

**IFRS for SMEs: An Emperical Study of the KwaZulu  
Natal SME sector**

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## Supervisor's Declaration



## College of Law and Management Studies

### Supervisors Permission to Submit Thesis/ Dissertation for Examination

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Title: Ms		
Qualification: Masters in Accounting	School: Accounting, Economics and Finance.	
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To the best of my knowledge, the thesis/dissertation is primarily the student's own work and the student has acknowledged all reference sources		
The English language is of a suitable standard for examination without going for professional editing.		
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## Declaration

I, Shazia Essa, declare that:

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- ii) This dissertation has not been submitted for any degree or examination at any other university.
- iii) This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- iv) This dissertation does not contain other person's writing, unless specifically acknowledged as being sourced from other researchers. Where other sources have been quoted, then:
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Shazia Essa

## **Abstract**

The Companies Act of South Africa requires companies to comply with either full IFRS or IFRS for SMEs. International Financial Reporting Standards (IFRS) provide a single set of accounting principles and guidelines that different countries can apply to promote comparability and understanding of financial statements. In 2009, the IASB introduced IFRS for SMEs. The objective of the IASB was to provide the SME sector with an accounting framework that was more cost effective and less complex than full IFRS. SMEs play a fundamental role in the global economy. Hence, it becomes imperative that focus is directed at developing and sustaining SMEs. International studies have been conducted to determine the effectiveness and perception of IFRS for SMEs in other countries. In South Africa studies were conducted in the early stages of implementation. This warrants further research on the perceptions of IFRS for SMEs in the SME sector subsequent to the implementation of IFRS for SMEs in South Africa. This study was undertaken with the objective of establishing whether or not the IASB's goals of IFRS for SMEs being less complex and more cost effective are met. The study also focused on whether the SME sector has the relevant financial reporting skills to apply IFRS for SMEs. A survey was conducted with experts in the field of IFRS for SMEs. This constituted 15 academics and 15 accountants/auditors. The survey was issued to 30 respondents and the response rate was 100%. The study established that while IFRS for SMEs meets the financial reporting requirements of internal and external users, there are still some challenges that exist. IFRS for SMEs is considered difficult to understand by SME owners/management and is therefore difficult to apply by them. Hence, there is still a need for the SME sector to outsource their financial reporting requirements to independent accountants, which may prove to be costly. Improving the financial reporting skills of the SME sector may assist in reducing the outsourced accounting costs. More practical hands on training may prove to be more beneficial than the online training that is currently available for the SME sector.

The knowledge generated from this research will benefit the SME sector, as well as assist Government and Accounting Regulatory Bodies to provide the necessary IFRS for SMEs support to the SME sector.

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## **List of Accronyms and Abbreviations**

CIPC	Companies and Intellectual Properties Commission
DTI	Department of Trade and Industry
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
SAICA	South Africa Institute of Chartered Accountants
SME	Small and Medium Enterprise

# 1. Chapter 1: Introduction

## 1.1 Background

The International Accounting Standards Board (IASB) introduced International Financial Reporting Standards for SMEs (IFRS for SMEs) in response to the need for less complex and more cost-effective reporting standards for the SME sector to comply with. The initial International Financial Reporting Standards (IFRS) that was already effective, was considered complex and costly for the SME sector. Use of the initial IFRS was viewed as burdening the SME sector with significantly large financial reporting costs and financial statements that were not relevant to the users thereof (Litjens, Bissessur, Langendijk & Vergoossen, 2012, pp. 228-229).

The IASB published IFRS for SMEs in 2009. Eighty-four jurisdictions in the world comply with IFRS for SMEs (IFRS foundation f, 2017). South Africa was the first country to adopt IFRS for SMEs.

There are streams of research conducted on IFRS for SMEs both locally (Stainbank, 2008 & Schutte & Buys, 2010) and internationally (Otchere & Agbeibor, 2012; Litjens, et al., 2012; Uyar & Gungormus, 2013 & Hussain, Chand & Rani, 2012). The South African studies focused on the perceived implications of IFRS for SMEs in South Africa (Stainbank, 2008), and the suitability of IFRS for SMEs in South Africa (Schutte & Buys, 2010). Both of these studies were conducted in the very early stages of the introduction of IFRS for SMEs in South Africa. The international studies focused on the perceptions of IFRS for SMEs internationally. The post-implementation of IFRS for SMEs in South Africa is still largely unexplored. The focus of this study will be on the post-implementation perceptions of IFRS for SMEs by the SME sector, now that IFRS for SMEs has been in use for a reasonable period.

For the purpose of this study, the KwaZulu Natal SME sector will be used, as KwaZulu Natal contributes the second largest GDP and has the second largest economy in South Africa (KZN provincial Government, 2016/2017). KwaZulu Natal is therefore considered as one of the key players in the South African economy.

SMEs contribute 95% of the global economy (Edinburgh Group, 2012). In South Africa, the SME sector contributes significantly to GDP and reducing unemployment (Bureau for Economic Research, 2016, p. 5). In terms of the National Development Plan, 90% of new jobs in South Africa by 2030 will be created by SMEs (SAICA, 2015). In order for this goal to be achieved, it is imperative that the SME sector is provided with support that will initiate and enhance their growth in the South African economy. Challenges faced by the SME sector should be identified and measures should be put in place to impede these challenges. One of the fundamental challenges faced by the SME sector is the acquisition of funds (Sanders, Lindberg & Seifert, 2013, p. 32). The lack of accounting skills to prepare quality financial statements is one of the major reasons preventing SMEs from having access to funds (O'Neil & Rajaram, 2009, p. 115). These quality financial statements, when prepared appropriately can be used to provide useful information to lenders and other users of SME financial reports, about solvency, liquidity and cash flows of a company.

## 1.2 Problem Statement and research question

IFRS for SMEs was implemented and effective in 2009. It emanated because of the financial reporting requirements of full IFRS being too complex and costly for SMEs to apply. Studies have been conducted prior to the conception of IFRS for SMEs to show that the costs of compliance of full IFRS exceeded the benefits for the SME sector. Although international studies have been conducted post implementation of IFRS for SMEs, which have looked at the views of accountants and an assessment of their basic understanding and application of IFRS for SMEs, there is an absence of local studies conducted post implementation of IFRS for SMEs in South Africa.

This study will answer the question “What are the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector?”

### 1.3 Research Objectives

The aim of this research study is to establish the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector.

The objectives of this study are as follows:

1. To establish challenges encountered by SMEs in applying IFRS for SMEs.
2. To assess the cost-effectiveness of IFRS for SMEs in the SME sector.
3. To explore whether SMEs have the relevant financial reporting skills to apply IFRS for SMEs.

### 1.4 Contribution of the study

A review of international studies was done which focused on the post implementation of IFRS for SMEs. One of the key findings from the literature review was that there is an absence of studies conducted in South Africa post implementation of IFRS for SMEs. Where research was conducted this was focused on the suitability of the content of IFRS for SMEs for South African companies (Schutte & Buys, 2010) and the perceived implications of IFRS for SMEs (Stainbank, 2008). Both these studies were conducted in the very early stages of implementation. Hence, there is a gap to conduct empirical studies post implementation of IFRS for SMEs to establish what the perceptions of IFRS for SMEs are in the KwaZulu Natal SME sector, now that the reporting framework has been in use for a fair amount of time.

The results of this research can assist the relevant stakeholders of SMEs as follows:

- a) The perceptions of IFRS for SMEs that will be established in this study, can contribute to assist the IASB to identify practical challenges faced by the SME sector with current compliance and application of IFRS for SMEs. This will assist the IASB in future reviews of IFRS for SMEs, to meet their objective of a financial reporting framework that is less complex and more cost efficient to the SME sector.

- b) The Government will be able to provide funds specifically for any training or skills development relating to IFRS for SMEs in the SME sector. The Government together with the IASB will be able to put measures in place to facilitate the SME sector to comply with IFRS for SMEs.
- c) Tertiary institutions will be able to design and offer relevant modules to assist SME owners/managers with the practical application of IFRS for SMEs.

### 1.5 Limitations of the study

The limitations in the study included the following:

- a) The research methodology focused on using experts on IFRS for SMEs in the KwaZulu Natal SME sector. These experts were not directly involved in the operations of the SMEs. The results may have differed had the study been conducted with the business owners. However, this risk is mitigated by the fact that only those experts who were involved in the SME sector and had knowledge of IFRS for SMEs were selected from the accounting firms.
- b) Due to resource constraints, only academics from the University of KwaZulu Natal were selected. This risk is reduced by the fact that the University of KwaZulu Natal is the largest tertiary institution in KwaZulu Natal, and only academics with knowledge on IFRS for SMEs were selected.
- c) Due to resource constraints, experts were selected only from the Pietermaritzburg and Durban area. Hence, there is a possibility that the research findings may be applicable only to Durban and Pietermaritzburg.
- d) A sample size of thirty can be considered as a limitation to this study and can be viewed as an area for further research.

## 1.6. Outline of the study

The study has been designed into five chapters, as outlined below in Table 1.1:

**Table 1.1: Table of contents**

<b>CHAPTER</b>	<b>CONTENT</b>
1	Introduction: This chapter includes an outline of the research conducted. It provides the background for undertaking the study. The problem statement, research question, research objectives and contribution of the study are presented, together with the limitations of the study.
2	Literature review: This chapter explores existing literature in the area of IFRS of SMEs. It also identifies certain limitations to existing literature and substantiates the undertaking of the empirical research.
3	Research Methodology: This chapter outlines the methodology used to meet the objectives of this study. It focuses on the research design, data collection, sample size and sample frame of the study. The chapter also details the statistical analysis and hypotheses.
4	Research Findings: This chapter focuses on the findings of the study conducted. The quantitative data analysis is presented and discussed. The findings are discussed with reference to the research objectives and hypotheses developed in Chapter 3.
5	Conclusion: The concluding chapter highlights the results of the study relative to the objectives. This chapter further includes limitations of the study and recommendations for further avenues of research in the field of IFRS for SMEs.

## 1.7 Conclusion

This chapter provided a background to the study and a motivation for conducting this research. SMEs play a major role in the global economy and research conducted in this field will serve to enhance the SME sector. IFRS for SMEs was established as a means to ease the financial reporting burden faced by the SME sector, in terms of preparing less complex and more cost-efficient financial reports. This study will assist in identifying whether or not IFRS for SMEs has been successful in achieving its goals as intended.

The study initiated with a review of existing literature in the field of IFRS for SMEs. This literature review is presented in Chapter 2.

## **2. Chapter 2: Literature Review**

### 2.1 Introduction

Chapter 1 highlighted the need for IFRS for SMEs in the SME sector. The intention behind the introduction of IFRS for SMEs was to provide a less complex and more cost efficient accounting framework for the SME sector to comply with. IFRS for SMEs was effective in 2009, and it is essential to establish what the perceptions of the SME sector are regarding the application of this framework. This will assist the relevant stakeholders to provide the necessary support to the SME sector to facilitate the application of IFRS for SMEs so that the framework can achieve the criteria of less complex and cost-efficient, as intended. A literature review will be conducted to evaluate the current state of knowledge and research conducted relating to IFRS for SMEs (Saunders, Lewis & Thornhill, 2003). The literature review will look at national and international studies conducted on IFRS for SMEs.

### 2.2 Theory of the firm

Several studies have been conducted to ascertain the underlying objective and existence of a firm. Meckling and Jensen (1976, p.6) suggested that the basic objective of any company is to maximize profits. Their view was supported by Anderson and Ross (2005), who concluded that businesses are in operation for the purpose of profit maximization. In order to achieve the intended objective of profit maximization, there are general factors of production that must be optimally utilized by the firm. According to Spender (1995), these factors include; capital, labour and land. From this we can infer that there is a wider scope for the factors of production, rather than just a focus on capital. This is supported by Rajaram (2008, p.1) who states that capital does not only relate to the acquisition of funds but also to their efficient utilization, management and recording. In order to ensure that funds are efficiently utilized, it is important that accurate financial information exists in a business. This will enable management and other users to undertake useful economic decisions so that a firm's capital is optimally utilized to maximize profits. In this regard, O'Neil and Rajaram (2009, p.2) claim that both current entrepreneurs and future entrepreneurs

are more likely to make informed decisions regarding utilization of resources, should they have access to accurate financial records.

In order for financial statements to be utilized for the basis of credible economic decisions, it must be prepared using a framework that ensures relevance, consistency and reliability. It is not possible to make sound economic decisions in companies that are unable to accurately record their financial performance and financial position. In addition to the uncertainty as to whether the firm is profitable, inaccurate financial statements do not allow for informed economic decisions (O'Neil & Rajaram, 2009, p. 100). Investors of capital require reliability of financial information. The collapse of multi-national companies such as Enron, Lehman Brothers and WorldCom highlighted the need for the accurate and reliable financial information. These scandals resulted in investor losses amounting to several billions of dollars and highlight the need for a firm to produce reliable and relevant financial information (Correia, Flynn, Uliana & Wormald, 2013, p. 5). The importance of applying a more robust financial reporting framework that promoted financial information integrity was highlighted as a result of these major global business fossils. The financial reporting framework adopted by businesses will contribute to relevance and reliability of financial information and will enable users to make better informed decisions.

### 2.3 The need for financial reporting standards

Financial reporting remains an imperative part of a company's activities, as it serves to present users of financial statements with useful information to make decisions. The concept of "useful information" varies to different users based on their decision making requirements. Some of the primary users of financial statements include: shareholders, government, financial institutions as well as current and potential investors. These users can be local or international.

In order for users to make relevant decisions, the financial information presented must be understandable. Local users that are familiar with a company's local GAAP are able to understand financial statements based on the principles and guidelines of the company's national GAAP. However, this understanding is impaired when trying to understand a foreign company financial statements, which have been prepared based

on a different set of accounting principles and guidelines to which the user may be familiar. The comparability of financial statements is also compromised when different companies from different countries use different accounting principles and guidelines to prepare financial statements.

With international trade and investment becoming increasingly significant in the global market, there is a greater need for financial statements to be internationally comparable and understandable. This need has been the driving force in the formation of the International Accounting Standards Board (IASB). The purpose of the IASB is to “develop in the public interest a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements” (Lubbe, Modack & Watson, 2014, p. 7).

The mandate for developing a framework for reliable and relevant financial information rests with the International Accounting Standards Board (IASB). The board is responsible for establishing an appropriate international accounting reporting framework to ensure that financial information is more understandable, reliable and relevant. The IASB intends achieving this objective by the introduction of International Financial Reporting Standards (IFRS) (Service, 2015).

Prior to the implementation of International Financial Reporting Standards (IFRS), each country applied its own separate national Generally Accepted Accounting Practice (GAAP). The disparities between these separate set of “rules” made it difficult for global communication and hindered aspects such as comparability of financial statements between different countries. Service, (2015,p.5) states that the differences between these local GAAP could result in miscommunication. An example for such disparity would be when Daimler Benz, a large German company decided to list their shares on the New York Stock exchange (NYSE) for the first time in 1993. According to the New York Times (1994), prior to the listing, Daimler Benz was to have made a \$360 million profit in terms of German GAAP. However, in terms of US GAAP, this translated to a \$1.08 billion loss. This is a clear case of how applying different local GAAPs can provide different financial results. South Africa had its own local SA GAAP that is no longer effective as of 2012. Companies in South Africa are required in terms of the Companies Act, to comply with International Financial Reporting Standards (IFRS) or IFRS for SMEs (The Republic of South Africa b, 2008).

Cases such as Daimler Benz as stated above and others similar, as well as the growing globalization of the economy created a need for a common set of accounting principles that could be used internationally. A global GAAP could further enhance the comparability of financial statements, which would facilitate international trade (Service, 2015, p. 6). This global GAAP is what is referred to as International Financial Reporting Standards (IFRS). The IASB works with standard setters from different countries to aid in the harmonization of accounting principles and guidelines. The South African representative is SAICA, South African Institute of Chartered Accountants. The harmonization resulted in the convergence of accounting standards known as International Financial Reporting Standards (IFRS). These international standards provide a single set of accounting principles and guidelines that different countries can apply to promote comparability and understanding of financial statements. IFRS is developed by the International Accounting Standards Board (IASB), whose aim is to create high quality international standards that will facilitate comparability of financial statements. Presently, 149 countries around the world comply with IFRS (IFRS foundation e, 2016). An important ambit of the International Financial Reporting Standards relates to the financial reporting framework for the SME sector, which is known as IFRS for SMEs.

#### 2.4 IFRS for SMEs

With the application of IFRS, many small to medium companies realized that it was too complex and costly for their businesses to comply with. A separate reporting framework was developed for the SME sector due to the costs and complexities for SMEs to comply with normal IFRS standards (IFRS foundation b, 2013). The International Accounting Standards Board introduced IFRS for SMEs in response to global support to national accounting standard setters for a high quality and common set of accounting standards for smaller companies (IFRS foundation b, 2013, p. 2). In 2009 the International Accounting Standards Board (IASB) published IFRS for SMEs with the aim of providing a less complicated set of standards to specifically meet the needs of SME users (Ciubotariu, 2013, p. 201). South Africa was the first country in the world to adopt IFRS for SMEs in its initial exposure draft state in 2007. IFRS for

SMEs was applicable to all limited interest companies in South Africa that did not have public accountability (Stainbank, 2008, p. 1).

SMEs have a choice to apply full IFRS or IFRS for SMEs (where applicable – refer to section 3 in this regard). SMEs are encouraged to comply with International Financial Reporting Standards for small and medium sized entities (IFRS for SMEs) to facilitate the preparation of financial statements which will assist with the realization of economic and other long term benefits (SAICA, 2014). These benefits include comparability of financial statements to facilitate global trade and investments, using an international set of approved standards that will enhance the reliability of financial statements to all stakeholders, and can make easier the access to capital and loans that most SMEs require for expansion and growth (Sava, Marza & Esanu, 2013, p. 715). IFRS for SMEs was created especially to meet the unique needs of SMEs (Lubbe, et al., 2014, p. 5). Some of these needs include simpler reporting requirements due to their less complex nature, more cost effective and time efficient resources to be employed to prepare financial accounting records and presenting only relevant, useful information to stakeholders to facilitate informed decision making and enhance understanding (Sanders, et al., 2013, p. 32).

The lack of accounting skills to prepare quality financial statements is one of the major reasons preventing SMEs from having access to funds (O'Neil & Rajaram, 2009, p. 115). These quality financial statements, when prepared appropriately can be further used to make important business decisions and determining the financial position and financial performance of an entity (O'Neil & Rajaram, 2009, p. 114).

Applying an international set of high quality standards such as IFRS for SMEs, contributes to financial statements being more comparable on a national and international level. This increases confidence in the SME financial statements. Further, by establishing an international set of high quality standards drastically reduces the costs of developing and maintaining standards on a national level (IFRS foundation a, 2012, p. 2).

In the discussion paper for IFRS for SMEs, the IASB outlined five objectives for the ensuing standard viz:

- To provide good quality accounting standards which would be easily understandable and applicable internationally

- To meet SME user needs
- To be congruent with the conceptual framework in IFRS
- For those SMEs that wish to report using international standards, to lessen the financial reporting complexities
- To facilitate a smooth transition to IFRS when a SME does become publically accountable or voluntarily chooses to comply with full IFRS

(Ram & Newbury, 2013).

Since implementation in 2009, IFRS for SMEs has undergone its first review in 2012. This review was conducted by the International Accounting Standards Board (IASB). The first step in the review process was to issue a “Request for Information” to the public. This was done to ascertain public views on any required changes to IFRS for SMEs, and details of these changes requested. The review resulted in a revised IFRS for SMEs that is effective 1 January 2017. The new IFRS for SMEs contains only a limited number of changes to the initial version of itself (IFRS foundation d, 2015).

**Table 2.1: Responses from Request for Information for IFRS for SMEs review**

	Africa	Asia	Asia-Oceania	Europe	Latin America	Oceania	Global	Analysis by type
Accounting body	3	6		8	3	1	2	23
Standard setting body		6		7	3	1		17
Accounting firm			1	2			9	12
Academia				1		1		2
Preparer representative body				1			1	2
Individual				1				1
Analysis by region	3	12	1	20	6	3	12	57

**Source:** (IFRS foundation c, 2014)

Table 2.1 shows the responses received from the Request for Information that was issued by the IASB during the review for IFRS for SMEs in 2012. A total of fifty-seven responses were received from jurisdictions that currently apply IFRS for SMEs. The responses were further classified into geographic regions as shown in Table 2.1. Only three of the fifty-seven responses came from Africa. That represents only 5.26% of the responses received (IFRS foundation c, 2014, p. 1). A major portion of the

comments received was from Europe. Research conducted by Schutte & Buys (2010, p. 192) also highlighted that a majority of the respondents to the initial Exposure Draft in 2004 were from developed countries.

South Africa forms part of the BRICS (Brazil, Russia, India, China, and South Africa) which refers to the five major emerging economies in the world. Brazil and South Africa are the two countries from this major five that require or permit IFRS for SMEs. Eighty-four jurisdictions of the world currently require or permit IFRS for SMEs (IFRS foundation f, 2017).

More than 95% of companies globally are eligible to use IFRS for SMEs. The size of a company does not matter when determining to use IFRS for SMEs. The criterion to determine if a company is eligible to use IFRS for SMEs is to determine whether or not they have public accountability. Companies that do not have public accountability are eligible to use IFRS for SMEs. Although there is no size criterion to use IFRS for SMEs, a jurisdiction may add one should they choose to do so. (IFRS foundation a, 2012, p. 3). The incentive in applying IFRS for SMEs, to companies that are applicable, can be gaged when comparing the reporting requirements of full IFRS to that of IFRS for SMEs.

## 2.5 Full IFRS verse IFRS for SMEs

IFRS for SMEs has been significantly simplified and is reflected in the number of pages being approximately 230 pages when compared to full IFRS which is approximately 15 000 pages (Sanders, et al., 2013, p. 32).

IFRS for SMEs in a modified version of full IFRS, aimed at providing less complex and more relevant financial information to users of financial statements. Some of the key differences between the two reporting frameworks include: (a) IFRS for SMEs excluding standards that are irrelevant to SMEs; (b) where policy choices are offered by full IFRS, IFRS for SMEs, only allows the simpler option; (c) simplified recognition and measurement principles in IFRS for SMEs compared to full IFRS (Stainbank, 2008, p. 7). Stainbank (2012) has cited SAICA (2002) that it is unreasonable and impracticable to expect small businesses to apply general purpose accounting

standards. This was one of the driving forces behind the development of IFRS for SMEs (Stainbank, 2008, p. 7).

Research conducted locally (Hattingh, 1999) (Cleminson & Rabin, 2002) (Van Wyk, 2005) (Wells, 2005) show that the compliance with previously accepted SA GAAP and IFRS exceeds the benefits for SMEs. This is supported by research conducted by the South African Institute of Chartered Accountants (SAICA) (Stainbank, 2008, p. 3). This has also proved true internationally (Maingot & Zeghal, 2006). Further research identified that the time spent on compliance as well as the complexities of compliance serve as an impediment as opposed to the actual cost of compliance (Stainbank, 2008, p. 3).

Listed below are five focal ways in which IFRS for SMEs has been simplified to assist reduce the complexities of full IFRS:

- Omission of topics that are irrelevant to IFRS for SMEs. Examples include: interim financial reporting, earnings per share and segment reporting
- Where options are available to users, only the simpler method is available. For example, there is no revaluation of property, plant and equipment required.
- Recognition and measurement principles have been simplified. Examples include: expensing of borrowing and research and development costs and amortization of goodwill.
- IFRS for SMEs calls for 300 disclosures, whereas full IFRS warrants more than 3000 disclosures.
- Easier understanding is gained through simplified reporting

(Sanders, et al., 2013, p. 32)

One of the major challenges experienced by SMEs is the acquisition of capital. IFRS for SMEs aims to provide useful information to lenders and other users of SME financial reports, about solvency, liquidity and cash flows of a company (Sanders, et al., 2013, p. 32).

Several SMEs do not have adequate staff or resources to enforce compliance with full IFRS due the complexities involved. Therefore, IFRS for SMEs serves to simplify

this reporting burden by reducing the complexities involved in recognition and measurement (Sanders, et al., 2013, p. 32).

There are several benefits that can accrue to an entity as a result of applying IFRS for SMEs. A non-exhaustive list of examples of such benefits are listed below:

- Compliance with IFRS for SMEs by South African entities removes the need and the costs associated with the need of having to sustain national standards
- Comparability of financial statements will be enhanced globally due to international standards being applied
- As discussed above, IFRS for SMEs will result in less complex financial reporting compared to full IFRS
- Suitable financial reporting standards will aid in performance evaluation of a company as well as enhance the transparency of management
- Users of financial statements will appreciate that financial reporting requirements are being complied with and this will add credibility and enhance the quality of financial statements
- By preparing financial statements using the international accounting standards it will promote the understanding and usefulness of financial statements globally
- Global understandability could lead to foreign trade which will endorse international growth in South Africa
- Application of IFRS for SMEs will result in less complicated financial statements which will benefit many users understanding

(Sava, et al., 2013, p. 715)

The leading objective in the establishment of IFRS for SMEs was to make available a separate, less complicated set of accounting principles for entities that have less complex transactions and do not have public accountability as well as have limited resources available to comply with full IFRS and operate in situations in which comparability with publically accountable entities is not a major factor. Full IFRS was used as a starting point in preparing IFRS for SMEs. This was then tailored to consider the cost-benefit issues as well as the different needs of users of SME financial statements (IFRS foundation b, 2013, p. 4).

Two of the fundamental reasons for choosing a simpler reporting framework for SMEs is firstly to meet user needs and secondly, the cost/benefit constraint (Stainbank, 2008, p. 3). This view is shared by (Litjens, et al., 2012, pp. 228-229) who says that entities that lack public accountability and continue to apply full IFRS, are often faced with large financial reporting costs and financial statements that are not very relevant to users. It is important to note that IFRS for SMEs is only applicable to companies that meet the definition of an “SME” as defined.

## 2.6 Definition of an SME

There is an absence of a standard global definition of SMEs. Each country has its own unique definition of an SME. These definitions are made up of a combination of qualitative and/or quantitative factors. The most common quantitative factors include sales volume and number of employees (Ardic, Nataliya & Valentina, 2011, p. 8).

In South Africa, a small enterprise is defined as by the Small Business Amendment Act as “a separate and distinct business entity together with its branches and subsidiaries, if any, including, cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column I of the schedule and classified as micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns in 3, 4 and 5 of the Schedule” (The Republic of South Africa a, 2004, pp. 2-3). The criteria are based on quantitative characteristics such as: total full time equivalent of paid employees, total annual turnover and total gross asset value (fixed property excluded). Qualitative factors are also considered and include:

- Ownership: Company should be owned by one person or only a few people. Further to this, the company should be managed by the owner, or the owner should be involved in the controlling operations of the business;
- organization structure which should be simple;
- The owner is jointly/severally liable for any debt incurred by the company

(Rajaram, 2008, p. 18).

The IASB does not consider quantitative characteristics in its definition of SMEs, due to the inflationary nature which may be inherent in quantitative data, therefore resulting in a need for regular update. The dominant criteria that is envisaged in the IASB's definition of SMEs, is that it must lack public accountability. The definition of public accountability as per the IASB includes a company that:

1. "files (or is in the process of filing) its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or

It holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity" (Stainbank, 2008, p. 6).

## 2.7 The global economy

The existence of companies have been threatened by the global economic instability and economic conditions. The global economy is still recovering from the aftermath of a recession. In several developed countries the economic activity has not returned to its operating level in 2007 (Temin & Vines, 2013, p. 1). In South Africa, the effect of the global recession caused a decrease in the budget balance from a surplus of 0.7% (2007) to a deficit of 5% (2010) (The Republic of South Africa c, 2012).

One of the primary reasons for the recession was the financial crisis that occurred in 2008. The financial crisis began in the United States of America and was due mainly to lending below prime interest rates. This resulted in a global credit crunch. Credit crunch refers to a scarcity of funds (Murad, 2014, p. 221). This caused a liquidity crisis internationally. The US Federal bank responded to this by increasing significant amounts of capital into the financial markets. This did not aid very much as the predicament worsened due to the increased volatility and crashing of stock markets globally. Consumers lost confidence and were apprehensive about the future of the global economy. One of the biggest landmarks of the financial crisis was the collapse of a global bank, Lehman Brothers. One of the significant contributors to the fall of Lehman brothers was poor leverage and liquidity issues (Davies, 2014, p. 1).

The global financial crisis also significantly impacted international trade. Due to a decline in international trade towards the end of 2008, the estimated loss of 5.4% in GDP of the world was exceeded to about 12%. Some economies showed a decline in export trading of about 30% annually since 2008. A drop in exports contributed further to the global economic tension during the recession (Chor & Manova, 2012, p. 117; Shah, 2013).

The effect of the global economic crisis on the global economy has been many. One of the primary effects being unemployment. Unemployment remains as one of the major problems of the world. It is seen as an effect of global economic challenges as well as a restriction to economic growth. Unemployment has a ripple effect on several other factors. Due to the increasing unemployment levels, there is a possibility of corroding skills and knowledge that are vital components to long term economic growth (Temin and Vines, 2013, p4).

Unemployment is one of the key sources of poverty. World Bank data suggests that 1.4 billion people live at a poverty line of \$1.25 or below (Shah, 2013, p. 3). The gini-coefficient serves as a measure of inequality relating to relative poverty. It ranges from 0 to 1. 0 suggests complete equality and 1 suggests complete inequality (one person has all the income/consumption, and others have none). 5% of global income is comprised of the poorest 40% of the global population. 75% of global income is made up of the richest 20% of the world's population (Shah, 2013, p. 2). South Africa's gini-coefficient is between 0.66 and 0.7, one of the highest in the world (The World Bank, 2016). It is important to highlight that SMEs constitute a major part of the global economy.

### *2.7.1 Importance of the SME sector in the global economy*

The importance of financial reporting for SMEs can be attributed to the significant role that SMEs play in the economy. Ardic *et al* (2011:p. 2) has cited Beck *et al* who identified a positive relationship between the size of the SME sector and economic growth. SMEs are the major driver behind the creation of jobs in most economies (Ardic, et al., 2011, p. 2). Considering this mammoth role that SMEs play in the employment and growth of an economy, it becomes imperative for SMEs to prepare

good quality financial statements that can be internationally understandable and comparable. By presenting SMEs with this international advantage, it can promote global trade and investment and ultimately contribute to the growth of these companies.

There are several reasons that the SME sector is becoming more relevant to solving the economic problems of the world (International Finance Corporation:World Bank Group, 2011). SMEs constitute more than 95% of the global economy (Edinburgh Group, 2012, p. 7). In South Africa, the SME sector contributes significantly to GDP and reducing unemployment (Bureau for Economic Research, 2016, p. 5). Research shows that the development of SMEs is closely aligned with economic growth (Ardic, et al., 2011, p. 2). SMEs promote diversified, sustainable and long term growth (Ardic, et al., 2011, p. 2). Research conducted by the Edinburgh Group states that SMEs play a significant role in both developing and developed countries (Edinburgh Group, 2012, p. 6).

SMEs are often described as the “engine” of economic growth (Savlovschi & Robu, 2011, p. 278). SMEs significantly influence gross domestic product (GDP) (Savlovschi & Robu, 2011, p. 278). They contribute to job creation, output and income in an economy (Edinburgh Group, 2012, p. 4). Latest research suggests that economic growth of a country is closely aligned with the development of SMEs (Pandya, 2012, p. 426). The economic growth of many countries can be attributed to SME market (Khan, 2014, p. 1).

SMEs are the seedlings of large firms. Most large firms initially started off as small or medium sized and then continued to grow. SMEs signify the world from which large companies came and from which their impending competition will come (Savlovschi & Robu, 2011, p. 278).

In the 2017 State of the Nations Address in South Africa, President Jacob Zuma highlighted SMEs as being one of the key areas in the country’s nine-point plan to increase growth and create jobs (President Jacob Zuma, 2017). SMEs are considered an integral part of the global economy due to the large scale contributions that they make to important economic factors. Pravin Gordhan, in his 2017 Budget speech for South Africa, mentioned various initiatives and measures

that were put in place to assist the growth of the SME sector in South Africa (Minister Pravin Gordhan, 2017).

South Africa's economy constitutes 91% of SMEs. 61% thereof contributes to the company's employment statistics, and 52%-57% contributes to the country's GDP (Khan, 2014, p. 1). The DTI has several grants and programmes available to promote SME development and assist in creating employment in South Africa.

Examples of these programmes include, and are not limited to: The Black Business Supplier Development Program (BBSDP); Co-operative Incentive Scheme (CIS); Capital Projects Feasibility Program (CPFP); Sector Specific Assistance Scheme (SSAS) (Khan, 2014).

### 2.7.2 Contribution of SMEs to the global economy

#### *(a) Job creation/Reduction in unemployment*

SMEs provide the majority of jobs in several countries. As economies are recuperating from the 2008 financial crisis, one of the major issues is the creation of employments for its people. Therefore, the establishment and growth of SMEs is fundamental due to research showing that SMEs are the major contributor to jobs (Ardic, et al., 2011, p. 2).

Research also shows that small businesses make a significant contribution to the creation of jobs due to the proportion of the workforce that they employ. Smaller businesses have showed a growth in their portion of overall employment and in 2010 the percentage of small firm employment has increased to three times more than it was in 1998 (The United Kingdom, 2013, p. 8).

#### *(b) Increase in exports*

Exports are a major contribution to economic growth. One of the resultant positives than can be gained from exporting is the acquisition of international skills and knowledge which can then be infiltrated into a company's national economic trade (The United Kingdom, 2013, p. 41). Research conducted by the Edinburgh Group

suggests that when SMEs are involved in exporting, it increases their contribution to their economy (2012, p. 6).

*(c) Stimulation of innovation*

The growth rates of innovated firms compared to those of non-innovative firms prove to be higher across three innovation measures namely: process innovation, product innovation and wider innovation. It has been proved through research conducted that a ten percent increase in the sale of new a product adds a 0.7% increase in the growth rate. SMEs have been proven to present themselves as a major driver to innovation (The United Kingdom, 2013, p. 8).

Innovation encourages economic growth. Companies that are consistently involved in research and development show a thirteen percent higher productivity rate than those that are not. Businesses state that innovation results in improved quality of products offered a wider variety of goods and services and an entry into new markets. SMEs add to economic growth by serving as a foundation to innovation and growing competition (The United Kingdom, 2013, p. 27). SMEs are the pioneers of new ideas and processes and show how to effectively utilize resources (Savlovschi & Robu, 2011, p. 278). Several jobs stem from innovation and new findings contribute to new business ventures (Savlovschi & Robu, 2011, p. 279).

*(d) Increased competition*

SMEs create competition which increases productivity, therefore promoting economic growth (The United Kingdom, 2013, p. 9).

It is evident SMEs contribute significantly towards a successful economy, globally and in South Africa. Accordingly, it is imperative that SMEs are able to produce relevant and reliable financial reporting, thereby facilitating sound economic decisions. These decisions will enable the development and growth of a vibrant and sustainable SME sector in South Africa. According to 2015, quarter two statistics, SMEs contribute to 22% of the gross value added (GVA) in South Africa. This increased from quarter four in 2010 (Bureau for Economic Research, 2016, p. 31).

From the above we can ascertain the importance of SMEs to the global economy and the paramount contribution that SMEs effect to economic challenges. Due to the significant role that SMEs play in the economy, it becomes essential that financial information of SMEs are reported with integrity to ensure the relevance and reliability of financial information and the way in which it is presented to users, to enable them to make important informed decisions. It is therefore, imperative to review any studies that have been conducted nationally and internationally on IFRS for SMEs to establish the role that it plays in the SME sector.

## 2.8 Studies done on perceived implications of IFRS for SMEs: Pre-implementation

Studies conducted in in South Africa by Hattingh (1999); Cleminson and Rabin (2002); Wells (2005); Van Wyk (2005) and SAICA (2006) endorse the cost of complying with general accounting standards such as SA GAAP or full IFRS, as exceeding the benefits. Similar studies were conducted internationally. Mosso (1983) and Carsberg *et al* (1985) were cited in this regards by Stainbank (2008:p. 3). It is important to highlight that these studies were conducted prior to the implementation of IFRS for SMEs and focused on the need for IFRS for SMEs.

A study conducted by Stainbank (2008) looked at the development of IFRS for SMEs and the implications of impending changes on SMEs. IFRS for SMEs was effective in 2009, hence the context of this study was prior to the practical application of IFRS for SMEs by the SME sector. The Stainbank (2008) study focused on the development and implications of IFRS for SMEs on the SME sector in South Africa. This study was done in the preliminary stages of the adoption of IFRS for SMEs in South Africa. Stainbank (2008, p. 10) examined the responses to the SAICA public survey which looked at whether the distinction between widely held and limited interest companies in South Africa was sufficient to include in the definition of SMEs. 50% of respondents agreed that it was, 20% commented that other criteria should also be included (such as gearing ratio, size and nature of the entity, and the role that the entity has in the community), 30% did not answer the question. One of the important issues identified in this article was that even though there was a distinction between widely held and limited interest companies, this distinction was too broad. Based on only these two tiers, Stainbank (Stainbank, 2008, p. 13) stated that IFRS for SMEs does not

sufficiently cater for the reporting needs of firms at lower levels such as micro entities. SAICA undertook a questionnaire survey directed at micro entities to establish their need for a third tier for financial reporting, a South African Micro GAAP framework. The idea of a South African Micro GAAP was explored and then dismissed, and instead SAICA developed a guide for micro entities to apply IFRS for SMEs. The guide is available electronically, and includes detailed instructions on how to simplify the application of IFRS for SMEs for micro entities. The guide includes practical examples, checklists, illustrative financial statements, live updates, easy navigation and a built in search function to assist preparers of micro entity financial statements (SAIPA, 2012).

Research conducted by Schutte and Buys (2010:p. 192), was done on the basis that the respondents to the initial Exposure Draft on IFRS for SMEs in 2004 were mainly from Europe with very little South African input. 58% of the respondents were from Europe, 8% from America, 25% from Asia and Oceania and only 10% were from Africa. Even though IFRS for SMEs was not created for a particular target group, a majority (more than 50%) of the respondents were from developed countries. As a result, the study was conducted to establish whether the content of IFRS for SMEs was appropriate and relevant for the South African SME sector. South Africa is considered an emerging economy. The results of the research confirmed that the content of IFRS for SMEs was suitable for the reporting needs of South African SMEs (Schutte & Buys, 2010). This study was done in the initial implementation stage and focused on the suitability of the content of IFRS for SMEs rather than the practical application. The perceived implications of IFRS for SMEs in the early stages of implementation may be different to the actual perceptions of this reporting framework now that it has been in use for a significant period. This study will focus on the actual perceptions post-implementation and hence draws on the practical issues thereof.

A study conducted by Litjens (2012) in Netherlands, also in the preliminary stages of IFRS for SMEs focused on the perceived costs and benefits of IFRS for SMEs. This study related to costs versus benefits of IFRS for SMEs, on a sample of private firms which assessed the perception of preparers' relating to costs and benefits of IFRS for SMEs. 3373 questionnaires were sent to companies on a proprietary database that are eligible for IFRS for SMEs. 382 completed questionnaires were returned (Litjens, et al., 2012, pp. 235-236).

The results of the study highlighted that preparers have perceptions regarding the costs and benefits of IFRS for SMEs, however the perception of costs is more closely associated with actual costs than the perception of benefits to actual benefits. This result is coherent with the costs being quantifiable and the benefits being less tangible in nature. Costs are also more closely linked to the size of the entity while benefits are not. The results also showed that preparers see costs and benefits of IFRS for SMEs separately from each other, rather than parallel to each other (Litjens, et al., 2012, p. 228 & 243). This concept of cost verses benefit is critical for SMEs. SMEs are considered to be small and medium enterprises, and hence the issue of costs and cashflows will be important to sustaining such businesses. Hence, one of the primary reasons for the IASB in developing IFRS for SMEs was to provide a financial reporting framework that is more cost effective.

Limited studies have been conducted post implementation of IFRS for SMEs in South Africa. The Stainbank study in 2008 was conducted prior to the implementation of IFRS for SMEs in South Africa in 2009, and therefore focused more on the perceived impact of IFRS for SMEs. The Schutte study done in 2010 was also done in the early stages of IFRS for SMEs being implemented. This study focused on the relevance of the content of IFRS for SMEs rather than the perceptions of any issues relating to the practical implementation of this reporting framework. Pre-implementation perceptions may differ from post-implementation perceptions. Considering that IFRS for SMEs, has been in use for a significant period, it is important to consider what the current perceptions of this reporting framework is. Three studies have been conducted post implementation of IFRS for SMEs internationally, in Fiji, Turkey and Ghana and these will be discussed further.

## 2.9 International research on post-implementation of IFRS for SMEs

Fiji and Turkey committed to an early adoption of IFRS for SMEs in 2010. Research was conducted by Hussain, et al. (2012) in Fiji; and Uyar & Gungormus (2013) in Turkey to ascertain the view of accountants and assess their basic understanding and application of IFRS for SMEs post implementation. A study conducted in Ghana by Otchere & Agbeibor (2012) focused on evaluating the need and relevance of

IFRS for SMEs in Ghana as opposed to an assessment of the basic understanding and application post implementation.

The Turkish study and the study conducted in Ghana used a questionnaire to obtain feedback, whilst the study in Fiji was conducted by interviews. Hussain, et al. (2012) opted for interviews rather than questionnaires. Both the Fiji and Turkish studies included twelve questions each to participants. These questions related to the post implementation of IFRS for SMEs in these countries.

Interviews were conducted with practitioners from the big four accounting firms and non-big four accounting firms in Fiji. Ten practitioners were interviewed; of which four were from the big four accounting firms and six were from non-big four accounting firms. The results from each of the two types of firms varied. The reason for the variation is that the non-big four firms were already familiar with and actively applying full IFRS. Therefore, the transition from full IFRS to a simplified IFRS for SMEs was not paramount. However, practitioners from the non-big four accounting firms were familiar with and actively using local Fiji Accounting Standards. Therefore, the move to an international framework for financial reporting proved to be more difficult and complicated.

The responses also suggested that IFRS for SMEs is still considered too complex for small entities in Fiji which are simpler in nature. In addition, the needs of users of the micro-entities in Fiji, as an emerging economy were not perceived to be appropriately addressed. A similar view is shared by Otchere & Agbeibor in Ghana (2012, p. 195) that the requirements of IFRS for SMEs are not suitable for the financial reporting needs of SMEs. Stainbank and Wells (2007) as mentioned by (Stainbank, 2008, p. 13), has also stated that IFRS for SMEs should consider the reporting needs of different thresholds and that a single set of differential reporting standards may not be deemed to be sufficient in South Africa. It is important to establish whether IFRS for SMEs is considered less complex than full IFRS, seeing as IFRS for SMEs has been in use for a significant period.

The cost was a major factor that surfaced from the research conducted particularly with the non-big four firms in Fiji. The additional costs involved in training employees, modifying financial reporting systems and using expert services to facilitate the transition are all issues that were mentioned. One of the major reasons

attributed to this being an accelerated challenge with non-big four firms was due to the lack of resources available to these types of firms. Otchere & Agbeibor (2012) state that a cost benefit analysis plays a significant role in company's decision to adopt IFRS for SMEs. This is also supported by Stainbank (2008, p. 3) who mentions that the cost benefit analysis is an important consideration in IFRS for SMEs.

Even though the International Accounting Standards Board has provided online training to facilitate with the costs associated with training employees, it was not deemed to be sufficient. Respondents from the non-big four firms felt more practical training was needed due to the practical nature of accounting. However, respondents of the big four firms did not highlight this as a major issue as they were already familiar with the practical application of full IFRS and the application of IFRS for SMEs was merely about identifying the differences between full IFRS and IFRS for SMEs and being able to apply a simpler version of full IFRS which is presented in IFRS for SMEs (Hussain, et al., 2012).

The perceived costs associated with complying with IFRS for SMEs burdened the local non-big four practitioners more heavily than the perceived benefits. Emerging economies like Fiji that are made up of several micro entities may find IFRS for SMEs not suitably beneficial to the smaller entities (Hussain, et al., 2012). It is therefore important to establish the cost verse benefit implications of IFRS for SMEs for South African SMEs. This is essential, as one of the primary reasons for the IASB, creating IFRS for SMEs was to provide SMEs with a reporting framework, which is more cost effective than full IFRS.

From the above study, it can be concluded that practitioners from the big four accounting firms were able to easily apply IFRS for SMEs and the costs of transition to IFRS for SMEs were not significant. However, practitioners from non-big four accounting firms found the transition to IFRS for SMEs more challenging and costly.

Uyar & Gungormus (2013) used a questionnaire survey for their study in Turkey. 128 responses were received from respondents across Turkey. From these, only five responses represented employees from the big four firms.

52% of the respondents said that they have little knowledge of full IFRS. 39% of the respondents reflected a positive evaluation of IFRS for SMEs as opposed to 10%

who did not. Majority (51%) did not have an opinion on the evaluation of IFRS for SMEs. The study conducted in Ghana reflected that most respondents were of the view that a significant portion of IFRS for SMEs was not considered to be relevant to SMEs in Ghana. This is highlighted by 19 of the 27 issues addressed by the study as well as the IFRS for SMEs standard, being regarded as irrelevant (Otchere & Agbeibor, 2012, p. 1).

Training received on IFRS by participants in Ghana was concerning. 22% of the respondents were trained on full IFRS and only 17% were trained on IFRS for SMEs. 89.8% of respondents identified a need for IFRS for SMEs training. The research showed that those that were trained on IFRS for SMEs and employees of the big four firms had a better understanding of IFRS for SMEs. This is consistent with research conducted by Hussain, et al (2012) that employees from the big four firms who had access to training programs and resources provided by the big four firms, were able to apply IFRS for SMEs more easily.

The Uyar and Gungormus (2012) questionnaire also focused on obstacles relating to implementation. The complexity of understanding the standards and transitional costs were not identified as major obstacles by respondents. Some of the more significant obstacles identified were inadequate training of accounting staff and insufficient training resources provided by regulatory bodies. Research conducted Hussain, et al (2012) also suggests that respondents stated that more practical training was required for IFRS for SMEs.

The most significant obstacles identified were lack of staff training and lack of training resources. In the study conducted Hussain, et al (2012), it was noted that online training was not sufficient and more practical, hands on training would be beneficial. It was also noted in both studies that practitioners trained about IFRS for SMEs and those of the big-four firms had a better understanding of IFRS for SMEs and were able to apply it more easily. While there has been studies conducted internationally on IFRS for SMEs post-implementation, there have been no studies done in South Africa post-implementation. This is essential to contribute to future reviews of the standard by the IASB, and to establish whether IFRS for SMEs has met the objective of being less complex than full IFRS and more cost effective to the SME sector.

## 2.10 Conclusion

The purpose of this section was to review existing literature on IFRS for SMEs both nationally and internationally. Several studies have been conducted internationally to focus on the impact of IFRS for SMEs. However, there seems to be a dearth of research conducted in South Africa post implementation of IFRS for SMEs, which warrants further research. This study will focus on the perceptions of the KwaZulu Natal SME sector in applying IFRS for SMEs. This post implementation study is considered essential to ascertain whether or not the goals envisaged by the International Accounting Standards Setting Board (IASB) have been achieved. The main objective of the IASB in creating IFRS for SMEs was to promote cost-effectiveness and to reduce the complexities of financial reporting requirements that presented itself in the application of full IFRS, to the SME sector. Due to the lack of research conducted post implementation in South Africa, it is not possible to identify any challenges faced by the South African SME sector in applying IFRS for SMEs. Another shortcoming in existing literature is whether or not the SME sector have the relevant financial reporting skills to apply IFRS for SMEs and whether or not this application of IFRS for SMEs has materialised in cost efficiencies for the SME sector.

Due to the absence of literature in the ambits stated above, it was deemed necessary to conduct empirical studies in this regard. The next section will focus on the research methodology used to address these research gaps.

## **Chapter 3: Research Methodology**

### 3.1 Introduction

Chapter 2 reviewed at recent studies done on IFRS for SMEs both locally and internationally. Prior to the conception of IFRS for SMEs, several studies were done both nationally and internationally to support the need for a simpler and more cost effective reporting framework for the SME sector.

A review of international studies was done which focused on the post implementation of IFRS for SMEs. One of the key findings from the literature review was that there is an absence of studies conducted in South Africa post implementation of IFRS for SMEs. Where research was conducted this was focused on the suitability of IFRS for SMEs for South African companies (Schutte & Buys, 2010) and the perceived implications of IFRS for SMEs (Stainbank, 2008). Both these studies were conducted in the very early stages of implementation. Hence, there is a need to conduct empirical studies post implementation of IFRS for SMEs to establish what the perceptions of IFRS for SMEs are in the KwaZulu Natal SME sector, now that the reporting framework has been in use for a considerable amount of time.

The gaps in the literature review emanated in an inability to:

- Establish challenges faced by the SME sector of KwaZulu Natal in applying IFRS for SMEs;
- Assess the cost-effectiveness of IFRS for SMEs in the KwaZulu Natal SME sector;
- Explore whether the KwaZulu Natal SME sector have the relevant financial accounting and financial reporting skills to apply IFRS for SMEs.

These shortcomings provide justification to conduct empirical research on the perceived implications of IFRS for SMEs in the KwaZulu Natal SME sector. Comprehension of these perceptions will assist the financial sector in putting measures in place to facilitate SMEs in complying with IFRS for SMEs and enable them to endeavour to reduce the burden of any challenges currently faced by the SME sector in the application of IFRS for SMEs. Chapter Three will focus on the

research design and methodology used to conduct this empirical research on the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector.

### 3.2 Problem Statement and Research Question

IFRS for SMEs was implemented and effective in 2009. It emanated as a result of the financial reporting requirements of full IFRS being too complex and costly for SMEs to apply. Studies have been conducted prior to the conception of IFRS for SMEs to show that the costs of compliance of full IFRS exceeded the benefits for the SME sector. Although international studies have been conducted post implementation of IFRS for SMEs, which have looked at the views of accountants and an assessment of their basic understanding and application of IFRS for SMEs, there is an absence of studies conducted post implementation of IFRS for SMEs in South Africa.

This study will answer the question “What are the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector?”

### 3.3 Aims and Objectives

The aim of this research study is to establish the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector.

The objectives of this study are as follows:

1. To establish challenges encountered by SMEs in applying IFRS for SMEs.
2. To assess the cost-effectiveness of IFRS for SMEs in the SME sector.
3. To explore whether SMEs have the relevant financial reporting skills to apply IFRS for SMEs.

### 3.4 Contribution of the study

A review of international studies was done which focused on the post implementation of IFRS for SMEs. One of the key findings from the literature review was that there is an absence of studies conducted in South Africa post implementation of IFRS for

SMEs. Where research was conducted this was focused on the suitability of the content of IFRS for SMEs for South African companies (Schutte & Buys, 2010) and the perceived implications of IFRS for SMEs (Stainbank, 2008). Both these studies were conducted in the very early stages of implementation. Hence, there is a gap to conduct empirical studies post implementation of IFRS for SMEs to establish what the perceptions of IFRS for SMEs are in the KwaZulu Natal SME sector, now that the reporting framework has been in use for a fair amount of time. The perceptions of IFRS for SMEs that will be established in this study, can contribute to assist the IASB to identify practical challenges faced by the SME sector with current compliance and application of IFRS for SMEs. This will assist the IASB in future reviews of IFRS for SMEs, to meet their objective of a financial reporting framework that is less complex and more cost efficient to the SME sector.

### 3.5 Research Design

The research design was a generic plan that details the fundamental characteristics of the study and how the study was implemented to ensure that the research objectives were satisfied (Saunders, et al., 2003, p. 90). A plan was therefore be created to establish what the perceptions of IFRS for SMEs are in the KwaZulu Natal SME sector. The important characteristics of this plan included:

- Nature of the research;
- Sample frame;
- Data collection method; and
- Data analysis

### 3.6 Nature of the research

There are two core methods to research. The first method is a quantitative approach, which also known as a positivist approach. This is based on a scientific method to observe and objectively measure the subject material. The second method is a qualitative approach, which is also knows an anti-positivist approach. This approach

opposes the scientific element contained in the positivist approach (Welman, Kruger & Mitchell, 2005, pp. 6-9).

One of the significant differences between the quantitative and qualitative approaches is that the quantitative approach encompasses a larger degree of measurement in the collection and analysis of data, whereas the qualitative approach includes more observations and narrations in the collection and analysis of data (Bryman & Bell, 2011, pp. 26-27).

A review of previous research conducted in the KwaZulu-Natal SME sector has shown that most of the research that has been done, was done using a quantitative approach. Examples of this research are:

- Soni (1999): Thesis for M Com “An investigation into the key growth factors for small Indian retailers in some of the previous group areas of Pietermaritzburg: The role of marketing”. Quantitative research using a sample size of one hundred judgementally selected businesses from the area being studied.
- Cronje (2004): Thesis for M Com “Funding SMEs in the KZN Midlands region”. Quantitative research randomly selecting two hundred small business owners from one thousand two hundred and forty one businesses from the Howick Chamber of Commerce.
- Mutezo (2005): Thesis for M Com “Obstacles in the access to SMME finance: An empirical perspective in Tshwane”. Quantitative research selecting six hundred businesses from the 2002 Braby’s database.

The above is not an exhaustive list of all research conducted in the KwaZulu Natal SME sector; however it is indicative that most of the research that has been conducted have applied a quantitative approach. The focus of this study is on the KwaZulu Natal SME sector and will employ a quantitative descriptive design.

Sekaran & Bougie (2003:p. 223) describe data collection as an important aspect of the research design.

### 3.7 Data Collection

A questionnaire was the instrument used to collect data in this study. Questionnaires are considered to be an efficient data collection instrument (Sekaran & Bougie, 2003, p. 240). The use of a Likert Scale and closed-ended questions in the instrument enabled quantitative statistical methods and descriptive statistics to be conducted on the responses from the questionnaire.

### 3.8 Questionnaire Design

A questionnaire using close-ended questions was used to conduct this study. A Likert scale was used to measure the responses. Refer to Annexure 2. Section 1 of the questionnaire was designed to collect biographical details of the respondents. Sections 2, 3 and 4 were designed to meet each research objective as follows:

Section 2 - Research objective 1: To establish challenges encountered by SMEs in applying IFRS for SMEs.

Section 3 – Research objective 2: To assess the cost-effectiveness of IFRS for SMEs in the SME sector.

Section 4 – Research objective 3: To assess whether SMEs have the relevant financial reporting skills to apply IFRS for SMEs.

Questionnaires are an efficient instrument to collect data where the variables of interest can be appropriately measured and the research objectives can be built into the questionnaire (Sekaran & Bougie, 2003, p. 236). The questionnaire issued is attached in Annexure 2.

### 3.9 Sample Frame

The White Paper from the Department of Trade and Industry states that even though SMEs are important to the South African economy, there is an absence of a statistical base of SMEs in South Africa (The Republic of South Africa d, 1995, p. 8).

The challenge is carried through to KwaZulu Natal, where there is a lack of a comprehensive database for SMEs. Even though there are Business Chambers of Commerce that exist in cities such as Durban and Pietermaritzburg, these databases may be incomplete and hence will not be truly representative of the SME sector. Further to this, there is an issue of confidentiality attached to these Business Chambers of Commerce in dispensing email address and other information of companies listed on their database. The Chief Executive Officer of the Pietermaritzburg Chamber of Commerce was contacted in this regard, for permission to access the businesses listed on the Pietermaritzburg Chamber of Commerce. The issue of confidentiality of businesses listed on the database was issued as a deterrent to not make these businesses contact details accessible.

An additional issue to consider is whether the businesses listed on these databases would meet the definition of an SME as described in Chapter Two. It is also relevant to cogitate that there could be some SMEs that are not listed with the Business Chambers of Commerce. Soni (1999, p. 21) has highlighted client confidentiality as limiting issue in using SMEs as a sample. In his study, Soni (1999, p. 21) has mentioned that most business owners are hesitant about providing financial information and to discuss financial issues regarding their businesses as they see this as being strictly confidential.

One of the findings in the O'Neil & Rajaram (2009, p. 108) study was that SMEs lack financial skills. As a result of this, it is probable that owners of SMEs may not be in a position to answer the questions in the questionnaire which are centred around International Financial Reporting Standards (IFRS) for SMEs.

Mutezo (2005) underlines lack of appropriate resources by some SMEs as a further deterrent in using the SME sector as a sample frame. He explains that not all SME owners are computer literate or have access to emails to enable access to a questionnaire.

In light of the above, it can be noted that there are several restrictions in using the SME sector as a sample frame to conduct this study. It may be more judicious to consider the use of accounting experts to study the financial accounting skills in the KwaZulu Natal SME sector (O'Neil & Rajaram, 2009, p. 107). Industry experts are considered to have a wider understanding of the financial reporting needs and skills

and hence may prove to be more useful in this regard (O'Neil & Rajaram, 2009, p. 108).

Stainbank & Wells (2005) conducted a study to assess the appropriateness of Differential Reporting in South Africa. The use of industry experts was the basis of this study. A questionnaire was issued to a random sample of three hundred and fifty registered auditors and accountants. The population size was drawn from the Public Accountant's Auditor's Board of approximately four thousand listed practitioners. The Registered Auditors and Accountants were considered to be industry experts by Stainbank & Wells (2005, p. 51-65) due to the following considerations:

- The audit of South African companies is uniquely performed by them;
- They are knowledgeable about International Financial Reporting Standards;
- They are acquainted with the financial accounting needs of their clientele.

The quantitative approach to this study focused on industry experts who are knowledgeable of the financial reporting requirements of the SME sector, and are familiar with IFRS for SMEs. This facilitated responding to the questionnaire which is centered around IFRS for SMEs.

The purpose of focusing the study around KwaZulu Natal is attributed to the fact that KwaZulu Natal has the second largest population in South Africa, after Gauteng. KwaZulu Natal comprises 11 079 717 people (The Republic of South Africa e, 2016, p. 15) of the 55 908 900 people in South Africa (The Republic of South Africa e, 2016, p. 7). This constitutes 20% of the South African population. KwaZulu Natal makes the second largest contribution of economic activity and GDP to South Africa, and is therefore considered one of the key players in the South African economy (KZN provincial Government, 2016/2017).

### 3.10 Sample Size

The challenges relating to using SME owners as a relevant sample frame has been highlighted. The use of industry experts addresses most of these challenges. However, there is an absence of a database which lists industry experts for the SME

sector. Hence, a suitable sample size cannot be extrapolated using representative sampling techniques.

The Central Limit Theorem renders a sample size of thirty to be appropriate to conduct statistical analysis. The Theorem assumes a normal distribution of the sample mean (Sekaran & Bougie, 2003, p. 284) This will facilitate an analysis of data from the sample size using parametric statistical methods (Hogg & Craig, 1978, p. 192). O'Neil & Rajaram (2009, p.108) conducted a study of the financial management skills of the SME sector in KwaZulu Natal, and a sample size of thirty was considered suitable and was used in the study.

A sample size of thirty industry experts was used for this study and this was considered suitable in terms of The Central Limit Theorem and the research conducted by O'Neil & Rajaram (2009) in the KwaZulu Natal SME sector. It is imperative to highlight that the sample size of thirty is considered to be a limitation in this study and could be viewed as an avenue for further research. The findings cannot be generalised.

To determine which individuals will be classified as industry experts, guidance is drawn from O'Neil & Rajaram (2009, p. 108). To ensure that individuals concerned are knowledgeable and will be able to contribute to the study, at least one of the following criteria need to be satisfied:

- “A formal business qualification relating to the SME sector
- At least five years experience with SME development
- At least five years experience in management of a SME
- Experience in the training of / Involvement in accounting in the SME sector”.

O'Neil & Rajaram (2009, p. 108) split the sample of thirty industry experts into various groups to better analyse the responses from various perspectives.

Thirty experts, using the above criteria were selected using professional judgement on a convenience based sample for this study. Convenience sampling selects a sample based on specific characteristics of the population (Leedy & Ormrod, 2001). Experts, in the field of IFRS for SMEs were selected. They were then divided into two groups:

- Group One: Accountants and Auditors who work with SMEs in KwaZulu Natal. Using professional judgement, three Accounting and Audit firms were contacted. Three firms were considered to be sufficient to obtain 15 respondents. This can be considered to be a limitation to the study and may be considered as an area for further research.
- Group Two: Accounting Academics in KwaZulu Natal who are exposed to IFRS for SMEs. Accounting Academics from the University of KwaZulu Natal were selected in this regard. The rationale for choosing the University of KwaZulu Natal, was that it is the largest tertiary institution in the KwaZulu Natal sector. It was considered sufficient to obtain 15 responses from this tertiary institution alone. This may be considered as a limitation to the study and could be an area for further research.

It is expected that the responses from the above group of experts will provide relevant feedback for this study.

### 3.11 Statistical Analysis

Descriptive statistics was used to analyse the data resulting from the questionnaire. Examples of the descriptive statistics that were used include bar/pie charts, frequency tables, mean, mode and median. The analysis was used to satisfy the stated research objectives.

### 3.12 Hypotheses

A hypothesis can be described as a statement that lends itself to empirical testing and is usually derived from the research question (Welman, et al., 2005, pp. 26-27).

The research objectives of this study can be tested by the following hypotheses in Table 3.1:

**Table 3.1: Details of hypotheses**

RESEARCH OBJECTIVE	HYPOTHESIS
1. To establish any challenges faced by the SME sector in applying IFRS for SMEs	<u>Hypothesis 1</u> H <sub>0</sub> : There are no challenges encountered by SMEs when applying IFRS for SMEs H <sub>1</sub> : There are challenges encountered by SMEs when applying IFRS for SMEs
2. To assess the cost effectiveness of IFRS for SMEs	<u>Hypothesis 2</u> H <sub>0</sub> : IFRS for SMEs in the SME sector is cost effective H <sub>1</sub> : IFRS for SMEs in the SME sector is not cost effective
3. To establish whether SMEs have the relevant financial reporting skills to apply IFRS for SMEs	<u>Hypothesis 3</u> H <sub>0</sub> : SMEs do have relevant financial reporting skills to apply IFRS for SMEs H <sub>1</sub> : SMEs do not have relevant financial reporting skills to apply IFRS for SMEs

Data collected in the form of responses from the questionnaires was used to accept or reject the hypotheses above.

### 3.13 Pilot Study

A pilot study was conducted among five academics from the School of Accounting, Economics and Finance at the University of KwaZulu-Natal. The pilot study contributes to authenticate the validity of the research and to recognise possible problems in the way that the questionnaire is designed and presented. The responses received from the pilot study have assisted in resolving any vagueness, ambiguities or grammatical issues that were present in the questionnaire.

### 3.14 Validity

Validity refer to the level at which the instrument measures what it intends to measure (Leedy & Ormrod, 2010, p. 28). Validity can be categorised into two types, namely; construct validity and content validity.

Construct validity relates to the extent to which the results from the use of the instrument relate to the research objectives (Sekaran & Bougie, 2003, p. 223). The questionnaire was devised so that it can be completed within a short amount of time. Feedback from the supervisor and participants of the pilot study assisted in eliminating any ambiguities and vagueness contained in the questionnaire.

Content validity can be described as the level to which the content used in the instrument will assist in achieving the research objectives (Sekaran & Bougie, 2003, p. 223). In this study, the questionnaire was reviewed by the supervisor and participants of the pilot study to ensure that the questions were aligned with the research objective.

### 3.15 Reliability

Reliability refers to the credibility of the results of the study (Welman, et al., 2005, p. 145). It also relates to the degree to which the results are consistent (Sekaran & Bougie, 2003, p. 219).

A widely used measure to assess reliability is the Cronbach's Alpha (Sekaran & Bougie, 2003, p. 306). This reliability coefficient measures how closely items are correlated positively to one another. It is measured on a scale of 0 to 1. The higher the internal consistency reliability, the closer the measure is to 1 (Sekaran & Bougie, 2003, p. 307). The Cronbach's Alpha was used to measure the reliability and consistency of the results of the questionnaire.

### 3.16 Ethical considerations

Ethical clearance has been sought from the Humanities & Social Science Research Ethics Committee (HSSREC) of the University of KwaZulu-Natal. This relates to the questionnaires submitted to all participants. During the process of data collection, all participants were granted anonymity. The questionnaire was approved by the Humanities & Social Science Research Ethics Committee (HSSREC) of the University of KwaZulu-Natal. The approval was subject to obtaining gatekeepers permission from the three accounting firms as well as gatekeepers permission from the University of KwaZulu Natal. The respondents of the questionnaire were assured that their responses were kept anonymous and confidential.

### 3.17 Conclusion

The chapter began by highlighting the dearth of post implementation studies on IFRS for SMEs in the KwaZulu Natal SME sector. This provided the justification to conduct empirical studies to help further shape the cost efficiencies and less complex application of IFRS for SMEs as envisaged by the International Accounting Standards Board (IASB).

The quantitative approach highlighted the research instrument, sample frame, sample size and statistical analysis employed in this empirical study. The next Chapter will focus on the results of the research, as well as an analysis of these results using the quantitative method adopted.

## **Chapter 4: Presentation, analysis and discussion of research findings**

### 4.1 Introduction

Chapter 3 described the research methodology used to conduct this study. A quantitative method was chosen and justification was provided to support a quantitative methodology for this empirical study. Chapter 4 details the results of the study conducted. It begins with a section on graphical and descriptive statistics. SPSS (version 24) was used to calculate bar graphs and frequency tables to gain an overview of the perceptions of SMEs towards IFRS for SMEs in the KwaZulu Natal SME sector. The descriptive statistics will also include the mean, mode, median and standard deviation and this will be used to represent the feedback from the respondents of the study. These statistics will serve to corroborate the results of the frequency tables. Chapter four also presents the results of the hypotheses relating to the research objectives outlined in chapter three. The hypotheses will be tested using the Chi-Square goodness of fit test to determine whether there are challenges, cost effectiveness issues and needful financial reporting skills that SMEs may need with respect to IFRS for SMEs. Chapter four will further include a detailed discussion of the results of the empirical study presented. These results will be compared to existing literature to establish how the findings relate.

It is essential to determine whether or not the data is derived from a normal distribution. A Kolmogorov Smirnov test will be used in this regard. Once this has been established, the statistical tests permitted can then be determined.

To establish the integrity of the study, reliability and validity of the data is important. The Cronbach's Alpha will be used in this regard.

### 4.2 Reliability

There are a number of different reliability coefficients (Coakes & Steed, 2010, p. 140). The Cronbach's alpha is the most commonly used coefficient. This is based on the average correlation of items within a test if the items are standardised. If the items are not standardised, it is based on the average covariance among the items. The

Cronbach's alpha can range from 0 to 1. The Cronbach's alpha was also calculated as part of the reliability test to assess how consistent the results were and to infer whether the results would be similar should the sample size be extended. A value of 0.7 or higher is strong indication that the study would yield the same results if a larger sample size was used. The Cronbach's alpha was calculated for all questions which have the same scales in each section.

**Table 4.1: Cronbach's Alpha**

QUESTION	CRONBACH'S ALPHA
2.1-2.7	0.805
3.1-3.4	0.741
4.1-4.5	0.808
Overall	0.744

The alpha values appear to be good which indicates a strong internal consistency

#### 4.3 Demographic profile of respondents

Questions 1 to 5 of section 1 of the questionnaire related to the biographical data respondents. This included the age, race, gender, education and area of specialization. This is presented in table 4.2

**Table 4.2: Demographic profile of respondents**

		FREQUENCY	PERCENTAGE
<b>Age</b>	25-35 years	24	80.0
	36-45 years	4	13.3
	46-55 years	1	3.3

		FREQUENCY	PERCENTAGE
	56-65 years	1	3.3
	<b>Total</b>	<b>30</b>	<b>100.0</b>
<b>Race</b>	African	3	10.0
	Indian	15	50.0
	White	12	40.0
	<b>Total</b>	<b>30</b>	<b>100.0</b>
<b>Gender</b>	Female	15	50.0
	Male	15	50.0
	<b>Total</b>	<b>30</b>	<b>100.0</b>
<b>Education</b>	Degree	2	6.7
	Postgraduate Diploma/Honours	24	80.0
	Masters	4	13.3
	<b>Total</b>	<b>30</b>	<b>100.0</b>
<b>Area of specialisation</b>	Accountant/ Auditor	15	50.0
	Academic	15	50.0
	<b>Total</b>	<b>30</b>	<b>100.0</b>

As per Table 4.2, most of the respondents were in the age group 25-35 years (80%). Approximately 13% of the respondents were in the 36-45 years age group. 50% of the respondents were Indian, followed by 40% of White participants and 10% African. There was an equal number of male and female participants. Respondents were well educated as approximately 93% of them possessed a postgraduate qualification. The postgraduate qualification comprised primarily Postgraduate Diploma/Honours (80%),

followed by a Masters degree (13%). This reveals an experienced sample with a wealth of knowledge and expertise with regards to IFRS for SMEs. The respondents were equally distributed as either an Academic or an Accountant/Auditor.

#### 4.4 Experience in the KwaZulu Natal SME sector

Question 6 of section 1 requires respondents to state the number of years that they have been involved in the KwaZulu Natal SME sector. The responses indicate that 14 (46.7%) of the 30 participants have been involved in the KwaZulu Natal SME sector for greater than 5 years, followed by 3 years (26.7%) and 4 years (13.3%). These results are presented in Table 4.3.

**Table 4.3: Experience in the KwaZulu Natal SME sector**

		<b>FREQUENCY</b>	<b>PERCENTAGE</b>
<b>Number of years of experience in the SME sector</b>	1 year	1	3.3
	2 year	2	6.7
	3 year	8	26.7
	4 year	4	13.3
	5 year	1	3.3
	Greater than 5 years	14	46.7
	<b>Total</b>	<b>30</b>	<b>100.0</b>

46.7% of the respondents have more than 5 years of experience in the SME sector. This attributes to having well experienced responses.

#### 4.5 Challenges faced by the SME sector in applying IFRS for SMEs

Section 2 of the questionnaire was aimed at the first research objective. Respondents were requested to answer questions relating to challenges encountered by the SME sector in applying IFRS for SMEs. A Likert scale was used by the respondents. The scale comprised 5 categories, namely: strongly agree, agree, neutral, disagree and disagree. The responses for strongly agree and agree categories as well as the responses for the disagree and the strongly disagree categories were combined into two categories respectively. Table 4.4 presents the results thereof.

**Table 4.4: Challenges faced by the SME sector in applying IFRS for SMEs**

<b>STATEMENT</b>	<b>AGREE AND STRONGLY AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE AND STRONGLY DISAGREE</b>
<b>IFRS for SMEs is difficult to understand</b>	15	2	13
<b>IFRS for SMEs is difficult to apply</b>	17	2	11
<b>IFRS for SMEs is complex for micro-entities</b>	19	6	5
<b>IFRS for SMEs does not meet the financial reporting needs of micro-entities</b>	14	6	10
<b>IFRS for SMEs does not meet external users' needs</b>	2	3	25
<b>IFRS for SMEs does not meet internal users' needs</b>	9	8	13

<b>STATEMENT</b>	<b>AGREE AND STRONGLY AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE AND STRONGLY DISAGREE</b>
<b>SMEs face financial reporting skills challenges</b>	24	2	4

According to table 4.4, 50% of the respondents either strongly agree or agree that IFRS for SMEs is difficult to understand for SME owners/management. 57% of the sample agreed that the application of IFRS for SMEs is considered complex by SME owners/management. This is consistent with a study conducted by Uyar and Gungormus (2013) in Turkey which focused on obstacles relating to the implementation of IFRS for SMEs. The complexity of understanding was identified as one of the major obstacles by the Turkey respondents (Uyar & Gungormus, 2013).

The results also highlight that 60% of the sample agree that IFRS for SMEs is considered complex for micro-entities and 47% agreed that IFRS for SMEs does not cater for the financial reporting needs of micro-entities, while 20% were neutral on the matter. This is consistent with the Stainbank study (Stainbank, 2008, p. 13) which stated that IFRS for SMEs does not sufficiently cater for the reporting needs of firms at lower levels such as micro entities. The Stainbank study was conducted prior to the implementation of IFRS for SMEs. The results of this empirical research conducted confirm the perceptions of the Stainbank study which was conducted prior to the implementation of IFRS for SMEs. SAICA undertook a questionnaire survey directed at micro entities to establish their need for a third tier for financial reporting, a South African Micro GAAP framework. The idea of a South African Micro GAAP was explored and then dismissed, and instead SAICA developed a guide for micro entities to apply IFRS for SMEs. A study conducted in Fiji suggested that IFRS for SMEs is still considered too complex for small entities in Fiji which are simpler in nature. In addition, the needs of users of the micro-entities in Fiji, as an emerging economy were not perceived to be appropriately addressed (Hussain, et al., 2012). A suggestion would be to relook at a framework for financial reporting for micro-entities.

83% of the respondents disagree that financial statements prepared using IFRS for SMEs do not meet external users' needs. 70% of the sample disagree that IFRS for SMEs do not cater for the financial reporting needs of SMEs. This shows that IFRS for SMEs does meet the external and internal reporting needs of users of financial statements. Hence, there is merit in using IFRS for SMEs, and any practical or application challenges should be identified and resolved in an attempt to maximize the benefits of IFRS for SMEs by the SME sector. The results of a study conducted in the early stages of implementation of IFRS for SMEs (2010) show that the content of IFRS for SMEs was suitable for the reporting needs of South African SMEs (Schutte & Buys, 2010). The Schutte (2010) study was done in the initial implementation stage and focused on the suitability of the content of IFRS for SMEs rather than the practical application. The results of this empirical research, conducted when IFRS for SMEs have been in practical use for a significant period are conclusive with the Schutte study conducted in the early stages of implementation. This empirical research conducted shows that IFRS for SMEs is considered to be relevant in South Africa, as it meets external and internal users's needs. This is in contrast to a study conducted in Ghana which reflected that most respondents were of the view that a significant portion of IFRS for SMEs was not considered to be relevant to SMEs in Ghana (Otchere & Agbeibor, 2012).

80% of the respondents agree that SME owners/management experience challenges in financial reporting skills. This can be considered as the most significant challenge encountered by the SME sector. Even though there are merits to IFRS for SMEs, in that it meets external and internal users' needs, the lack of financial reporting skills by SME owners/management hinders the benefits enjoyed by the SME sector. This can be attributed to the lack of financial reporting skills resulting in SME owners/management outsourcing the financial reporting of SMEs to accounting professionals which may prove to be costly.

#### 4.6 Cost effectiveness of IFRS for SMEs

Section 3 of the questionnaire focused on the second research objective. Respondents were requested to answer questions relating to the cost effectiveness of

IFRS for SMEs to the SME sector. A Likert scale was used by the respondents. The scale comprised 5 categories, namely: strongly agree, agree, neutral, disagree and disagree. The responses for strongly agree and agree categories as well as the responses for the disagree and the strongly disagree categories were combined into two categories respectively. Table 4.5 presents the results thereof.

**Table 4.5 Cost effectiveness of IFRS for SMEs**

<b>STATEMENT</b>	<b>AGREE AND STRONGLY AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE AND STRONGLY DISAGREE</b>
<b>IFRS for SMEs is beneficial</b>	24	4	2
<b>IFRS for SMEs benefits is greater than the cost</b>	12	11	7
<b>Enhancing IFRS for SMEs skills of SME owners/managers will reduce outsourced accounting costs</b>	24	4	2
<b>The cost of training SME owners/management for IFRS for SMEs is significant</b>	18	9	3

80% of the respondents agree that there are benefits to using IFRS for SMEs. There is a mixed response in that 40% of the sample agree that the benefits from applying IFRS for SMEs exceed the costs for the SME sector, while 37% of the sample are neutral on this aspect. Whilst majority of the respondents agreed to there being benefits in IFRS for SMEs, there was a mixed response regarding these benefits exceeding the costs incurred in applying IFRS for SMEs by the SME sector. Otchere & Agbeibor (2012) state that a cost benefit analysis plays a significant role in company's decision to adopt IFRS for SMEs. This is also supported by Stainbank in a

South African study (2008, p. 3) who mentions that the cost benefit analysis is an important consideration in IFRS for SMEs.

80% of the respondents agree that improving the financial reporting skills of the SME sector will help reduce outsourcing accounting costs expended by the SME sector. This will assist in meeting the IASB's objective of IFRS for SMEs being more cost effective for SMEs. A suggestion would be for there to be more practical workshops which focuses on SME financial reporting skills training. However, 60% of the sample agreed that the cost of training SME owners/management for IFRS for SMEs is significant. Funding by the Government aimed at developing the SME sector could be used in this regard.

#### 4.7 SMEs financial reporting skills in applying IFRS for SMEs

The last section, section 4 of the questionnaire looked at the third and final research objective. This focused on whether or not SMEs have the relevant financial reporting skills to apply IFRS for SMEs. A Likert scale was used by the respondents. The scale comprised 5 categories, namely: strongly agree, agree, neutral, disagree and disagree. The responses for strongly agree and agree categories as well as the responses for the disagree and the strongly disagree categories were combined into two categories respectively. Table 4.6 presents the results thereof.

**Table 4.6 Financial reporting skills of the SME sector**

<b>STATEMENT</b>	<b>AGREE AND STRONGLY AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE AND STRONGLY DISAGREE</b>
<b>SME owners/management have the necessary financial reporting skills</b>	<b>5</b>	<b>7</b>	<b>18</b>

<b>STATEMENT</b>	<b>AGREE AND STRONGLY AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE AND STRONGLY DISAGREE</b>
<b>There is a need for SMEs to outsource their financial reporting needs to independent accountants</b>	<b>24</b>	<b>3</b>	<b>3</b>
<b>The SME sector is aware of on-line IFRS for SMEs training available</b>	<b>2</b>	<b>12</b>	<b>16</b>
<b>The on-line IFRS for SMEs training available is not considered useful</b>	<b>8</b>	<b>19</b>	<b>3</b>
<b>The SME sector in KwaZulu Natal will benefit from hands on IFRS for SMEs training</b>	<b>24</b>	<b>6</b>	<b>0</b>

80% of the sample agreed that the SME sector has a need to outsource their financial reporting needs to independent accountants. This could be linked to the lack of financial reporting skills. 60% of the respondents disagree that SME owners/management have relevant reporting skills. By improving the financial reporting skills of SME owners/managers, this could result in reducing the cost of outsourcing SME financial reporting needs to independent accountants. This skill development could be achieved through practical training for SME owners/management. There is a mixed response as to whether the SME sector is aware of online training available by SAICA for IFRS for SMEs. 53% of the respondents disagree that the SME sector is aware of such online training, while 40% of the sample are neutral on the matter. 63% of the sample are neutral in their view that the online training for IFRS for SMEs is not considered beneficial for the KwaZulu Natal SME sector, and 20% of the sample agree with this aspect. The responses show that 87% of the sample agreed that the SME sector in KwaZulu Natal will benefit from hands on training with regards to IFRS for SMEs. This is consistent with a study conducted in Fiji by Hussain, et al.,(2012) where respondents felt that even though

online training was available for IFRS for SMEs, more practical training was needed due to the practical nature of accounting, and online training was considered insufficient. One of the major obstacles identified in a study conducted in Turkey by Uyar & Gungormus (2013) was insufficient training resources for IFRS for SMEs provided by the regulatory bodies. The training for SME owners/management should therefore be more practical and hands on. This could be done through SME focused workshops which deals with IFRS for SMEs financial reporting skills. These training workshops could be funded by the government. Pravin Gordhan, in his 2017 Budget speech for South Africa, mentioned various initiatives and measures that were put in place to assist the growth of the SME sector in South Africa (Minister Pravin Gordhan, 2017). An added area of focus for SME development should be to improve the financial reporting skills of SME owners/managers.

#### 4.8 Descriptive Statistics

Descriptive statistics were used to analyse the data obtained from the questionnaires. The descriptive statistics are presented in table 4.7 below.

**Table 4.7: Descriptive statistics**

<b>Question</b>	<b>Mean</b>	<b>Median</b>	<b>Mode</b>	<b>Std. Deviation</b>	<b>Variance</b>
<b>q1.1</b>	1.30	1.00	1	.702	.493
<b>q1.2</b>	3.2000	3.0000	3.00	.88668	.786
<b>q1.3</b>	1.5000	1.5000	1.00	.50855	.259
<b>q1.4</b>	2.0667	2.0000	2.00	.44978	.202
<b>q1.5</b>	1.5000	1.5000	1.00	.50855	.259
<b>q1.6</b>	4.4667	4.5000	6.00	1.61316	2.602
<b>q2.1</b>	3.1000	3.5000	4.00	1.02889	1.059
<b>q2.2</b>	3.2333	4.0000	4.00	1.00630	1.013
<b>q2.3</b>	3.5000	4.0000	4.00	.82001	.672
<b>q2.4</b>	3.1667	3.0000	4.00	.94989	.902

<b>q2.5</b>	2.1333	2.0000	2.00	.68145	.464
<b>q2.6</b>	3.0000	3.0000	2.00	1.08278	1.172
<b>q2.7</b>	3.6667	4.0000	4.00	.84418	.713
<b>q3.1</b>	3.8667	4.0000	4.00	.73030	.533
<b>q3.2</b>	3.2333	3.0000	3.00	.89763	.806
<b>q3.3</b>	3.9000	4.0000	4.00	.75886	.576
<b>q3.4</b>	3.6000	4.0000	4.00	.81368	.662
<b>q4.1</b>	2.5667	2.0000	2.00	.89763	.806
<b>q4.2</b>	3.9333	4.0000	4.00	.86834	.754
<b>q4.3</b>	2.4333	2.0000	2.00	.77385	.599
<b>q4.4</b>	3.2333	3.0000	3.00	.72793	.530
<b>q4.5</b>	4.1000	4.0000	4.00	.60743	.369

Consideration will be given to the mean, the mode, the median, the sample variance and the sample standard deviation. The mean or the arithmetic mean is the sum of all the values divided by the sample size. The mode is the most frequent response given by the respondents. The median is the middle most value when the data (per variable/question) is arranged from highest to lowest. The sample variance refers to the degree or quantity by which each observation varies one from another. The sample standard deviation is the square root of the sample variance. The standard deviations are consistently about '1' and this indicates good consistency between the observations due to the low variability. The mean and median values are consistent with modal values. The descriptive statistics serve to confirm the frequency tables.

#### 4.9 Hypothesis Testing

Primary consideration should be given to whether or not the questions/variables follow a normal distribution. Should the variables/questions be normally distributed, parametric tests will be permissible to use. For example the independent sample t-test, analysis of variance (ANOVA) and certain parametric hypothesis tests will be permitted to use on the data. However if the normality assumption is not met, then nonparametric tests such as the Mann Whitney U test, Wilcoxon sign rank test and

Friedman test are allowed on the data to test certain hypotheses and infer results (Field & Miles, 2010). The Kolmogorov Smirnov test will be used to test for normality on the data.

#### 4.10 Kolmogorov Smirnov Test

Kolmogorov Smirnov testing was done to determine whether or not the data is derived from a normal distribution.

H<sub>0</sub>: the tested variables come from a Normal distribution

H<sub>1</sub>: the tested variables do not come from a Normal distribution

#### **4.8: Test for the normality of data**

<b>Question</b>	<b>Test Statistic</b>	<b>Asymp. Sig. (2-tailed)</b>
q1.1	.465	.000
q1.2	.311	.000
q1.3	.337	.000
q1.4	.426	.000
q1.5	.337	.000
q1.6	.296	.000
q2.1	.309	.000
q2.2	.344	.000
q2.3	.362	.000
q2.4	.277	.000
q2.5	.411	.000
q2.6	.255	.000
q2.7	.454	.000
q3.1	.372	.000
q3.2	.203	.003
q3.3	.352	.000

q3.4	.288	.000
q4.1	.336	.000
q4.2	.331	.000
q4.3	.246	.000
q4.4	.359	.000
q4.5	.332	.000

At the 5% significance level,  $H_0$  was rejected for the questions whose p-values are less than 0.05 and it can therefore be concluded that the tested variables do not arise from a Normal distribution. As a result, non-parametric statistics were used. Tests such as the Mann-Whitney U test, chi-square and the Kruskal Wallis test will be used if necessary. In this case since the p-values are all less than 0.05,  $H_0$  will be rejected and it can be concluded non-parametric tests will be used on these questions for further analysis.

#### 4.11 Chi-Square Goodness of fit test

There are two main types of chi-square test (Coakes & Steed, 2010, p. 195). The chi-square test for the goodness of fit applies to the analysis of a single categorical variable, and the chi-square test for independence or relatedness applies to the analysis of the relationship between two categorical variables. The chi-square test was used for the goodness of fit. The results for sections 2, 3 and 4 of the questionnaire are summarized below, along with their hypotheses.

##### Section 2:

$H_0$ : There are no challenges encountered by SMEs when applying IFRS for SMEs.

$H_1$ : There are challenges encountered by SMEs when applying IFRS for SMEs.

**Table 4.9: Hypothesis 1 tested**

	q2.1	q2.2	q2.3	q2.4	q2.5	q2.6	q2.7
<b>Chi-Square</b>	21.058	16.458	9.325	11.408	6.667	2.267	78.211
<b>df</b>	3	3	3	3	3	3	3
<b>Asymp. Sig.</b>	.000	.001	.025	.010	.083	.519	.000

At the 5% significance level we will reject  $H_0$  for all of the questions whose p-values are less than 0.05 i.e. for question 2.1-2.4 and 2.7 we will reject  $H_0$  conclude that for these questions only that there are challenges encountered by SMEs when applying IFRS for SMEs. However for questions 2.5 and 2.6, since the p-values are greater than 0.05 we accept  $H_0$  and conclude that there are no challenges encountered by SMEs when applying IFRS for SMEs. Questions 2.5 and 2.6 are:

Question 2.5

2.5 Financial statements prepared using IFRS for SMEs do not meet external users needs

Question 2.6

2.6 Financial statements prepared using IFRS for SMEs do not cater for the internal financial reporting needs of SMEs

Section 3:

$H_0$ : IFRS for SMEs in the SME sector is cost effective

$H_1$ : IFRS for SMEs in the SME sector is not cost effective

**Table 4.10: Hypothesis 2 tested**

	q3.1	q3.2	q3.3	q3.4
<b>Chi-Square</b>	3.867	18.267	50.667	33.600
<b>df</b>	3	3	3	3
<b>Asymp. Sig.</b>	0.276	.000	.000	.000

At the 5% significance level since the p-values are all less than 0.05, we will reject  $H_0$  and we conclude that the IFRS for SMEs in the SME section is not cost effective for questions 3.2 – 3.4. However, for question 3.1 we will accept  $H_0$ .

Question 3.1

3.1 There are benefits to using IFRS for SMEs

Section 4:

$H_0$ : SMEs do have relevant financial reporting skills to apply IFRS for SMEs

$H_1$ : SMEs do not have relevant financial reporting skills to apply IFRS for SMEs

**Table 4.11: Hypothesis 3 tested**

	q4.1	q4.2	q4.3	q4.4	q4.5
<b>Chi-Square</b>	40.211	40.000	34.000	50.800	10.756
<b>df</b>	3	3	3	3	3
<b>Asymp. Sig.</b>	.000	.000	.000	.000	.005

At the 5% significance level since all the p-values are less than 0.05, we will reject  $H_0$  and we conclude that SMEs do not have relevant financial report skills to apply IFRS for SMEs.

#### 4.12 Conclusion

The table below presents a summary of the findings from this chapter:

**Table 4.12: Summary of findings**

<b>Finding 1:</b>	IFRS for SMEs meets the financial reporting needs of internal and external users.
<b>Finding 2:</b>	IFRS for SMEs is difficult to understand and to apply by SME owners/managers.
<b>Finding 3:</b>	SME owners/managers do not have the relevant financial reporting skills to apply IFRS for SMEs.
<b>Finding 4:</b>	Improving the financial reporting skills of SME owners/managers will help reduce the outsourced accounting costs in the SME sector.
<b>Finding 5:</b>	The SME sector will benefit more from practical hands on IFRS for SMEs training, than the online training that is currently available.

This chapter focused on the analysis of the responses received from the questionnaires submitted. The empirical research evaluated the effectiveness of the application of IFRS for SME's in the KwaZulu Natal SME sector. One of the challenges identified in the study is that SME owners/management do not possess relevant financial reporting skills. It is therefore recommended that workshops, seminars, road shows and various other forms of training be conducted for the SME sector. This will better equip the SME owner/managers in monitoring their staff compliance and their understanding of IFRS for SMEs.

While online training is available for IFRS for SMEs, more practical hands on training is suggested. This together more effective training manuals or the creation of an app to assist SMEs with their application, or a hotline for SMEs to phone in and query any issues relating to IFRS for SMEs, may prove to quite beneficial. This type of SME development will require the need for funding. It is recommended that, SAICA, or the

South African Government be approached to release funds to embark on this kind of training. A further suggestion is for bursaries and scholarships to be made available for the SMEs to do certificate courses in Finance and Accounting in order to improve their skills and knowledge on IFRS for SMEs. One of the strengths of IFRS for SME's is that it is perceived to meet external and internal financial reporting users' needs. The findings in the current scientific setting also reveal that the use of IFRS may not necessarily be regarded as being cost effective by the SME sector. A better understanding of the associated costs involved and the potential benefits may prove to be an area for further research. This can be done through an effective cost benefit analysis being performed with regards the adoption of IFRS of SME's. This would better inform the sector regarding the costs incurred in the use of IFRS for SMEs.

The next chapter presents the conclusion of the study, limitations inherent and avenues for further research.

## **Chapter 5: Conclusions, Recommendations, Limitations and Avenues for further research**

### 5.1 Introduction

Chapter 5 presented the analysis of the quantitative-based questionnaires on IFRS for SMEs. The responses attained from these questionnaires facilitated a better understanding of the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector.

This chapter presents a condensation of the study conducted, as well as recommendations based on the research findings. Assisting SME owners/management to become more familiar with IFRS for SMEs will be more beneficial to the SME sector. Some suggestions are also made for future research on IFRS for SMEs.

### 5.2 Conclusions

IFRS for SMEs was early adopted in South Africa in 2007, and was officially effective internationally in 2009. IFRS for SMEs was established by the IASB with the aim of providing SMEs with a less complicated and more cost effective reporting framework. This study looked at the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector. Benefits and challenges were identified using empirical research.

#### *5.2.1 Challenges encountered by SMEs in applying IFRS for SMEs*

The study conducted identified that IFRS for SMEs is difficult to understand for SME owners/managers, and therefore the application of IFRS for SMEs is considered complex for SME owners/managers. IFRS for SMEs is considered complex for micro-entities. SME owners/managers were identified as having challenges in financial reporting skills. The benefits of IFRS for SMEs is that it is considered to meet the financial reporting needs of external and internal users.

### *5.2.2 Cost effectiveness of IFRS for SMEs in the SME sector*

The study showed that IFRS for SMEs is considered beneficial for the SME sector. It was identified that improving the IFRS for SMEs skills in the SME sector will help to reduce outsourcing accounting costs. However, the cost of training SME owners/managers is considered significant.

### *5.2.3 Financial reporting skills of SME owners/managers*

The study established that SME owners/managers do not have the relevant financial reporting skills to apply IFRS for SMEs. As a result, there is a need for the SME sector to outsource their financial reporting needs to independent accountants. Whilst there is online training available to SME owners/managers, it was identified that the KwaZulu Natal SME sector will benefit from more hands on training with regards to IFRS for SMEs.

## 5.3 Recommendations arising from the study

IFRS for SMEs was developed as a separate reporting framework for the SME sector due to the costs and complexities for SMEs to comply with full IFRS standards (IFRS foundation b, 2013). SMEs play an important role in the economy. SMEs are the major driver behind the creation of jobs in most economies (Ardic, et al., 2011, p. 2). SMEs constitute more than 95% of the global economy (Edinburgh Group, 2012, p. 7). In South Africa, the SME sector contributes significantly to GDP and reducing unemployment (Bureau for Economic Research, 2016, p. 5). The development of the SME sector can be considered an integral part to economic growth. IFRS for SMEs plays a key role in ensuring that the financial reporting needs of the SME sector are met. To ensure that IFRS for SMEs is effective in meeting the IASB's goals of being less complex and more cost effective than full IFRS, the following recommendations are made:

### *5.3.1 Accounting regulatory bodies*

SAICA should assist in setting up more practical hands on training workshops for SME owners/managers. A designated IFRS for SMEs call centre, or email assistance should be provided for the SME sector.

### *5.3.2 Department of Trade and Industry and the CIPC*

The 2017 State of Small Business report states that 89% of small businesses are not satisfied with the support that Government provides to them and a mere 3.7% of small businesses state that the support received from Government have helped their companies (Timmis, 2017).

Complex legislation and the compliance thereof have been identified by small businesses as one of the challenges encountered in their survival. The lack of assistance and support from Government have compounded the gravity of the issue (Timmis, 2017).

A greater investment in education and universities with a focus of increasing the South Africa's skill base, will improve the quality of SME owners and managers (Timmis, 2017).

Programs should be put in place to create awareness of IFRS for SMEs to SME owners/management. This should work in conjunction with the accounting regulatory bodies. Practical hands on workshops should be held for SME owners or managers to assist them with financial reporting skills. This will result in reduced outsourced accounting costs to the SME sector.

Grants/bursaries should be provided to SME owners or their relevant management staff to attend financial reporting courses or workshops to better equip them with financial reporting skills.

### *5.3.3 SME owners*

It is important for SME owners to realise the benefits in applying IFRS for SMEs, and that outsourced accounting costs can be reduced by internalising the financial reporting process. Should SME owners not update their own IFRS for SMEs knowledge and skill, then it may be relevant to hire or train relevant staff with IFRS for SMEs.

### *5.3.4 Tertiary institutions*

Tertiary institutions should offer courses to upskill SME owners/management in IFRS for SMEs. Pro-bono workshops should also be provided to the SME sector in this regard.

## 5.4 Limitations

The inherent limitations to this study are presented below:

### *5.4.1 Dearth of literature*

As IFRS for SMEs was only effective from 2009, there is a dearth of literature relating to the topic. Only a few international studies were available for review. South African studies on IFRS for SMEs were conducted during the early stages of implementation and therefore focused in initial perceptions rather than practical perceptions post implementation.

### *5.4.2 Sample selected*

A sample size of 30 was selected for the study due to the lack of an SME database and resource constraints. The research methodology focused on using experts on IFRS for SMEs in the KwaZulu Natal SME sector. These experts were not directly involved in the operations of the SMEs. The results may have differed had the study

been conducted with the business owners. However, this risk is mitigated by the fact that only those experts who were involved in the SME sector and had knowledge of IFRS for SMEs were selected from the accounting firms. Due to resource constraints, only academics from the University of KwaZulu Natal were selected. This risk is reduced by the fact that the University of KwaZulu Natal is the largest tertiary institution in KwaZulu Natal, and only academics with knowledge on IFRS for SMEs were selected. Due to resource constraints, accounting experts were selected only from the Pietermaritzburg and Durban area. Hence, there is a possibility that the research findings may be applicable only to Durban and Pietermaritzburg.

### 5.5 Future Research

The following are avenues for further research:

- a) A similar study using a bigger sample size than 30. A sample size of 30 was used in this study and is considered a limitation to the study.
- b) The perceptions of IFRS for SMEs in other provinces of South Africa could be conducted and investigate how this differs to the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector.
- c) The perceptions of IFRS for SMEs in South Africa could provide an overall view of the perceptions.
- d) Perceptions of IFRS for SMEs from the viewpoint of SME owners/managers.
- e) A cost-benefit analysis of IFRS for SMEs.

### 5.6 Conclusion

IFRS for SMEs was established to provide the SME sector with a less complicated and more cost-effective financial reporting framework than full IFRS. South Africa, early adopted IFRS for SMEs in 2007, while still in its exposure draft phase. This research includes an empirical study on the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector. The benefits of IFRS for SMEs include meeting the financial reporting needs of internal and external users. However, there are still some challenges faced by the SME sector in implementing IFRS for SMEs. The main

challenges established by this study are: the lack of financial reporting skills by SME owners/management; and the need to outsource financial reporting to accounting professionals which may prove to be costly to the SME sector.

These challenges could be alleviated by equipping SME owners/management with the relevant financial reporting skills through workshops or courses that provide practical hands on training. Funding/grants should be provided for this initiative to develop the SME sector of South Africa which contributes significantly to the South African economy especially in terms of unemployment and GDP.

This will help translate IFRS for SMEs from being theoretically less complicate to practically less complicated and therefore prove to be more beneficial to the SME sector. Outsourced accounting costs could be absorbed by the SME sector into investment and growth of their businesses.

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## ANNEXURE 1: Ethical Clearance



24 July 2017

Mrs Shazia Essa (SN 204500201)  
School of Accounting, Economics & Finance  
College of Law and Management Studies  
Pietermaritzburg Campus  
UKZN  
Email: [essas@ukzn.ac.za](mailto:essas@ukzn.ac.za)

Dear Mrs Essa

### RE: PERMISSION TO CONDUCT RESEARCH

Gatekeeper's permission is hereby granted for you to conduct research at the University of KwaZulu-Natal (UKZN), towards your postgraduate degree, provided Ethical clearance has been obtained. We note the title of your research project is:

*"IFRS for SMEs: An Emperical study of the KwaZulu-Natal SME sector".*

It is noted that you will be constituting your sample by handing out questionnaires to Accountants and Academics on the Pietermaritzburg campus.

Please ensure that the following appears on your notice/questionnaire:

- Ethical clearance number;
- Research title and details of the research, the researcher and the supervisor;
- Consent form is attached to the notice/questionnaire and to be signed by user before he/she fills in questionnaire;
- gatekeepers approval by the Registrar.

You are not authorized to contact staff and students using 'Microsoft Outlook' address book. Identity numbers and email addresses of individuals are not a matter of public record and are protected according to Section 14 of the South African Constitution, as well as the Protection of Public Information Act. For the release of such information over to yourself for research purposes, the University of KwaZulu-Natal will need express consent from the relevant data subjects

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#### Office of the Registrar

Postal Address: Private Bag X54001, Durban, South Africa

Telephone: +27 (0) 31 260 8005/2206 Facsimile: +27 (0) 31 260 7824/2204 Email: [registrar@ukzn.ac.za](mailto:registrar@ukzn.ac.za)

Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



Founding Campuses:  Edgewood  Howard College  Medical School  Pietermaritzburg  Westville

## **ANNEXURE 2: Questionnaire**

### **Informed Consent Document – Questionnaire**

I, Shazia Essa, am a student currently registered for a Master of Accounting (M.Acc) degree on the Pietermaritzburg campus of the University of KwaZulu-Natal (UKZN). A requirement for the degree is dissertation and I have chosen the following topic:

#### **IFRS for SMEs: An empirical study of the KwaZulu Natal SME sector**

I can be reached on [essas@ukzn.ac.za](mailto:essas@ukzn.ac.za) or on 033 260 5388 for any queries related to the study. My academic supervisor is Dr Rajendra Rajaram, based in the School of Accounting, Economics and Finance on the Pietermaritzburg campus of the University of KwaZulu-Natal. He can be contacted on [rajaramr@ukzn.ac.za](mailto:rajaramr@ukzn.ac.za) or on 033 260 6267 during office hours. The HSSREC Research Office can be contacted by reaching Mariette Snyman on [Snymanm@ukzn.ac.za](mailto:Snymanm@ukzn.ac.za) or alternatively on 031 260 8350.

The aim of the study is to determine the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector. This will be achieved by establishing perceptions of experts in IFRS for SMEs (viz. Accountants and Academics) through questionnaire responses on the subject matter. A review of international studies was done which focused on the post implementation of IFRS for SMEs. One of the key findings from the literature review was that there is an absence of studies conducted in South Africa post implementation of IFRS for SMEs. Where research was conducted this was focused on the suitability of the content of IFRS for SMEs for South African companies and the perceived implications of IFRS for SMEs. Both these studies were conducted in the very early stages of implementation. Hence, there is a gap to conduct empirical studies post implementation of IFRS for SMEs to establish what the perceptions of IFRS for SMEs are in the KwaZulu Natal SME sector, now that the reporting framework has been in use for a fair amount of time.

Please note that your name will not be included in the report. The questionnaire does not require any personal information. The information will be seen only by me, my supervisor and examiner. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study.

Your participation in this study is completely voluntary. You have the right to withdraw at any time.

I appreciate the time and effort it would take to participate in this study. I would be very grateful for your participation as it would enable me to complete my dissertation.

#### **Please complete the section below:**

I ..... (full names of participant) hereby confirm that I understand the content of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Signature of Participant.....

Date.....

## **QUESTIONNAIRE: PERCEPTIONS OF IFRS FOR SMEs**

*The following questionnaire is designed to establish the perceptions of IFRS for SMEs in the KwaZulu Natal SME sector. Please answer honestly – there are no correct or incorrect answers. Responses will be maintained confidentially at all times. Please respond by placing an X in the block pertaining to the relevant answer.*

### **SECTION 1**

1.1 Age:

<u>25-35</u>	<u>36-45</u>	<u>46-55</u>	<u>56-65</u>	<u>66 and over</u>

1.2 Race:

<u>AFRICAN</u>	<u>COLOURED</u>	<u>INDIAN</u>	<u>WHITE</u>	<u>OTHER (SPECIFY)</u>

1.3 Gender:

<u>MALE</u>	<u>FEMALE</u>

1.4 Highest level of education:

<u>DEGREE</u>	<u>POST GRADUATE DIPLOMA/HONOURS</u>	<u>MASTERS</u>	<u>PHD/DOCTORATE</u>	<u>OTHER (SPECIFY)</u>

1.5 Current area of specialization:

<u>ACCOUNTANT/AUDITOR</u>	<u>ACADEMIC</u>

1.6 Kindly state the number of years that you have been involved in the KwaZulu Natal SME sector?

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Greater than</u> <u>5</u>

**For sections 2 – 4, kindly indicate your level of agreement or disagreement with the following statements.**

## **SECTION 2**

2.1 IFRS for SMEs is difficult to understand for SME owners/management

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.2 The application of IFRS for SMEs is considered complex for SME owners/management

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.3 IFRS for SMEs is considered complex for micro-entities

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.4 IFRS for SMEs does not cater for the financial reporting needs of micro-entities

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.5 Financial statements prepared using IFRS for SMEs do not meet external users' needs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.6 Financial statements prepared using IFRS for SMEs do not cater for the internal financial reporting needs of SMEs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

2.7 SME owners/management experience challenges in financial reporting skills

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

### SECTION 3

3.1 There are benefits to using IFRS for SMEs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

3.2 The benefits from applying IFRS for SMEs outweighs the costs for the SME sector

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

3.3 Improving the IFRS for SMEs skills in the SME sector will help reduce outsourcing accounting costs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

3.4 The cost of training SME owners/management for IFRS for SMEs is significant

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

### SECTION 4

4.1 SME owners/management have relevant financial reporting skills

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

4.2 The SME sector has a need to outsource their financial reporting needs to independent accountants

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

4.3 The SME sector is aware of on-line training available for IFRS for SMEs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

4.4 The on-line IFRS for SMEs training available is not considered beneficial for SMEs in KwaZulu Natal

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

4.5 The SME sector in KwaZulu Natal will benefit from hands on training with regards to IFRS for SMEs

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>

***Thank you for your participation in this questionnaire. Your time and effort is sincerely appreciated!***

## **ANNEXURE 3: Turnitin Report**

### **Turnitin Originality Report**

**Final Submission by Shazia Essa**

**From Research (Research Dissertation)**

**Processed on 21-Feb-2018 07:22PM (UTC+0200)**

**ID: 919113430**

**Word Count: 21,762**

### **Similarity Index**

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**3%**

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**5%**

**ANNEXURE 4: Raw Data Tables**

<b>Respondent</b>	<b>Section 1</b>						
		<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>
1		1	4	2	1	1	6
2		3	4	1	2	1	6
3		1	4	1	2	1	6
4		1	4	1	2	1	6
5		1	3	2	1	1	3
6		1	3	1	2	1	3
7		1	3	2	2	1	5
8		1	3	1	2	1	4
9		1	3	2	2	1	6
10		1	3	1	2	1	4
11		1	1	1	2	1	6
12		1	4	1	2	1	6
13		2	4	1	2	1	6
14		1	3	2	2	1	3
15		1	4	2	2	1	6
16		1	4	1	3	2	3
17		2	3	2	2	2	6
18		1	1	2	2	2	4
19		1	4	2	2	2	2
20		2	3	2	3	2	6
21		1	3	2	2	2	2
22		1	4	2	2	2	3
23		1	3	1	2	2	3
24		1	4	1	2	2	1
25		1	4	2	3	2	3
26		1	1	2	3	2	4
27		4	3	1	2	2	6
28		2	3	1	2	2	3
29		1	3	2	2	2	6
30		1	3	1	2	2	6

<b>Respondent</b>	<b>Section 2</b>							
		<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>
1		4	4	2	4	2	2	4
2		4	4	4	4	2	3	4
3		4	4	4	4	2	4	4
4		2	2	4	2	2	5	4
5		4	4	4	4	2	2	4
6		2	2	4	2	1	3	2
7		2	2	3	4	2	4	3
8		2	3	4	4	2	3	3
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11		3	4	4	3	1	2	4
12		4	4	4	4	3	3	5
13		4	4	5	5	3	5	4
14		2	2	3	2	2	2	2
15		2	4	4	3	2	2	4
16		4	4	4	3	2	4	4
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18		4	4	3	2	2	2	4
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21		4	4	2	3	2	2	4
22		4	4	3	2	2	2	4
23		2	4	4	2	2	2	1
24		4	4	4	4	2	4	4
25		2	2	2	2	1	3	4
26		2	2	4	2	2	2	4
27		4	4	4	4	3	3	4
28		4	4	4	4	4	4	4
29		2	2	2	2	2	2	4
30		2	2	3	4	2	2	4

<b>Respondent</b>	<b>Section 3</b>				
		<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>
1		4	4	4	4
2		4	4	4	4
3		4	2	2	3
4		5	3	2	3
5		4	4	3	4
6		4	2	4	2
7		4	4	4	3
8		2	2	4	4
9		4	4	4	3
10		4	3	4	3
11		4	3	3	3
12		4	2	5	5
13		2	4	4	5
14		3	3	3	3
15		3	3	4	3
16		4	3	4	4
17		4	4	4	4
18		5	5	5	4
19		5	2	4	4
20		4	4	4	4
21		4	2	4	4
22		4	4	5	4
23		4	3	4	5
24		4	3	4	3
25		4	3	5	2
26		4	2	4	4
27		3	3	3	4
28		4	4	4	4
29		5	5	5	2
30		3	3	4	4

<b>Respondent</b>	<b>Section 4</b>					
		<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.4</b>	<b>4.5</b>
1		2	4	2	3	5
2		2	5	2	3	4
3		2	4	2	3	4
4		2	5	3	2	3
5		2	4	3	3	5
6		4	3	4	2	4
7		4	2	3	3	4
8		2	5	3	3	4
9		3	4	4	4	5
10		3	2	3	3	4
11		4	4	2	4	4
12		2	5	2	3	4
13		1	5	1	5	4
14		3	3	3	3	3
15		2	3	2	3	4
16		2	4	3	3	4
17		5	5	3	3	3
18		3	4	1	4	5
19		3	4	2	3	5
20		3	4	2	2	4
21		2	4	2	3	4
22		3	4	2	3	4
23		4	5	2	4	4
24		2	4	3	3	4
25		2	4	3	3	4
26		2	4	2	4	4
27		2	4	3	3	3
28		2	4	2	4	4
29		2	2	3	3	5
30		2	4	1	5	5