to the structured questionnaire neither thought of the IFRS for SMEs as being too high-level nor did the respondents express any discomfort with the detailed requirements of the various topics, including the disclosures required by the standard.

During the interviews the respondents were probed in relation to the areas of the financial statements that they thought were significant to SMEs. The range of responses given when they were asked to identify significant areas in the financial statements confirmed the diverse nature of SMEs. Several of the interviewees also clarified that the significant areas depended on the nature of the client. This is, thus, a further testament of the SME sector’s diversity. The responses to Question 9 of the structured questionnaire provided a picture on the perceived significance of certain aspects of the IFRS for SMEs and suggested that all aspects, with the exception of accounting for extended payments and defined benefit plans, were relatively significant in the South Africa context. For ease of reference, the graphical representation of the results is redisplayed in Table 22 below.
Table 21: Extent to which practitioners surveyed in the first phase of the study believed components on the IFRS for SMEs to be significant

<table>
<thead>
<tr>
<th>Component</th>
<th>Very Significant</th>
<th>Significant</th>
<th>Uncertain</th>
<th>Insignificant</th>
<th>Very Insignificant</th>
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<tbody>
<tr>
<td>Q9.1 PPE- component approach</td>
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<td>Q9.2 PPE-reassesing useful lives</td>
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<td>Q9.3 PPE- residual values</td>
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<td>Q9.4 Investment Property- fair value model</td>
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<td>Q9.5 Leases-straight-lining of leases</td>
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<td>Q9.6 Revenue- accounting for extended payments</td>
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<td>Q9.7 Deferred Tax</td>
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<td>Q9.8 Financial assets and liabilities- fair valuing</td>
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<td>Q9.9 Inventory- write down to NRV</td>
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<tr>
<td>Q9.10 Employee benefits-defined benefit plan</td>
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<tr>
<td>Q9.11 Provisions and contingencies- management's best estimate</td>
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<tr>
<td>Q9.12 Impairment of non-financial assets- recoverable amount</td>
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<tr>
<td>Q9.13 Government Grants- recognition of grant as income</td>
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</tbody>
</table>

With reference to the graphical representation of the results of Question 9 in Table 22, 50% or more of the respondents in the sample perceived the components of the IFRS for SMEs as being significant, with the exception of extended payments under revenue and employee benefits. This finding is also, although to a limited extent, suggestive of the varying natures of SMEs, given that each aspect listed is unrelated to the others. In view of the diverse range of activities of SMEs and the fluid nature of the SME landscape that is influenced by both economic and political forces, these results seem to suggest that the IFRS for SMEs are appropriate for the SME sector.

It emerged during the interviews that no specific topic in the IFRS for SMEs was deemed to be either misplaced or irrelevant in respect of serving the needs of the SME sector, thus further emphasising the appropriateness of the standard for SMEs. Prior studies have also shown that the content of the IFRS for SMEs is suitable for the South African environment (Schutte and Buys, 2011b; Schutte and Buys, 2011a).
In one of their studies, Schutte and Buys (2011a) compared the disclosure practices of SMEs of the time with the illustrative financial statements of IFRS for SMEs as a way of determining the suitability of the IFRS for SMEs for SMEs in South Africa. The results suggested that the IFRS for SMEs was addressing the reporting needs of South African SMEs appropriately and would probably become the preferred accounting framework for SMEs in South Africa (Schutte and Buys, 2011a). The study also highlighted the diverse nature of the SME sector (Schutte and Buys, 2011a). This may explain the overall perceived significance of most of the factors listed in Table 22 above.

Van Wyk and Rossouw (2009) did not manage to establish a definitive measure regarding the content of the IFRS for SMEs as the responses to the technical questions about of the standards were vague. In their study, the respondents were asked to rate the sections in the IFRS for SMEs as fully applicable, partly applicable or not applicable. Van Wyk and Rossouw (2009) inferred that the relatively low response rate in relation to the technical content could be related to uncertainty on the part of practitioners, a lack of understanding of the specific sections and/or irregular dealing with the technical content in practice. Due to the two phase nature of this study the researcher was able to clarify and corroborate suggestions made about the content of the IFRS for SMEs. An analysis of the noteworthy topics revealed in the first and second phases of the study is presented below.

6A.3.1 Deferred tax

Van Wyk and Rossouw (2009) cited a common belief that deferred tax is not applicable to SMEs. Nevertheless, 76% of the respondents in their study believed that deferred tax was a fully applicable section. The results of the structured questionnaire administered in this study revealed that the majority (54%) of the respondents were of the opinion that deferred tax was often encountered in practice while 63.7% perceived it to be significant in South Africa. In this sense the results of the two studies mirror each other.

The study of Van Wyk and Rossouw (2009) also found that, of the respondents that felt that deferred tax was only partly applicable, 50% explained that deferred tax should not apply to SMEs. Despite the fact that the results of Question 7 in the structured questionnaire revealed that deferred tax had often been encountered often by more than half (54%) of the respondents, a relatively large proportion (36.9%) also believed that it was less common while 8.7% maintained that they had never encountered it at all. Thus, the proportions between deferred being encountered often and it being encountered to a limited extent were not really so different. This was also highlighted by the respondents during the interview
process with the interviewees suggesting differing levels of involvements on the part of practitioners in deferred tax. The alignment between section 29 and IAS 12 represented a fundamental change in the IASB’s amended version of the IFRS for SMEs and, thus, deferred tax is dealt with further in Chapter 6C.

6A.3.2 Group structures

The structured questionnaire used in the study did not refer to any aspect of the IFRS for SMEs relating to group structures. However, it emerged during the interview process that group structures were fairly common in the SME environment of the time. It was explained that this increased prevalence of group structures could be attributable to the low rate of economic growth in South Africa and was resulting in entities merging and being taken over. Research into the SME landscape in South Africa shows that SMEs have a very poor survival rate, particularly in South Africa, and that a major factor prohibiting their growth includes the inability to obtain finance (Panday, 2017). Such realities may possibly explain the increase in group structures.

The finding regarding the increase in group structures was in contrast to the results of the study conducted by Van Wyk and Rossouw (2009) where it was found that topics relating to groups structures were not considered appropriate for the SME market. It was also suggested at the time that topics on business combinations such as joint ventures and associates could also be omitted from the standard. However, this suggestion would not have suited SME market at the time of this study. Also, at the time of the adoption of the IFRS for SMEs, little was known about the effect that it could have on the SME sector. The time lag of 10 years has seen a significant number of market shifts – political and economic – which have changed the SME landscape. Thus, while it may have been relevant to consider what to omit from the standard ten years ago, the question today is more appropriately what else needs to be included.

6A.3.3 Impairments

Schutte and Buys (2011a) did not observe any disclosures relating to impairment losses when they conducted their study analysing of the content of the financial statements of 100 SMEs. It was suggested that this lack of disclosures may have been be due to the close relationship between management and ownership which, in the case of the majority of SMEs, is often one and the same. SME managers are often conversant with the financial figures and, thus, the communication of impairment losses in the financials would be less relevant for their purposes. In their study, Schutte and Buys (2011b) also ranked the impairment of non-financial assets as moderately important. Approximately half of the respondents
(50.5%) who completed the structured questionnaire in this study perceived the impairments of non-current financial assets to be significant in the South African context. A further 30% were uncertain about their significance while the remainder, representing a relatively small proportion, perceived them to be of less significance. While most of the interviewees had not had much experience with impairments, it was, however, suggested that, given the South African low-growth economic environment, they were becoming more relevant. This may very well be the case in view of the low survival rate of SMEs in South Africa (Panday, 2017).

The measurement concepts related to the impairment of non-current assets include an asset’s fair value less cost of disposal, and its value in use – with the higher of the two figures representing the recoverable amount. In light of the responses to Question 10 in the structured questionnaire it would appear that fair value less costs of disposal is generally better understood than value in use. This may, perhaps, be due to the technical nature of the calculation involved in value in use – a calculation which involves the discounting of the future cash flows of the asset. Van Wyk and Rossouw (2009) found that impairments were not fully applicable which, in the context of their study, meant that certain parts of the section on impairments were not relevant to the SME sector. They surmised that this may be an indication of the complexity of calculating the value in use and the complexity associated cash generating units. The results from the structured questionnaire suggested it would appear that fair value is a concept which is better understood by practitioners. These results seem to be in line with the results of Question 8 of the structured questionnaire. It was identified from the findings from Question 8 of the structured questionnaire that the application of the recoverable amount was ranked as relatively easy as compared to the other concepts with the percentage of respondents who believed its application to be easy being greater than those who believed it to be difficult. Interestingly, however, without the researcher making any particular reference to the results of Question 10 of the survey, which had addressed valuation concepts, one interviewee alluded to the fact that practitioners often calculate the fair value less cost of disposal and not value in use as they do not know how to calculate the value in use. This allusion provided substance to the results of the questionnaire which showed that, although the valuation concepts were relatively well understood, practitioners tended to display a better understanding of the fair value less costs of disposal than they did for value in use.

6A.3.4 Fair value accounting

Areas of fair value accounting include PPE’s revaluation model, investment property’s fair value model and the fair valuation of financial instruments. Fair value accounting in the IFRS for SMEs was dealt with
to a limited extent with reference to these particular aspects of the IFRS for SMEs. Part of the simplification envisioned by the IASB was the relaxation of the measurement principles. This translated into an entity being given an option to apply the simpler method of measurement, which is often the cost as fair value data is often both difficult and costly to obtain. The concept of fair value accounting may also be technically challenging although this did not appear to be the case among South African practitioners. The results of the survey did not suggest any perceived difficulty or lack of understanding of fair value accounting. On the contrary, it appeared to be a measurement concept that was well understood. The researcher also did not detect any difficulty in the application of the fair value concept by the practitioners while the choice of using a cost element or a fair value element, where this was permitted by the standard, was judged according to a consideration of the cost involved from the perspective of the client.

It would appear that the use of fair value accounting may be becoming increasingly popular for a number of reasons. For example, the PPE’s revaluation model or investment property’s fair value model could be used to enhance asset figures in the statement of the financial position of an entity for the purpose of attracting better funding options. Funding was highlighted as the major challenge facing SMEs (Panday, 2017). This problem with obtaining finance becomes even more relevant in the context of the economic downturn in South Africa.

The increase of inflation targeting financial instruments and foreign loans, which are related to this economic downturn, both necessitate fair value accounting.

Regarding the commonality of investment properties in the SME market, the results from the interviews discussed above appear to be consistent with the results from the survey. Prior studies conducted on the content of the IFRS for SMEs also noted that investment property was deemed to be extremely important (Schutte and Buys, 2011b) and, thus, the section on investment property in the IFRS for SMEs is likely to be appropriate for the SME market.

6A.4 The perceived usefulness of financial statements prepared according to the IFRS for SMEs

The usefulness of a set of financial statements prepared according to the IFRS for SMEs must be assessed according to the needs and wants of the users of the financial information of the SMEs. This study gauged the merit of a set of financial statements prepared on the basis on the IFRS for SMEs with reference to the way in which the practitioner believes such a set of financial statements to assist users
in making economic decisions. The researcher was aware that these beliefs may differ from those the perspective of the actual user. However, an assessment of this was beyond the scope of the study.

The results of the first and second phases of the study portrayed a slightly different picture of the usefulness of the IFRS for SMEs. The results of the structured questionnaire administered in the first phase of the study confirmed that the IFRS for SMEs satisfied the needs of those third party users acknowledged by the IASB. It was possible to infer from this result that such third parties are, in fact, the users of the financial statements for SMEs. The IFRS for SMEs was found to be most suitable for both vendors that sell on credit and for banks that make loans to SMEs. This, in turn, indicated that these extenders of credit are the more predominant users of the financial information of SMEs. However, it emerged from the interviews that the key users of such information were considered to be SARS and the banks. However, banks would only be considered an important user if the SME were in need of maintaining its current credit facilities or obtaining funding while SARS, on the other hand, would always be considered as a user given that tax affects all business entities.

The mention of SARS as a key user was worth noting. SARS was not on the list of users which the researcher included in the questionnaire, primarily because SARS was not one of the users identified by the IASB as well as the fact that SARS no longer requires the financial statements of a company to be filed with the company’s tax return. The reason for the latter is that there is no requirement in the Tax Administration Act, 2011 that compels an entity to submit its financial statements when completing an ITR14 return. The Tax Administration Act does, however, reserve the right to estimate taxable income in the event that an entity is not able to provide proof of figures presented in the ITR14(SARS, 2011).

It is thus possible that SARS is now regarded as a user based on a generally developed practice to safeguard an entity in anticipation of a SARS audit. This may also explain why opinions differed on whether a set of financial statements based on the IFRS for SMEs is superior to a set of financial statements prepared on a different basis. It may also be the case that, although SARS is not a user, the practitioner may see the need to prepare financial statements based on the IFRS for SMEs as a way of enhancing the credibility of the information presented in the ITR14 forms. It may also be that the basis for the return needs to be more than just an arbitrary summation of the relevant bookkeeping records. Some of the interviewees believed that financial statements prepared according to the IFRS for SMEs may perhaps be more meaningful while others were of the opinion that it did not matter to SARS the basis on which the financials were prepared. It is also interesting that the definition of ‘financial reporting standards’ in the Tax Administration Act, 2011 refers to full IFRS, IFRS for SMEs, GAAP or the
appropriate financial reporting standards that provide a fair presentation of the financial results and position of the taxpayer (SARS, 2011). Thus, the Tax Administration Act recognises a variety of frameworks and this may be the reason why SARS does not differentiate between the relative use of each framework.

There is also the question as to why, if the basis of preparation is of little value to a key user, practitioners would continue to prepare financial statements on this basis. Apart from the regulatory requirement compelling the practitioner to observe the thresholds cited in the Companies Act, and not taking into account the fact that the bank or another third party may also be a user, the answer may be that the indication of standardisation that the IFRS for SMEs establishes. The researcher gained this impression during several of the interviews. For example, it was noted in one interview that, even in the absence of regulations requiring an entity to adopt the IFRS for SMEs, the IFRS for SMEs would still be the choice of accounting framework to use. In another interview the interviewee discussed the advantage of applying a common framework (IFRS for SMEs) in an accounting firm to all the entities it served despite what may be the legal requirements as opposed to applying various frameworks to entities differentiated by means of a PI score. Several respondents also felt that the only advantage of the IFRS for SMEs was the standardisation that the IFRS has introduced in the reporting for SMEs.

The findings from both the phases of the research study identified the bank as a key user. This finding was consistent with the findings reported in existing literature (Van Wyk and Rossouw, 2009). According to the results of a South African study which analysed the financial information contained in the financial statements of SMEs, it did not appear that SMEs have to issue capital in order to raise funds but, instead, their activities seem to be financed by means of debt (Schutte and Buys, 2011a). With this in mind and given the apparent problem of obtaining finance and the low survival rate of SMEs, it becomes important for banks to be given adequate information so as to enable them to make sound lending decisions. It may be true that banks often require information other than the information presented in the financial statements but this may be due to a lack of understanding on the part of the users. It may, however, also be attributable to the application or lack thereof of professional judgment. One respondent believed that the IFRS for SMEs lacked qualitative disclosure of the full IFRS, thus implying that the minimum requirements only are being met and with no thought of the additional information may be useful to users.

In the majority of cases it is not possible to distinguish between SME managers and SME owners (Schutte and Buys, 2011a) and SME owners often have access to a variety of information to help to
manage the business effectively. It is for this reason that owners-managers were not included as users in the structured questionnaire. The feedback received from the interview participants further confirmed that, in general, owner-managers are not, in fact, users of financial statements. However, in the study conducted by Van Wyk and Rossouw (2009), the banks, SARS and owner-managers were identified as the primary users of the financial information of SMEs. With these users in mind it was suggested that financial statements for SMEs may be limited purpose financial statements. The IASB also acknowledges that, for some SMEs, the production of financial information may be for specific purposes in that its intended users may be the owner-managers or the tax authorities. However, as discussed, financial statements are not usually prepared for owner-managers and they are not regarded as an important user of such statements. While the IASB further clarified that such financial statements may not be necessarily be general purpose financial statements, it did also go on to say that the preparation of financial statements on the IFRS for SMEs basis may help in preparing a tax reconciliation (IASB, 2015b). One respondent confirmed that the alignment of tax and accounting principles is starting to happen (R5). Tax is rule-based and, in that sense, is more fluid than an accounting framework that is conceptually based and, therefore, less likely than tax regulations to change principle wise.

In short, it was clear that banks are a primary user of SME financial information for the purpose of extending credit. This conclusion was based on the results of both the survey as well as the discussions held with the interviewees. It would also seem that the IFRS for SMEs has contributed positively to the use of financial information by the banks. It emerged from the discussions held with the interviewees that SARS is also an important user while SME owner-managers were not really considered to be a key recipient of the information as they have access to other information. However, despite the fact that the preparation of financial statements may be limited purposes, if prepared specifically for SARS, for example, there is still value in preparing these statements on a uniform basis according to a framework such as the IFRS for SMEs. In an accounting practice where the client-base of a practitioner consists of a mélange of micro-entities suited to limited purpose financial statements, as well as relatively larger entities that may need to comply with the IFRS for SMEs from a regulatory point of view, the uniformity provided by the IFRS for SME may actually drive down costs.
6B: Do the overall perceptions of the South African practitioner indicate a change in attitude towards the application of the IFRS for SMEs in South Africa?

As discussed at the outset, this study is a follow up study based on the results of the investigation conducted by Van Wyk and Rossouw (2009) on the adoption of the IFRS for SMEs in South Africa. In their study Van Wyk and Rossouw (2009) found that 45% of respondents were of the opinion that the IFRS for SMEs would relieve the burden of financial reporting. A further 29% of the respondents believed that the IFRS for SMEs would provide relief to a certain degree, 13% did not believe that the IFRS for SMEs would bring about any relief and 13% were unsure (Van Wyk and Rossouw).

Certain detailed aspects of the findings of the study by Van Wyk and Rossouw (2009) were compared to the findings of this study and analysed above. This following section of the analysis considers whether the perceptions of practitioners as analysed in section 6A above indicated a change in attitude in respect of the initial scepticism shown by practitioners when the IFRS for SMEs was first introduced in South Africa. In part, thus, this serves as a means of summarising the overall perceptions presented in section 6A but it also provides an analysis on several other factors noted during the study.

In a very general sense, there appeared to be less scepticism on the part of the practitioners who took part in this study regarding the application of the IFRS for SMEs than was expressed when the IFRS for SMEs was first adopted in South Africa. This, in turn, indicated an overall acceptance of the standards as an accounting framework for SMEs and this, in itself, shows a general change in the perceptions of accounting practitioners. Nevertheless, the acceptance of the IFRS for SMEs has not been without reservation. It would appear that the ten years that have elapsed since the adoption of the IFRS for SMEs have allowed practitioners sufficient time to become acquainted with its advantages and disadvantages. In addition, the SME landscape has also since changed with the economic and political powers at play, and possibly altering the manner in which practitioners view the accounting framework.

In terms of the benefits and drawbacks of the IFRS for SMEs the survey revealed more advantages than disadvantages. While it may be true that the IFRS for SMEs has eased the transition to full IFRS and has also improved the efficiency and effectiveness of a company’s reporting system, as confirmed by both the first and second phases of the study, it would appear that a more significant advantage to the standardisation that the IFRS for SMEs offers with the standard providing a common point of reference in accounting which practitioners seem to appreciate. The legislative requirements of a company’s
reporting framework may have also encouraged practitioners to apply the IFRS for SMEs in their practice to all forms of entities regardless of the PI scores of the entities as a means of driving down costs. Thus, although perceived as a cost-burden as suggested in the first phase of the study, the IFRS for SMEs may actually be a cost-saver.

Van Wyk and Rossouw (2009) attributed the relative scepticism of practitioners to the possibility that practitioners may not have believed that the IFRS for SMEs was fully applicable to their clients. In addition, it was suggested that IFRS for SMEs was written in a context which was not totally relevant to the SME sector. This argument was based on the fact that the majority of the sample surveyed in their study did not have any clients with 50 employees or more. As discussed in Chapter 6A above, this 50-employee benchmark was used by the IASB as a guideline when determining the types of transactions to consider when formulating the IFRS for SMEs (IASB, 2015b). A number of arguments may be formulated to suggest that the IFRS for SMEs is, indeed, applicable to the SME sector which includes micro-entities. Firstly, the cost-burden usually associated with the use of the framework by a practitioner does not appear to be a problem in many practices and, in fact, the use of a common framework in an accounting practice may help save costs. While there does appear to be an ongoing need for a simpler accounting framework that would service the reporting needs of the more micro-type entities, as discussed in section 6A above, few suggestions were made as to the way in which to go about simplifying the IFRS for SMEs. One suggestion noted was the recognition of the true value underpinning the IFRS for SMEs. This would, however, require the training needs of practitioners to be met coupled with an awareness that factors, such as reliance on automated software, may have an impact on the due professional care and judgement of practitioners. Overall, the contents of the IFRS for SMEs appeared to be satisfactory both in terms of the technical measurements requirements of the content, the suitability of the content of the standard for SMEs and the requirements relating to disclosures to be made in the financial statements.

6C: Amended version of the IFRS for SMEs

The results from Question 11 in the structured questionnaire revealed some positive opinions about the amended version of the IFRS for SMEs. More than half of the respondents agreed that the amended version of the IFRS for SMEs had provided clarity on certain requirements and that, in doing so, it had enhanced the understanding of the standard, the inclusion of the revaluation model had made it a more attractive reporting option; and the updated tax section had not added complexity to the standard. In
addition, those who did not agree seemed inclined to answer that they were uncertain rather than stating that they disagreed. The application of the amended version of the IFRS for SMEs is, arguably, in its infancy stage both locally and globally as, even although the IASB did permit the early adoption of the standard, the effective date of application was January 2017 (IASB, 2015b). This may also be one of the reasons for the responses which indicated uncertainly.

In contrast to the results of the survey, overall, the commentary received on the amended version of the IFRS for SMEs during the second phase of the study was not inspiring. This was possibly also due to the relative newness of the standard. In the same way that the passage of time had been needed to reassess the perceptions of practitioners regarding the adoption of the IFRS for SMEs, practitioners may also need time in order to make a valid assessment of the impact of the amended version of the IFRS for SMEs. This is, of course, assuming that practitioners invest the necessary time to understand the amendments. As discussed in section 6A above, if training is to be effective there needs to be measurable outcomes. In addition, the existence of software packages is doing little to assist with the practitioners’ obligation to become acquainted with the amended version. In this regard, it may also be possible that practitioners have become reliant on such software for preparing financial statements. If this remains unresolved, it is likely to continue with the amended version and this may compromise professional judgement even further. Furthermore, the fact that the IASB has committed itself to updating the IFRS for SMEs periodically (IASB, 2015b) as opposed to on an ongoing basis, lends itself to the software systems used and that also then have to be updated at discretionary periods only.

The changes made to section 29, Income Taxes were deemed to profound. Section 29 was aligned to the principles of IAS 12. The IASB noted that, in many areas, entities, including SMEs, applied IAS 12 and, thus, the alignment of section 29 with IAS 12 would have the benefit of enabling SMEs to use their prior experience in accounting for income taxes (IASB, 2015b). This was suggested by the results of the structured questionnaire and further established during the interview process, albeit in relation to a limited number of respondents.

Despite the fact that the results of Question 7 of the structured questionnaire revealed that deferred tax had been encountered often by more than half (54%) of the participants, a relatively large proportion also believed that deferred tax was not a phenomenon they encountered often. During the interviews some of the respondents did confirm that they had had limited dealings with clients with deferred tax. Furthermore, deferred tax may even be irrelevant as there may be some practitioners who ignore it in its entirety. It may be the case that, in so far as deferred tax remains irrelevant to practitioners for
whatever reasons, the updated section on deferred tax is of little use. In addition, for those practitioners who have applied the principles of deferred tax correctly, whether by means of referring to IAS 12 in the absence of the amended section or otherwise, the amended version may also be irrelevant. On the one hand, this notion supports the results of the survey which suggested that the amended version has not added to complexity of the standard but, on the other hand, it may not have reduced any particular burden.

As suggested by the results of the structured questionnaire and confirmed by the results of the interview discussions the inclusion of the option to revalue items of PPE has been relatively well received. The reasons for this may include the increased potential to attract better funding which, as already explained, is a challenging area for SMEs (Panday, 2017). Linked to this is the low survival rate of SMEs which makes it all the more important for them to attract adequate funding in order to achieve sustained growth and make a meaningful impact on the South African economy.

Chapter 7: Conclusion

This chapter contains concluding remarks in section 7.1, while section 7.2 highlights the research contribution made by the study and section 7.3 identifies areas of future research.

7.1 Summary and concluding remarks

SMEs are playing an important role in the economic development of South Africa, particularly in light of South Africa’s high rate of unemployment and its current low-growth environment. It has, therefore, become increasingly important that the reporting environment in which SMEs operate provides the flexibility required that will allow them to achieve sustainable growth and, thus, have a meaningful impact on the country’s economy. South Africa formally introduced differential reporting into its accounting framework upon the adoption of the IFRS for SMEs in 2007. The Companies Act 71 of 2008 became effective in May 2011 and serves as a means of regulating the companies which are either required to or have the option to apply the IFRS for SMEs. It was argued that the adoption of the IFRS for SMEs when it was still in its infancy stage may have been a step in the right direction but that the accounting framework may not serve its intended purpose for micro-entities (Van Wyk and Rossouw, 2009).
In light of the above, this study aimed at obtaining the views of South African practitioners on the implementation of the IFRS for SMEs since its adoption in South Africa. The study formulated three central research objectives concerning the application of the IFRS for SMEs in South Africa. Firstly, it sought to ascertain and understand the overall perceptions of South African practitioners regarding the application of the IFRS for SMEs. Secondly, it focused on whether or not these perceptions indicated a change in the attitudes initially expressed by practitioners when the IFRS for SMEs was first adopted in South Africa. Lastly, it aimed to understand whether or not the amended version of the IFRS for SMEs had addressed previous concerns expressed by practitioners. Each research question was answered by making reference to the data collected during the two phases of the study, namely, the administration of the structured questionnaire and the semi-structured interviews.

Overall, the results placed the IFRS for SMEs in a positive light. It would seem as though it has provided some relief of the financial reporting burden in South Africa and in different ways. There also appear to be more advantages than disadvantages to its application, although this perception may have been distorted by the use of and an over-reliance on automated software tools such as Caseware.

The IFRS for SMEs appears to be suitable for the SME sector. However, factors such as the lack of a universal definition of the term SME; the regularity and quality of the training afforded to practitioners; the willingness of practitioners to embrace the accounting framework and take responsibility for their own learning and development via training or otherwise; and the extent to which Caseware is relied upon by practitioners, affect the impact of the IFRS for SMEs and may undermine the appreciation of the framework.

In terms of the users of financial statements, while the survey results did suggest that the needs of the users as recognised by the IASB were being met by the IFRS for SMEs, the results of the interviews indicated that banks and SARS were the key users. In addition, it was not possible to draw a definitive conclusion regarding the added-value of using a set of financial statements based on the IFRS for SMEs as opinions on this varied.

Regarding the content of the IFRS for SMEs, the topics included in the standard appeared to be relevant to the SME market at the time of the study although, whether or not this would be the case in the short-term future, may depend on the political and economic factors that may impact on the SME landscape. However, at the time of the study it did not appear to be the case that the IFRS for SMEs was technically burdensome, for example, it appeared that the valuation concepts underpinning the measurement
requirements were relatively well understood. In addition, overall practitioners seemed to be comfortable in applying the requirements of the standard. The purpose of this study was, however, not to obtain a detailed understanding of the content of the IFRS for SMEs.

Regarding the amended version of the IFRS for SMEs which became effective on 01 January 2017, the passage of time may, perhaps, be necessary before drawing any concrete conclusions about its application. However, whether the amendments have adequately addressed the concerns raised by practitioners becomes important in light of the possibility that practitioners may be reliant on drafting software.

7.2 Contribution

This thesis contributed to the existing, albeit scant, body of literature on the application of the IFRS for SMEs in South Africa and, as such, serves as basis for several areas of future research (see section 7.3 below). This research report sought to understand the viewpoints of South Africa practitioners regarding the application of the IFRS for SMEs. The study comprised two phases and provided a detailed account of the views of the South Africa practitioner. It was deemed important that the exploration involved both quantitative and qualitative manner research as it would appear that the existing academic literature has focused on quantitative methods only.

The research study was undertaken as a follow up study to a study conducted by Van Wyk and Rossouw (2009). However, the researcher is unaware of any similar studies. In addition, this is the first study that considered the impact of the amended version of the IFRS for SMEs.

7.3 Areas of future research

Future research is, perhaps, needed to identify and quantify the extent of the perceived reliance of practitioners on Caseware and other similar software, and the impact of such reliance on using the IFRS for SMEs framework. While tertiary institutions, such as the University of the Witwatersrand, have incorporated the IFRS for SMEs into their curricula, the merit of tertiary institutions following suit should, perhaps, be considered by regulatory bodies and is perhaps a possible area for future research. In addition, the methods of training and the effectiveness of such methods should also be re-evaluated, thus making a recommended area for future research. This research study scoped out an understanding of the merit of the IFRS for SMEs from the viewpoint of the user and this may, perhaps, be further explored. Since the amended version is, arguably, still in its infancy, the impact of the amendments
could be explored after a reasonable length of time that would be sufficient to allow practitioners to acquaint themselves with this amended version.
8. References


ASB 2011. POSITION PAPER DIFFERENTIAL REPORTING IN THE SOUTH AFRICAN PUBLIC SECTOR.


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MASON, M. 2010. Sample Size and Saturation in PhD Studies Using Qualitative Interviews.


WALLINGTON, C. 2014. *Employee share options and the equity-liability distinction: A way forward?*

YADAO, J. 2017. *Lost In a Sea of Millennials. ASA.*
Appendix A: Structured questionnaire

Dear Respondent

My name is Waheeda Mohamed. I am currently completing my Master’s degree at the University of Witwatersrand. The aim of my research is to obtain an understanding of the perception of South African practitioners on the adoption and implementation of IFRS for SME’s. I believe that you will provide me with invaluable insight that will help me gain this understanding. The following questionnaire should only take you approximately 20 minutes to complete. Please do not include your name as confidentiality is guaranteed. I would like to thank you for your participation and co-operation. A summary of key findings will be provided to you upon request and should you require any additional information, please e-mail me on waheeda.mohamed@wits.ac.za or contact me on 082 777 5888.

Yours Sincerely,
Waheeda Mohamed
0508408K

Name of supervisor: Mr Yaeshe Yasseen
Email: Yaeshe.Yasseen@wits.ac.za
Cell number: 082 267 8677

Name of supervisor: Prof Robert Garnett
Email: Robert.Garnett@wits.ac.za
Office number: 011 717 8049

SAIPA membership number______________________________________

1. Please indicate to what extent you are involved with the following types of entities that have the option to use IFRS for SME’s as per the Companies Act no 71 of 2008. Please use the following rating scale:

<table>
<thead>
<tr>
<th>Type of entity</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>A. Public company</td>
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not listed on an exchange that applies IFRS for SME’s

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<tr>
<th>Category</th>
<th>Rating</th>
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<tbody>
<tr>
<td>B. Profit companies, PI score is at least 350, who apply IFRS for SME’s</td>
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<tr>
<td>C. Profit companies, who hold assets in excess of R5m in a fiduciary capacity and who apply IFRS for SME’s</td>
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<tr>
<td>D. Profit companies, PI score is at least 100 but less than 350 and who apply IFRS for SME’s</td>
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<tr>
<td>E. Profit companies, PI score is less than 100, and whose statements are independently compiled in accordance with IFRS for SME’s</td>
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<tr>
<td>F. Profit companies, PI score is less than 100, and whose statements are internally compiled.</td>
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2. To what degree does each category of companies listed in question 1 apply a framework other than IFRS for SME’s? If you have answered N/A for question 1 in respect of any category of companies, please answer “N/A” in the table below for that category of company. Please also indicate which framework/s is/are used in the space provided at the end of the questionnaire (question 12). Use the following rating scale to answer:
1. Large degree
2. Fairly large degree
3. Small degree
4. Very small degree
5. Not at all

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<tr>
<th>Type of entity</th>
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<th>N/A</th>
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<td>A. Public company not listed on an exchange that applies IFRS for SME’s</td>
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<td>B. Profit companies, PI score is at least 350, who apply IFRS for SME’s</td>
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<td>C. Profit companies, who hold assets in excess of R5m in a fiduciary capacity and who apply IFRS for SME’s</td>
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<td>D. Profit companies, PI score is at least 100 but less than 350 and who apply IFRS for SME’s</td>
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<td>E. Profit companies, PI score is less than 100, and whose statements are independently compiled in accordance with IFRS for SME’s</td>
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<td>F. Profit companies, PI score is less than 100, and whose statements are internally</td>
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3. To what extent do you agree that the adoption of IFRS for SME’s has relieved the burden of financial reporting for the companies listed in question 1 that have the option to apply IFRS for SME’s? If you have answered N/A for question 1 in respect of any category of companies, please answer “N/A” in the table below for that category of company. Use the following rating scale to answer:

1. Strongly agree
2. Agree
3. Uncertain
4. Disagree
5. Strongly disagree

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<tr>
<th>Type of entity</th>
<th>1</th>
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<td>A. Public company not listed on an exchange that applies IFRS for SME’s</td>
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<td>B. Profit companies, PI score is at least 350, who apply IFRS for SME’s</td>
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<td>C. Profit companies, who hold assets in excess of R5m in a fiduciary capacity and who apply IFRS for SME’s</td>
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<td>D. Profit companies, PI score is at least 100 but less than 350 and who apply IFRS for SME’s</td>
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<td>E. Profit companies, PI score is less than 100, and whose statements are independently compiled in</td>
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accordance with IFRS for SME’s

F. Profit companies, PI score is less than 100, and whose statements are internally compiled.

4. To what extent has the application of IFRS for SME’s addressed the needs of the following users? Use the following rating scale to answer:

1. Strongly agree
2. Agree
3. Uncertain
4. Disagree
5. Strongly disagree

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<tr>
<th>Users</th>
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<th>2</th>
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<tr>
<td>4.1 Banks that make loans to SME’s</td>
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<td>4.2 Vendors that sell to SME’s and use SME financial statements to make credit and pricing decisions</td>
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<td>4.3 Credit rating agencies</td>
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<td>4.4 Customers of SME’s that use SME financial statements to decide whether to do business</td>
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<td>4.5 SME’s shareholders that are not also managers of their SME’s</td>
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5. To what extent, do you agree that the following are advantages of applying IFRS for SME’s in South Africa? Use the following rating scale to answer:
1. Strongly agree
2. Agree
3. Uncertain
4. Disagree
5. Strongly disagree

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<tr>
<th>Advantages</th>
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<td>5.1 IFRS for SMEs has eased the transition to the full set of IFRS for</td>
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<td>growing SMEs.</td>
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<td>5.2 Adopting IFRS for SMEs has improved the opportunities to obtain</td>
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<td>financial assistance from the banking sector.</td>
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<td>5.3 Adopting IFRS for SMEs has improved the efficiency and</td>
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<td>effectiveness of our company’s financial reporting.</td>
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<td>5.4 IFRS for SMEs has increased the relevance and reliability of the</td>
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<td>information.</td>
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<td>5.5 The transparency of information has increased.</td>
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<td>5.6 Financial statements are more understandable.</td>
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<td>5.7 SMEs will be able to reach cross-border markets by applying IFRS for</td>
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<td>SMEs.</td>
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6. To what extent do you feel the following are disadvantages of implementing IFRS for SME’s? Use the following rating scale when answering:

1. Strongly agree
2. Agree
3. Uncertain
4. Disagree
5. Strongly disagree

<table>
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<tr>
<th>Disadvantages</th>
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<tr>
<td>6.1 In relation to those entities that have adopted IFRS for SME’s, the</td>
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<td>costs of new information technology have been high.</td>
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<td>6.2 Training of staff is time-consuming and costly.</td>
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<td>6.3 IFRS for SMEs are too high level and does not provide adequate</td>
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guidance

| 6.4 IFRS for SMEs are written in a style for general accounting use making it difficult to apply |
| 6.5 IFRS for SMEs are too difficult to apply because of the detail given per topic in the standard |
| 6.6 IFRS for SMEs requires disclosure of information making its application cumbersome |
| 6.7 The SMEs in South Africa do not have the staff that is sufficiently qualified to apply IFRS for SME’s. |

7. To what extent are the following components encountered in practice? Use the following rating scale.

1. Very often
2. Often
3. Seldom
4. Very seldom
5. N/A

<table>
<thead>
<tr>
<th>Components</th>
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<th>2</th>
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<td>7.1 PPE- component approach</td>
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<td>7.2 PPE-reassesing useful lives</td>
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<td>7.3 PPE- residual values</td>
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<td>7.4 Investment Property- fair value model</td>
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<td>7.5 Leases-straight-lining of leases</td>
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<td>7.10 Employee benefits-defined benefit plan</td>
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8. To what degree is it easy or difficult to apply the following components of IFRS for SME’s? Use the following rating scale

1. Very difficult
2. Difficult
3. Easy
4. Very Easy
5. N/A

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<td>8.11 Provisions and contingencies- management’s best estimate</td>
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<td>8.12 Impairment of non-financial assets- recoverable amount</td>
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<td>8.13 Government Grants- recognition of grant as income</td>
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9. To what degree are the following components of IFRS for SME’s significant in a South African context? Use the following rating scale
   1. Very significant
   2. Significant
   3. Uncertain
   4. Insignificant
   5. Very insignificant

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### Valuation methods/concepts

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<td>10.2 Fair Value less costs to sell</td>
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<td>10.3 Residual value</td>
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<td>10.4 Historical cost</td>
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<td>10.5 Value in use</td>
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<td>10.8 Net realisable value</td>
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<td>10.9 Intrinsic value</td>
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### To what extent do you agree with the following statements? Use the following rating scale to answer:

1. Strongly agree
2. Agree
3. Uncertain
4. Disagree
5. Strongly disagree

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<th>Statements</th>
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</table>
11.1 The updated version of IFRS for SME’s has provided clarification of its requirements giving a better understanding of IFRS for SME’s

11.2 The inclusion of the revaluation option in section 17 of IFRS for SME’s has encouraged the adoption of IFRS for SME’s in South Africa

11.3 The alignment of income taxes with IAS 12 has not added to the complexity of the accounting for income taxes for SME’s

12. Please use this space to provide any additional comments on the application of IFRS for SME’s in South Africa:

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Appendix B: Interview Agenda

Dear interviewee,

My name is Waheeda Mohamed. I am currently completing my Master’s degree at the University of Witwatersrand. The aim of my research is to obtain an understanding of the current perception of South African practitioners on the adoption and implementation of IFRS for SME’s. This includes gaining an understanding of the perception about whether IFRS for SME’s has reduced the burden of financial reporting in respect of those companies that are either required or permitted by the Companies act 71 of 2008 to apply IFRS for SME’s. An initial understanding of practitioners’ beliefs was obtained by sending a questionnaire that was completed in January 2017 by a sample of SAIPA practitioners. I believe that you will provide me with additional invaluable insight that will help me add to this initial understanding. The survey sent has been attached for your perusal.

The scheduled interview should last between 45-60 minutes. The interview will be recorded and thereafter transcribed. Confidentiality is guaranteed as only the researcher will have access to the data. I would like to thank you for your participation and co-operation. A summary of key findings will be provided to you upon request and should you require any additional information, please e-mail me on waheeda.mohamed@wits.ac.za or contact me on 082 777 5888.

Ethics clearance number: CACCN/1114

Name of supervisor: Mr Yaeesh Yasseen
Email: Yaeesh.Yasseen@wits.ac.za
Cell number: 082 267 8677

Name of supervisor: Prof Robert Garnett
Email: Robert.Garnett@wits.ac.za
Office number: 011 717 8049
Interview agenda

1. How would you describe your involvement with SME’s?
2. How do you determine the accounting framework to use for prospective clients?
3. The results of the survey that was conducted when IFRS for SME’s was first adopted in South Africa (Van Wyk and Rossouw, 2009) revealed that South African practitioners were sceptical about the relief that IFRS for SME’s would bring. The survey conducted in Jan 2017 revealed that practitioners in general believe that IFRS for SME’s have relieved the burden of financial reporting. Do you believe that using IFRS for SME’s has had a positive impact/cost/benefit?
4. Who do you feel are the most important users of the financial statements of IFRS for SME’s?
5. A recent survey that was conducted indicated that one of the advantages of applying IFRS for SME’s is that its adoption has eased the transition to the full IFRS for growing SME’s. Do you agree with this? What do you think is meant by this?
6. What do you perceive as the disadvantages of South Africa adopting IFRS for SME’s?
7. To what extent are clients reliant on accounting software such as Caseware?
8. Which areas in the financial statements do you perceive as being significant?
9. What are your feelings surrounding the updated version of IFRS for SME’s.
10. In which ways can IFRS for SME’s be simplified further?