The Suitability of International Financial Reporting Standards for Small and Medium-sized Entities

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Abstract
South Africa adopted the International Accounting Standards Board's (IASB) draft International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs*) in 2007 as *Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities (Statement of GAAP for SMEs).* In 2009, the final *IFRS for SMEs* was approved for use in South Africa and the *Statement of GAAP for SMEs* was withdrawn. This study provides evidence, using exploratory research in KwaZulu-Natal, as to the perceptions of users and accounting practitioners regarding the preferred form and content of *IFRS for SMEs*.

The results indicate that financial statements based on a simplified version of IFRSs are the preferred form for financial reporting for SMEs. With regards to the content of differential reporting, the study found that the while certain standards were considered essential for SMEs (IAS 7, IAS 8, IAS 19 and IAS 20) and others were considered not essential for SMEs (IAS 27, IFRS 3 and IFRS 5), overall there was support for recognition and measurement concessions. This research thus provides some support for the IASB's *IFRS for SMEs*.

Keywords: Differential reporting, Small and medium-sized entities, IFRS for SMEs.

Introduction

According to the conceptual framework of the International Accounting Standards Board (IASB) (IASCF 1989:2), the main objective of financial statements is to provide information by reporting enterprises which is useful to a wide range of users for making economic decisions. While this objective can be justified for public entities on the grounds of public accountability and users such as financial analysts, this is not true for smaller entities whose primary users are perceived to have different information needs (IASB 2004:14). The desirability of, and justification for, different reporting standards for small and medium-sized entities (i.e. differential reporting) has been documented by many research studies (Upton & Ostergaard 1985; Holmes, Kent & Downey 1991; Barker & Noonan 1996; Cleminson & Rabin 2002; Hattingh 2002; AICPA 2005; Van Wyk 2005; Wells 2005; Chand, Patel & Cummings 2006:13; Crains, Hosp & Martins 2006; Maingot & Zeghal 2006).

In South Africa, differential reporting was introduced when the Accounting Practices Board (APB), the official standard setter, approved the IASB's draft International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs)* for use in South Africa as *Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities* (*Statement of GAAP for SMEs*) (SAICA 2007). In 2009, the APB approved the final *IFRS for SMEs* for use as a statement of generally accepted accounting practice with an issue date of 13 August 2009 and withdrew the *Statement of GAAP for SMEs* (APB 2009).

Problem Statement and Research Questions

Research into differential reporting has focused on the desirability of differential reporting (Holmes *et al.* 1991; Wells 2005), the threshold for differential reporting (Holmes *et al.* 1991; Wells 2005), the burden of International Financial Reporting Standards (IFRSs) on SMEs (Carsberg, Page, Sindall & Waring 1985; Barker & Noonan 1996; Cleminson & Rabin 2002), the due process of the IASB (Anacoreta & Silva 2005; Schiebel 2008) and the reporting needs of users (Mosso 1983; Joshi & Ramadhan 2002; AICPA 2005; Van Wyk & Rossouw 2009). The form for differential reporting and what its content should be are areas requiring further research.

This study thus seeks to answer the following research questions:

- What are the perceptions of users of SMEs' financial statements and accounting practitioners on the form that *IFRS for SMEs* should take?
- What are the perceptions of users of SMEs' financial statements and accounting practitioners on the content of *IFRS for SMEs*?

The importance of this exploratory research is that it provides support for the suitability of the IASB's *IFRS for SMEs* (IASB 2009a), particularly as the IASB has been criticized for not consulting users of SMEs' financial statements (Schiebel 2008). It furthermore provides support for the APB (2007) in adopting the draft, and subsequently the final *IFRS for SMEs*.

The following section of this article discusses the relevant literature in this area. The research methodology and the results of the research are presented next. The article then discusses the conclusions, limitations of the study and areas for further research.

Literature Survey

The literature review discusses research in the two areas, which are the focus of this article: research on the appropriate form for differential reporting and research on what its content should be.

Research on the Appropriate Form for Differential Reporting

The issue of which form financial reporting by SMEs should take has been addressed in many countries and by many standard setting bodies (Maingot & Zeghal 2006:513). Different forms proposed in the literature for differential reporting are the cash basis, the income tax basis, limited purpose financial statements (LPFS), full compliance with IFRSs or the complete separation from IFRSs (Wells 2005).

Maingot and Zeghal (2006) argue that the two main purposes of financial statements of SMEs are for tax authorities and financial institutions and therefore complying with full GAAP is irrelevant. In the United States of America (USA), its *Other comprehensive basis of accounting* (OCBOA) is in many cases a tax basis (Martin 2005:48) Wells' (2005:100) found that limited deviations from South African GAAP to be the preferred option for differential reporting, followed by a completely separate set of South African GAAP (second), the income tax basis (third), unlimited deviations from GAAP (fourth), and in fifth place, the cash basis. Lötter's (2006) study indicated that the accrual basis, as opposed to the cash basis, is the preferred form for differential reporting by accounting practitioners. In contrast, Van Wyk (2005:9) reported that in Kruger's (2004) study it was found that with regards to the form differential reporting should take, 74% of the respondents preferred the tax basis, followed by the managerial basis and the accrual basis.

The IASB (2009b: BC50,51) argue that while tax authorities use the financial statements as a reference for the taxable income calculation, an accounting standard that is intended to be used globally cannot incorporate national jurisdictions' tax rules, and that therefore *IFRS for SMEs* could serve as a logical starting point for calculating taxable income. The IASB therefore rejected the tax basis as a form for *IFRS for SMEs.*

According to Mosso (1983:19,21), the exemption of SMEs from a few standards is not enough to solve the many problems since several solutions need to be considered, some of which are:

a) GAAP needs to be simplified and new standards when feasible need to be avoided,
b) Differential GAAP including disclosure and measurement is needed whenever a legitimate cost-benefit argument can be made for it,
c) One or more comprehensive alternative bases with standardised disclosure requirements need to be revisited, and
d) GAAP departures with qualified opinions are needed. The auditors' report should note GAAP departures without conveying undue alarm to the users.

A further argument is that Africa does not have the necessary resources to follow the United Kingdom (UK) approach of developing completely new standards. Hattingh (2006) suggested that standards should be developed using existing IASB standards but that the complexities should be simplified.

Hong Kong, New Zealand and the IASB (Martin 2005: Par 1) have attempted to reduce the financial reporting burden for SMEs. Other countries have made a concession in terms of the exclusion from some part of a 'full' set of rules like Canada because these standards were designed for listed companies (Martin 2005: Par 1).

The IASB developed *IFRS for SMEs* by first taking full IFRSs and then extracting the fundamental concepts from the *Framework for the Preparation and Presentation of Financial Statements* (IASCF 1989) and the principles from full IFRSs and made modifications thereto in light of the cost-benefit constraint and users' needs (IASB 2009b: BC95). In this way a separate standard for SMEs was developed. *IFRS for SMEs* is thus a stand-alone standard, separate from full IFRSs.

The Content of Differential Reporting

Another important issue is which standards from full IFRSs are considered suitable for SMEs. While the findings of some researchers supported the relaxation of some disclosure and presentation requirements, others preferred some disclosure and presentation requirements as well as measurement and recognition principles to be relaxed when developing standards for SMEs (Hattingh 2006). A list of the standards discussed in this article is shown in Appendix 1.

Barker and Noonan (1996:26) investigated the applicability of specific standards in their study in Ireland. Forty-three percent (43%) of the respondents said all standards should apply to all companies provided they are applicable and if the issue is material. However, Barker and Noonan concluded that the responses were skewed in favour of the earlier standards, with the later standards attracting a smaller percentage of applicability. Most of the respondents admitted that they were not fully up-to-date with the standards which could have biased their choice.

The American Institute of Certified Public Accountants (AICPA) (2006) investigated whether financial reporting standards should be different for private companies. They concluded that significant differences in recognition, measurement, or disclosure and presentation should not be solely based on whether a company is privately or publicly held. This is because:

a) Similar economic transactions and events should be reported consistently regardless of the size or ownership characteristics of the reporting enterprise, and
b) Different financial reporting standards for private companies could result in additional costs to preparers, accountants, auditors, advisors, and others in the areas of continuing education, authoritative resources, and quality control systems.

Zanzig and Flesher (2006:Par 14) reported on the AICPA's *Private company financial reporting task force report*. The AICPA study, which began in 2004, considered whether the general purpose financial reporting of private companies, prepared in accordance with GAAP, meets the financial reporting needs of the constituents of that reporting, as well as whether the cost of providing GAAP financial statements is justified when compared with the benefits they provide to private company constituents.

The results of one of the surveyed questions on the 12 GAAP requirements indicated that the accrual basis, the cash flow statement, and the classification of liabilities and equity are perceived to be important to decision usefulness. The AICPA (2006) task force concluded that most of the respondents in the study were of the opinion that the underlying accounting for public versus non-public (private) companies was different. It concluded that some of the GAAP requirements for the public companies lack relevance or decision usefulness for private companies. The task force therefore recommended that a recognized set of standards be established as GAAP for private companies.

In South Africa, Wells (2005:110) supported the principle of granting recognition and measurement as well as presentation and disclosure concessions to entities with fewer users. In the Wells' (2005) study only twelve standards (IAS 2, IAS 12, IAS 16, IAS 17, IAS 19, IAS 21, IAS 32 (including IAS 39), IAS 36, IAS 37, IAS 38, IAS 40 and IAS 41) were listed in the questionnaire and the respondents were asked to indicate whether the recognition and measurement, and the presentation and disclosure requirements were appropriate to twelve hypothetical entities varied by size, legal structure and user base. IAS 7, IAS 24 and IAS 27 were also included as separate items. For these three standards the respondents were asked whether the presentation requirements of the three standards were appropriate for the twelve hypothetical entities. The study found significant differences in the perceived applicability of the standards to public companies when compared to private companies and close corporations. This is similar to the New Zealand (ICANZ 2002) and Canadian differential reporting requirements (CICA 2002). Wells' (2005) results show a significant difference between big private entities with many users and big private entities with fewer users. This was because the respondents (auditors) perceived that all entities with many users irrespective of their size do not require relaxed standards. The relaxation of measurement and recognition principles as well as presentation and disclosure requirements is only essential for big private entities with no users and small entities with no users.

The aggregate responses in the Wells' (2005) study also revealed that the majority of the respondents perceived *Related party disclosures* (IAS 24) to be appropriate only to security exchange listed entities, public and big private entities with users and big close corporations with users. With regards to *Consolidated and separate financial statements* (IAS 27), the majority of respondents perceived consolidated financial statements not to be appropriate for all close corporations and for all private companies with a limited user base. With regards to the *Statement of cash flows* (IAS 7), the overall results found that the majority of the respondents perceived the statement of cash flows to be appropriate and that all companies, except small private companies with a limited user base, should be required to present a statement of cash flows.

Van Wyk (2005:14) in his report of Kruger's (2004) results noted that more than 50% of the respondents rated only thirteen standards (The conceptual framework, IAS 1, IAS 2, IAS 10, IAS 12, IAS 16, IAS 17, IAS 18, IAS 23, IAS 36, IAS 38, IAS 40 and IAS 41) to be the most crucial in the preparation of financial statements for close corporations. (The Kruger study did not consider other entity forms.)

Van Wyk and Rossouw (2009:110) found that 12 standards (IAS 1, IAS 2, IAS 7, IAS 8, IAS 10, IAS 12, IAS 16, IAS 17, IAS 18, IAS 23, IAS 37 and IAS 40) can be considered crucial for SMEs and that the topics of *Consolidated and separate financial statements* (IAS 27), *Investments in associates* (IAS 28), *Business combinations* (IFRS 3) and *Interests in joint ventures* (IAS 31) were found to be mainly not applicable to SMEs.

Complex and voluminous standards impose a high burden on SMEs when compared to simplified standards. Reducing the presentation and disclosure requirements for SMEs by standard setters does not entirely solve the problem but it does reduce the volume of these standards to a limited extent.

In *IFRS for SMEs* (IASB 2009a) (which has sections as opposed to the separate standards found in full IFRSs), many of the principles found in the full IFRSs have been simplified. Some of the differences to be found in *IFRS for SMEs* upon comparison to full IFRSs are as follows:

Table 1: *IFRS for SMEs* upon comparison to full IFRSs

IAS 8	Accounting policies, estimates and errors -	Management may consider the requirement of full IFRSs in determining an appropriate accounting policy, however, management is not required to do so.
IAS 16	Property, plant and equipment -	Subsequent to acquisition, the entity shall measure its property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses.
IAS 23	Borrowing costs -	All borrowing costs are expensed.
IAS 28	Investments in associates -	An entity may elect to account for all its associates: • at cost less impairment provided there is no published price for the investment, • using the equity method, or • at fair value with changes in fair value being recognised in profit or loss.

IAS 38	Intangible assets other than goodwill -	All research and development expenditures are recognised as an expense when incurred unless it forms part of the cost of another asset which meets the recognition criteria in terms of *IFRS for SMEs*. After recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. All intangible assets are considered to have a finite useful life.
IAS 39	Financial instruments -	The recognition model for basic financial instruments is the amortised cost model. The recognition model for other financial instruments is the fair value model, which is normally the transaction price. This is exclusive of transaction costs.
IAS 40	Investment property -	Measurement is initially at cost and includes costs to bring it into use. Subsequently investment property <u>must be</u> measured at fair value unless a reliable fair value cannot be obtained without undue cost or effort. If fair value cannot be determined, the investment property is treated as property, plant and equipment.
IFRS 3	Business combinations and goodwill -	All business combinations are accounted for using the purchase method. Goodwill is amortized over a period not exceeding 10 years.

IFRS for SMEs does not cover segment information, earnings per share or interim reporting. Should an SME disclose such information, it would need to disclose the basis it used for preparing and presenting such information. The topics *Consolidated and separate financial statements* (IAS 27), *Investments in associates* (IAS 28), *Business combinations* (IFRS 3) and *Interests in joint ventures* (IAS 31) which were found to be mainly not applicable to SMEs by Van Wyk and Rossouw (2009:110) are included in *IFRS for SMEs* but with measurement simplifications.

Research Methodology

This exploratory study, which provides descriptive data only, was carried out at the time the draft *IFRS for SMEs* was under discussion in South Africa (Tafuh 2008). Its purpose was to determine the perceptions of users of SMEs' financial statements and accounting practitioners (as preparers of SMEs' financial statements) towards the form and content of financial standards for SMEs. The methodology is based on survey research which involved the use of a questionnaire. This process included pre-testing and administering the questionnaire, after which the data was captured and analysed.

Out of the 156 questionnaires that were administered to the accounting practitioners, only 27 (17%) were returned. For the users of SMEs' financial statements, a total of 45 questionnaires were administered to MBA students, who were used as surrogates for the user group (Liyanarachchi 2007; Elliot, Hodge, Kennedy & Pronk 2009), and only 14 (31%) were returned. Many of the latter respondents complained that the questionnaire was too technical and that they were unfamiliar with the content of IFRSs.

Discussion of the Results

Form for Differential Reporting

One of the main issues of reporting by SMEs has been the possible form that differential reporting could take. The different forms proposed in this study are the cash basis, the income tax basis, limited purpose financial statements

(LPFS), full compliance with IFRSs or the complete separation from IFRSs. The covering page to the questionnaire defined LPFS as the financial reporting statement of an entity which has a limited range of users who have an interest in the affairs of the entity or business and are thus in the position to call for further information should they wish to do so. The questionnaire further explained that LPFS were prepared using simplified statements of IFRSs.

Respondents were asked to rank the suitability of the different forms for differential reporting ranging from most suitable (=1) to least suitable (=5). The results of this question are shown in table 2. This table shows both the combined and separate results for users and practitioners.

When considering the overall responses, the most favoured form is a LPFS with 28 (68%) respondents in agreement that this form is suitable for SMEs. This is followed jointly by the income tax basis and for the complete separation from IFRSs with 17 respondents (41%) in agreement that these forms would be suitable. The least favoured form for differential reporting is the cash basis with only seven respondents (17%) choosing this basis. The overall results thus show support for the *IFRS for SMEs* issued by the IASB (2009a) in that differential reporting should be based on a simplified version of IFRSs.

An analysis of the responses of both target groups shows that users considered the income tax basis the most suitable form for financial reporting by SMEs with 10 of the 14 respondents (71%) selecting that basis. Table 2 also indicates that there is limited support for the complete separation from IFRSs by this group of respondents. This may be because they are not up-to-date with the IASB's developments on differential reporting.

Eighty-nine percent (89%) of the practitioners perceived the LPFS as the most suitable form for differential reporting.

The results indicate some interest in the complete separation from IFRSs for financial reporting for SMEs by both practitioners and users. Since the LPFS of South Africa has been described by researchers as a cosmetic change, a move away from this system to a better form (complete or partial exemption of both recognition and measurement and presentation and disclosure) may be appreciated (Everingham & Watson 2003:11). However, it must be acknowledged that the complete separation from IFRSs would be too costly and time consuming especially for developing countries where resources are limited (Hattingh 2006: par 7).

Table 2: Suitability of the possible forms for differential reporting

		Very suitable	Suitable	Neutral	Less suitable	Not suitable	Very suitable and suitable		Rank
		No.	No.	No.	No.	No.	No.	%	
Cash basis	Combined	5	2	11	15	8	7	17	**5**
	Users	3	0	4	5	2	3	21	**4**
	Practitioners	2	2	7	10	6	4	15	**4**
Income tax basis	Combined	6	11	11	7	6	17	41	**=2**
	Users	5	5	2	1	1	10	71	**1**
	Practitioners	1	6	9	6	5	7	26	**3**
LPFS – simplified IFRSs	Combined	20	8	5	8	0	28	68	**1**
	Users	2	2	4	6	0	4	29	**3**
	Practitioners	18	6	1	2	0	24	89	**1**
Full compliance with IFRSs	Combined	4	7	7	8	15	11	27	**4**
	Users	1	3	1	3	6	4	29	**3**
	Practitioners	3	4	6	5	9	7	26	**3**
Complete separation from IFRSs	Combined	4	13	9	5	10	17	41	**=2**
	Users	1	5	3	1	4	6	43	**2**
	Practitioners	3	8	6	4	6	11	41	**2**
Users (n=14) Practitioners (n= 27)									

Since prior research has indicated that developing standards for SMEs based on full IFRSs is not appropriate (Martin 2005:2), a separate question asked the respondents if they were in agreement with an approach where standards for SMEs are built on IFRSs, but simplified.

Table 3 shows the perceptions of the respondents concerning the suitability of this approach.

Table 3: An approach where standards are built on IFRSs but simplified

	Users (n=14)		**Practitioners (n=27)**		**Total (n=41)**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Very appropriate	1	7	6	22	7	17
Appropriate	8	57	17	63	25	61
Neutral	2	14	3	11	5	12
Less appropriate	3	22	0	0	3	8
Not appropriate	0	0	1	4	1	2
Total	**14**	**100**	**27**	**100**	**41**	**100**

Table 3 indicates that 78% of the total respondents perceive that a very appropriate or appropriate approach would be one where standards for SMEs are built on IFRSs but simplified. A higher percentage of practitioners (85%) favour this approach as opposed to only 64% of users. The perceptions regarding the development of standards based on IFRSs but simplified are possibly an indication that South Africa lacks the resources and time to develop a completely separate set of standards.

As South Africa had issued a discussion paper on the draft *IFRS for SMEs* at the time the questionnaire was administered, a question was asked whether the initiative of South Africa and the Eastern, Central and Southern African Federation of Accountants (ECSAFA) (2005) in developing temporary standards, which will later be substituted with *IFRS for SMEs*, is appropriate. The results of this question are shown in table 4.

Table 4: Appropriateness of the initiative of South Africa and ECSAFA in setting temporary standards for SMEs

	Users (n=14)		**Practitioners (n=27)**		**Total (n=41)**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Very appropriate	0	0	9	34	9	22
Appropriate	4	28	8	30	12	29
Neutral	4	28	8	30	12	29
Less appropriate	5	36	1	3	6	16
Not appropriate	0	0	1	3	1	2
Did not respond	1	8	0	0	1	2
Total	**14**	**100**	**27**	**100**	**41**	**100**

Fifty-one percent (51%) of the total respondents perceive that setting temporary standards for SMEs, which will later be substituted by *IFRS for SMEs* to be appropriate or very appropriate. The limited support for setting temporary standards by users may be because this group of respondents consider it a waste of resources. This respondent group also preferred the income tax basis (see table 2) and this may be a reason why they do not see the need for temporary standards for SMEs.

The early adoption of the draft *IFRS for SMEs* may have solved some of the problems faced by SMEs as a result of compliance with IFRSs. Based on the above findings, it can be concluded that an approach where standards for SMEs are built on IFRSs is appropriate especially for emerging economies like that of South Africa.

The Content of Differential Reporting for SMEs

The questionnaire then attempted to identify which accounting standards ought to be fully excluded from, partially excluded from or fully incorporated into differential reporting for SMEs. The partially excluded option was further divided into recognition and measurement exemptions as well as presentation and disclosure exemptions. Respondents were given a list of 25 IFRSs (see Appendix 1). As differential reporting is effectively in existence in respect of those statements of IFRSs with which unlisted entities are not required to comply, such statements of IFRSs were omitted. Furthermore, IFRSs which are industry specific were also excluded except for IAS 41 - *Agriculture* which is considered important in South Africa. These results are shown in tables 5 and 6.

Table 5 shows the overall results, which indicate whether certain accounting standards should be fully excluded, partially excluded or fully incorporated when developing differential reporting for SMEs, and table 6 shows the separate responses for each target group.

The non-response rate in tables 5 and 6 is very high with an average non-response rate of 31% for users and 16% for practitioners. Because of the high non-response rate, a rating of above 40% is considered significant.

Table 5: The content for differential reporting (all respondents n= 41)

Standards	**Fully exempt**	**Partially exempt**		**Fully incor-porated**	**Did not respond**	**Total**
		Recognition and measurement	**Presentation and disclosure**			
	%	**%**	**%**	**%**	**%**	**%**
IAS 2	2	24	12	37	25	100
IAS 7	24	10	7	46	13	100
IAS 8	12	10	5	54	19	100
IAS 10	24	10	12	32	22	100
IAS 12	7	36	17	17	23	100
IAS 16	0	41	17	22	20	100
IAS 17	29	10	10	32	19	100
IAS 18	0	39	5	32	24	100
IAS 19	15	15	7	41	22	100
IAS 20	5	10	22	44	19	100
IAS 21	7	32	24	20	17	100
IAS 23	12	29	2	37	20	100
IAS 24	34	17	10	15	24	100
IAS 27	51	17	5	10	17	100

IAS 28	32	12	17	15	24	100
IAS 31	34	22	10	12	22	100
IAS 32	15	12	41	12	20	100
IAS 36	7	32	7	34	20	100
IAS 37	10	32	5	32	21	100
IAS 38	10	29	17	27	17	100
IAS 39	10	41	15	17	17	100
IAS 40	7	32	10	29	22	100
IAS 41	20	24	2	29	25	100
IFRS 3	46	20	5	7	22	100
IFRS 5	56	15	2	7	20	100

Table 6: The content for differential reporting (showing the results separately for each respondent group)

Standards	Fully exempt		Partially exempt				Fully incorporated		Did not respond	
			Recognition and measure-ment		Present-ation and disclosure					
	Users[1]	Prac[2]	Users[1]	Prac[2]	Users[1]	Prac[2]	Users[1]	Prac[2]	Users[1]	Prac[2]
	%	%	%	%	%	%	%	%	%	%
IAS 2	-	4	29	22	21	7	21	45	29	22
IAS 7	14	30	7	-	14	4	28	56	37	10
IAS 8	7	15	7	11	-	7	57	52	29	15
IAS 10	21	26	21	4	7	15	21	37	30	18
IAS 12	-	11	36	37	7	22	29	11	28	19
IAS 16	-	-	43	41	14	19	14	26	29	14
IAS 17	7	41	21	4	7	11	36	30	29	14
IAS18	-	-	43	37	-	7	29	33	28	23
IAS 19	-	22	7	19	14	4	50	37	29	18

IAS 20	-	7	7	11	14	26	50	41	29	15
IAS 21	-	11	21	37	21	26	29	15	29	11
IAS 23	-	19	43	22	-	4	29	41	28	14
IAS 24	21	41	21	15	7	11	7	19	44	14
IAS 27	36	59	21	15	-	7	14	7	29	12
IAS 28	36	30	7	15	15	19	-	22	42	14
IAS 31	36	33	29	19	15	7	7	15	13	26
IAS 32	-	22	-	19	57	33	7	15	36	11
IAS 36	-	11	43	26	7	7	21	41	29	15
IAS 37	-	15	43	26	-	7	29	33	28	19
IAS 38	14	7	21	33	29	11	21	30	15	19
IAS 39	7	11	36	44	21	11	7	22	29	12
IAS 40	-	11	36	30	14	7	21	33	29	19
IAS 41	7	26	7	33	-	4	43	22	43	15
IFRS 3	21	59	29	15	7	4	7	7	36	15
IFRS 5	63	52	7	19	-	4	-	11	30	14

[1] Users (n = 14)
[2] Practitioners (n = 27)

From table 5 it can be seen that overall there was support for SMEs to be fully excluded from the following standards:

- IAS 27 - *Consolidated and separate financial statements* (51%),
- IFRS 3 - *Business combinations* (46%), and
- IFRS 5 - *Non-current assets held for sale and discontinued operations* (56%).

Table 6 shows that there was less support by the users for SMEs to be fully excluded from IAS 27 and IFRS 3. Table 6 also shows some support by the practitioners for exemption from IAS 17 – *Leases* (41%) and IAS 24 – *Related party disclosures* (41%).

Table 5 shows that the total respondents perceived a number of standards to be appropriate for SMEs and should be fully incorporated in SMEs' financial reporting standards. These standards are:

- IAS 7 – *Statement of cash flows* (46%),
- IAS 8 - *Accounting policies, changes in accounting estimates and errors* (54%),
- IAS 19 - *Employee benefits* (41%), and
- IAS 20 - *Accounting for government grants and disclosure of government assistance* (44%).

Table 5 also shows some support for IAS 2 *Inventories* (37%) to be fully incorporated into the financial statements of SMEs.

Table 6 shows that the support for IAS 2 and IAS 7 to be fully incorporated into SMEs' financial standards was stronger for the practitioners compared to the users. However, support for the full incorporation of IAS 8, IAS 19 and IAS 20 was stronger for the users. IAS 23 *Borrowing costs* and IAS 36 *Impairment of assets* were both more supported at 41% by the practitioners as compared to the users, whereas IAS 41 *Agriculture* was more supported by the users at 43% when compared to the practitioners.

With regards to recognition and measurement concessions, there was support for IAS 16 *Property, plant and equipment* (41%) and IAS 39 *Financial instruments: recognition and measurement* (41%) (see table 5) with table 6 showing, in respect of IAS 16 that the degree of support was similar for both respondent groups but that, with respect to IAS 39, the concession was more strongly supported by the practitioners. Table 6 also indicates that the users supported recognition and measurement exemptions from IAS 18 *Revenue*, IAS 23 *Borrowing costs*, IAS 36 *Impairment of assets* and IAS 37 *Provisions, contingent liabilities and contingent assets*.

With regards to presentation and disclosure concessions, there was overall support for concessions in respect of IAS 32 *Financial instruments: presentation* (see table 5) with table 6 showing that this was more strongly supported by the users than by the practitioners.

Table 5 also shows that there is less support for presentation and disclosure exemptions when compared to recognition and measurement exemptions, which may suggest that more recognition and measurement exemptions are required.

Table 6 clearly shows that the non-response rate for this question was higher for the user group when compared to the practitioner group. As indicated previously, the user group indicated that they found this question too technical. A perusal of table 6 indicates that the practitioners saw the need for SMEs to be exempt from more standards when compared to the users.

These findings support the principle of granting recognition and measurement concessions found in Canada's (CICA 2002) and New Zealand's (ICANZ 2002) differential reporting requirements. However, these findings indicate support for more extensive recognition and measurement concessions. The results of this study can be compared to the Wells' (2005) study where there was strong support for the principle of granting recognition and measurement as well as presentation and disclosure exemptions even though this study shows little support for presentation and disclosure exemptions.

Although close corporations, sole proprietorship and partnerships are not required to prepare a statement of cash flows, 46% of the respondents support that the statement of cash flows should be fully incorporated into the financial statements of SMEs. Arguments for not disclosing the statement of cash flows include that it is not always understandable, that its cost of preparation far exceeds its benefits and that cash flow information is provided too late to be used by managers of qualifying entities (SAICA 2003:7). However, the statement of cash flows is important for decision making since it monitors cash flow movements. The Wells' (2005) study also indicated that the majority of the respondents in his study perceived the statement of cash flows to be appropriate for all close corporations and all private companies with a limited user base.

Conclusion

This study investigated users' and practitioners' perspectives on the appropriate form for differential reporting and what its content should be.

With regards to the appropriate form for differential reporting, the study found that limited purpose financial statements were overall the most favoured form for differential reporting. As this is the direction taken by the IASB in issuing *IFRS for SMEs* (IASB 2009a), this result provides evidence that this form is supported. The users showed a preference for the income tax basis, but this may be because they are able to access additional information about the SME should they so require.

With regards to the content of differential reporting for SMEs, the study found support for recognition and measurement concessions with regards to the accounting standards that formed part of this study. However, IAS 2 – *Inventories*, IAS 7 – *Statement of cash flows*, IAS 8 – *Accounting policies, changes in accounting estimates and errors*, and IAS 20 – *Accounting for government grants and disclosure of government assistance* were considered to be important for SMEs.

The standards, which the respondents considered SMEs should be fully exempt from, were IFRS 3 – Business combinations, IFRS 5 – Non-current assets held for sale and discontinued operations, and IAS 27 – Consolidated and separate financial statements.

This study does have some limitations. Firstly, the choice of KwaZulu-Natal for both target groups means that the results cannot be generalized to different target groups or to the rest of South Africa. Secondly, the response rate was low with a consequent low level of statistical tests. However, despite these limitations the study provides useful and relevant information and extends the research in this area.

Future, research could investigate whether users' needs are satisfied with the information that will be provided by SMEs using *IFRS for SMEs*. This study also found that the more technical questions in the questionnaire were not always answered by the respondents. Future research could be conducted using interviews or focus groups to get a better understanding of the usefulness of *IFRS for SMEs*.

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Appendix 1

Selected International Financial Reporting Standards

AC 000	Framework for the preparation and presentation of financial statements
IAS 1	Presentation of financial statements
IAS 2*	Inventories
IAS 7*	Statement of cash flows
IAS 8*	Accounting policies, changes in accounting estimates and errors
IAS 10*	Events after the reporting period
IAS 12*	Income taxes
IAS 16*	Property, plant and equipment
IAS 17*	Leases
IAS 18*	Revenue
IAS 19*	Employee benefits
IAS 20*	Accounting for government grants and disclosure of government assistance
IAS 21*	The effects of changes in foreign exchange rates
IAS 23*	Borrowing costs
IAS 24*	Related party disclosures
IAS 27*	Consolidated and separate financial statements
IAS 28*	Investments in associates
IAS 31*	Interests in joint ventures
IAS 32*	Financial instruments: presentation
IAS 36*	Impairment of assets
IAS 37*	Provisions, contingent liabilities and contingent assets
IAS 38*	Intangible assets
IAS 39*	Financial instruments: recognition and measurement
IAS 40*	Investment property
IAS 41*	Agriculture
IFRS 3*	Business Combinations
IFRS 5*	Non-current assets held for sale and discontinued operations

* - included in questionnaire

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