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PRETORIA

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August 27, 2010

Dear Prof Steve Koch (Editor in chief - SAJE

**A Critical Analysis of the Contents of the IFRS for SMEs - A South African Perspective (Manuscript 13-10)**

We would like to thank you for the opportunity to address and incorporating the comments and feedback of the reviewers in our article. We value their positive and constructive comments and recognize their inputs received as part of our academic development process, as well as the overall improvement of our article.

Our research focused on the adoption of a global accounting set of accounting standards by South African Small and Medium Entities/Enterprises.

We have attempted to incorporate all the reviewers’ comments to the best of our ability. Accordingly we made several amendments to our text, which is summarized as follows:

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| Comments (61-201-2-RV) | Response/Correction |
| 1. This contradicts with 1. Introduction, second paragraph, third sentence “In addition ….. has a global focus”. I suggest inserting the word “necessarily
 | We inserted the word “necessarily” as indicated.The second paragraph refers to IFRS applicable to public companies required to apply IFRS for stock exchange listing purpose. The third paragraph provides information about the SME sector. |
| 1. Please refer to the IASB’s website (http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs.htm) or BC stating the purpose of the IFRS for SME’s standard. I suggest rephrasing this paragraph to incorporate the IASB’s purpose with the standard.
 | We included the fact that IFRS for SMEs was not necessarily developed for a specific user group (Lombard, 2008:19) in paragraph 2.2.We also included this purpose in the applicable paragraph as per the basis of conclusion. |
| 1. I do not agree. Most SME’s with 50 employees (as referred to in 1. Introduction, third paragraph, third sentence) will have a functional accounting department. I suggest inserting the word “necessarily”. I do however agree that they will reply on external accountants (or auditors) to compile financial statements.
 | We inserted the word “necessarily” as indicated.  |
| 1. See my overall comments regarding the inclusion of trainees in the study.
 | We initially omitted the fact that the survey of the trainee accountants was conducted at a preparation course for the SAIPA qualifying exam. The trainee accountants are only entitled to write this exam after three years practical experience with an accounting practitioner. We are of the opinion that, in light of the fact that the trainee accountants are entitled to write the qualifying exam after three year practical experience, they should also be included in the study. We do however agree that the view of the practitioners should carry more weight. In addition we included a sentence that the survey of the trainee accountants was conducted as a pre-test. Furthermore, our results in paragraph 5 revealed only two components where the difference in *mean* answer was in excess of one ranking, resulting in our conclusion that the feedback obtained from the two groups was very similar.   |
| 1. The conclusion reached is not clear. Please elaborate on the conclusion reached.
 | The sentence was amended as follows: As a result we classified the contents of the IFRS for SMEs, from a South African perspective, into different levels of importance. Please also refer to Table 4 where the contents were classified as highly, moderate and less important.  |
| 1. BC1 to BC33 of the Basis of Conclusions should also be considered in this section.
 | We included, in addition to the information included in the basis of conclusion, background information leading to the development of the IFRS for SMEs. The major dates contained in the basis of conclusions (2004 and 2007) were also included in our literature review. Furthermore, BC20-25 refers to the field test carried out by the IASB amongst 116 small entities. In view of our respondents, namely practicing and trainee accountants, we felt that the information in connection with the field test should not form part of our study. BC26 deals with the 162 letters of comment received by the IASB. This was also included in the third paragraph of par. 2.1. BC27-33 contains information in connection with the final decision to adopt and the processes followed by the IASB to communicate the contents of the IFRS for SMEs with different stakeholders in different countries across the globe, and therefore not particularly relevant to our study pertaining to the relevance of the contents in the South African environment. In contrast we included the subsequent developments in South Africa, including the proposal of “micro-gaap”, please refer to the last paragraph under 2.1. |
| 1. NB: Please verify, as the reference did not state this
 | From source: “… it has a very strong focus on the needs of capital market and investors. In our opinion IFRS for SMEs is not attempting to address the needs of small unlisted companies…”In our opinion the emphasis from this sentence is on unlisted (IFRS for SMEs) and capital markets (IFRS). For purposes of comparability we used the terms “unlisted” and “listed”, therefore listed companies instead of capital market (A capital market is a market for securities, where business enterprises (companies) and governments can raise long-term funds) participants. We do however appreciate the recommendation and used capital markets and investors instead of listed companies. |
| 1. On the contrary, please refer to BC44-47 and BC80.
 | The sentence was amended. The sentence now states the fact that the IFRS for SMEs might not address the reporting needs of user groups and not whether the IASB considered all user groups. Evidence that all user groups were not considered is provided after this sentence. Relevant sections from the basis of conclusions, as suggested, were also included.   |
| 1. The IASB gave an important explanation of the exclusion in BC44-47 and BC53-54
 | The paragraph was amended, the explanation and reference to the basis of conclusion was included. |
| 1. This is contradicting to what Saracina, 2005:2 says?
 | The sentence was amended to include the contrast between the fact that, although owner-managers are listed as important users, they don’t necessarily understand the financial information. |
| 1. See comments 9 above.
 | The comments were addressed in 9. |
| 1. On the contrary, please see BC44-47.
 | The sentence was amended, we advocate that the benefits of the IFRS for SMEs for certain user groups remain to be tested, and not that the IASB did not take user needs into account when developing the IFRS for SMEs. We also included additional references/explanations (Van Wyk & Rossouw, 2009:102; Day 1986:295; Schuetze (2001:2) for our decision to include practitioners, and not necessarily other users of SME financial statements.  |
| 1. The IASB differs (from Schiebel) as per BC33.
 | We are of the opinion that the statement by Schiebel carries more weight, especially in the light of the evidence provided in the following paragraph and the data in figure 1. Furthermore, BC33 refers to information sessions by the IASB, and not the feedback received by the IASB in connection with the ED on IFRS for SMEs.  |
| 1. I am not sure about this statement. The IASB is based in the UK and develops IFRS for use in any jurisdiction.
 | The sentence was amended. We are stating now that the majority of the responses to the ED on IFRS for SMEs was received from Europe, and not that the IFRS for SMEs was developed in Europe.  |
| 1. A short description of these attributes is needed (perhaps in literature review) to validate the statement. See overall comment regarding literature review section.
 | Additional attributes pertaining to developing countries were included by Zeghal and Mhedhbi (2006:376), including (i) economic growth; (ii) educational levels; (iii) the degree of external economic openness; (iv) cultural considerations; and (v) the existence of capital markets. |
| 1. See overall comment regarding the literature review.
 | Additional information was provided in connection with the users of SME financial statements (refer to par. 2.2). Additional SME attributes were also included in par. 2.4 of our literature review. |
| 1. See overall comment on the inclusion of trainees.
 | With reference to our response to comment no. 4 we are of the opinion that the trainee accountants gained sufficient experience during a period of three years to be included in our survey. Moreover, we stated that the views of the practitioners carried more weight and that the trainees were only included as ‘n pre-test and control group. |
| 1. Insert full reference
 | Although the full reference was listed earlier in the text, the full reference “Van Mourik (2007:193)” was inserted. |
| 1. Hyperinflationary Economics was subsequently left out in the final version. A discussion of the at least the impact of the differences between the initial questionnaire (ED) and the final IFRS standard is necessary.
 | The link to the IFRS for SMEs as per the IASB’s website ([http://eifrs.iasb.org/eifrs/sme/en/IFRSforSMEs 2009.pdf](http://eifrs.iasb.org/eifrs/sme/en/IFRSforSMEs%202009%20.pdf)) contained hyperinflationary economies under section 31. Please also refer to the link in comment 2 where hyperinflation is included under BC87(d).   |
| 1. One would have thought that the literature review would have indicated this, and that it should have been included (tested) in the questionnaire
 | The questionnaire included only those sections contained in the IFRS for SMEs. We only noted that a section for construction contracts was not included, despite the fact that the construction sector is prominent in the UK. Although the majority of the responses in connection with the IFRS for SMEs was from the UK, and even though the IASB is based in London, the recommendation is accepted, and as a result, all references to the fact that the IASB is biased towards the UK was taken out, including this paragraph.  |
| 1. Surely it is only a possibility that the UK was biased!! (refer page 2)
 | Refer to the previous response. The recommendation is accepted and the paragraph will be omitted from the final version. |
| 1. Refer comments above regarding BC44-47.
 | Please refer to our response to comment no. 8. The sentence was also amended to exclude any reference to users of SME financial statements. |
| 1. This is not true! Please re-think your interpretation. Accounting standards do not allow the provision of losses, except if onerous, which is rarely found.
 | The inclusion of the word losses was incorrect. We intended the inclusion of provisions only. The sentence was therefore amended to account for provisions, instead of provision for possible losses.  |
| 1. The ACCA study was 10 years ago, and then perhaps based on data older than 10 years?
 | The recommendation is accepted and the reference to the involvement of SA SMEs in mainly the agricultural sector was taken out. Limited information is available for SMEs and their involvement in various business sectors in South Africa. The emphasis is on the fact that SMEs are involved in different types of businesses worldwide.  |
| 25 – 34. Reference not used in manuscript. | These references were taken out.  |

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| Comments (61-202-1-RV) | Response/Correction |
| 1. Change the ‘ED’ used in the in the abstract to ‘exposure draft’
 | We changed ED to exposure draft as indicated. |
| 1. Insert ‘based on user requirements’ at the end of the first sentence of the third paragraph of the abstract
 | The sentence was amended as indicated. |
| 1. Insert ‘accounting’ before ‘practitioners’ in the second sentence of the third paragraph of the abstract.
 | The word “accounting” was inserted as indicated. |
| 1. The two sentences in par 2.2 starting with ‘Anacoreta and Silva …..’ must be revisited. What ‘responses’ were received by the IASB? ‘IASB questions…..’ to be answered by whom, why?
 | The sentence was amended as follows: …in connection with the IASB’s preliminary views on international accounting standards for small and medium-size entities. |
| 1. Edit ‘2.4. Different levels of development’. The italic t must be corrected.
 | The italic “t” was corrected as indicated. |
| 1. Last paragraph of par 3. Remove ‘in’ in the first sentence between ‘SMEs’ and ‘against’.
 | The word “in” was removed as indicated. |
| 1. For clarity to the lay reader it should be considered to include some explanation of the group t-test. At the end of the second paragraph of par 4, the following can be included: ‘The t-test assesses whether the means of two groups are statistically different from each other.’
 | The sentence in paragraph 4 was amended to include: … and to assess whether the means of the two groups are statistically different from each other. |
| 1. Par 6 should be renamed: ‘Conclusions’.
 | The paragraph was renamed to “Conclusions. |
| 1. The conclusions in par 6 should be numbered to focus attention and for ease of reference.
 | The paragraphs were discussed in number sequence, namely: firstly, secondly, etc.  |

Sincerely yours

PW Buys and DP Schutte