

# ACCOUNTING PRACTITIONERS' VIEWS ON THE PROPOSED "MICRO GAAP" - A SOUTH AFRICAN PERSPECTIVE

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## Abstract

Even though the IFRS for SMEs does provide some relief in respect of the financial reporting burden for non-public entities, there still seems to be a need for an even lower level of financial reporting. In recent years South Africa embarked upon the development of a financial reporting framework for non-public entities and various versions of this so-called micro GAAP have been issued. However, the Accounting Practices Board raised some concerns about the then proposed micro GAAP. This article highlights the South African accounting practitioners' views from different professional bodies on micro GAAP. They generally believe that micro GAAP will represent fair presentation and that the financial statements prepared under micro GAAP can still be regarded as general purpose financial statements. Furthermore, the majority of accounting practitioners believe that there is a definite need for a third tier of financial reporting in South Africa and indicated their preference of which entities may apply micro GAAP. Legal backing of micro GAAP is also considered appropriate by the practitioners.

## Keywords

Micro GAAP; accounting for non-public entities; differential reporting; third tier financial reporting; small and medium-sized entities.

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## 1. INTRODUCTION AND BACKGROUND

The issue of the so-called differential reporting (or big GAAP and little GAAP as it is referred to in the United States of America (USA)) (Burton & Hillison, 1979; Christopher, Price & Saunders, 2005) is nothing new in accounting. Over the last three decades the question has been asked whether uniform accounting principles and reporting practices can be applied by vastly diverse businesses (Burton & Hillison, 1979). In related prior research it was argued that the justification for differential reporting mainly lies in the consideration of the users' needs, in the cost/benefit constraint (Christopher et al., 2005; Wise, Faux & Fisher 2005; Stainbank, 2008; Greeff, 2008; Eierle & Haller, 2009, Van Wyk & Rossouw, 2009 and SAICA, 2009a) and in the burden to comply with the complexity of International Financial Reporting Standards (IFRSs) (Wise et al., 2005; Van Wyk & Rossouw, 2009; SAICA 2009a) or the US GAAP (Christopher et al., 2005). Eierle and Haller (2009) support the view that small entities may struggle more with complex accounting issues, as accounting knowledge seems to be lower in small entities than in large entities. Barcelo (2007) argues that it is the accounting practitioners who felt the burden of complying with full IFRSs and that they "sang the blues" as a result of the standards overload.

Although there may be many arguments for and against differential reporting (Stainbank & Wells 2005; Greeff, 2008), it has become a reality in many countries and in many forms (Stainbank & Wells, 2005; Stainbank, 2008; Greeff, 2008). It seems that, globally, the accounting bodies realised that one size really does not fit all. Over the last decade, standard setters in various countries acknowledged the need for differential reporting by diverting from the technical and complex IFRSs and embarking upon the development of differential reporting (Van Wyk & Rossouw, 2009; SAICA 2009a).

IFRSs are developed to help participants in the various capital markets of the world and other users of the information make economic decisions (IASB, 2010a). Large entities (based on size and irrespective of the legal type, which may be publicly accountable) comprise only 3% of the economically active enterprises of known size in South Africa, while the remaining 97% comprise medium (4%), small (11%), very small (46%) and micro entities (36%) (DTI, 2008a). These smaller entities, and in particular private companies and close corporations, are arguably not involved in the capital market of the world. Private companies and close corporations represent 98% of the total active business enterprises of known size in South Africa (DTI, 2008a). It is these entities that experience the IFRSs to be too complex, costly and not relevant to their reporting needs.

During the last decade the need for differential reporting for smaller and non-public entities (irrespective of legal form) in South Africa could no longer be ignored and some effort was made locally and internationally to develop accounting standards for non-listed entities. In October 2007, South Africa became the first country in the world to adopt the IASB's proposed standard (when it was still an exposure draft) as a *Statement of GAAP for SMEs* (SAICA, 2007). When the final standard was issued, the Accounting Practices Board (APB) approved it for issue as a Statement of GAAP, referred to as the *Statement of Generally Accepted Accounting Practice (GAAP): International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* on 13 August 2009 (APB, 2009).

Among all the developments for different accounting standards for non-listed entities were the proposals in the Corporate Laws Amendment Act, No. 24 of 2006 (DTI, 2006), and the new Companies Act (DTI, 2008b), which recently became effective in South Africa. The importance of this is that the corporate law reform has introduced differential reporting in South Africa,

distinguishing the reporting requirements for limited interest companies without public accountability from that of widely held companies (Stainbank, 2008; SAICA, 2009a). Van Wyk (2010) further states that the new Companies Act and draft regulations will allow owner-managed companies to prepare their financial statements in terms of a basis other than current SA GAAP (which at present basically consists of IFRSs and the IFRS for SMEs).

Stainbank and Wells (2005:56) believe that the debate on differential reporting in South Africa was initiated in South Africa by Charles Hattingh through *Accountancy SA's* monthly column "Straight talking" and at the SAICA technical update seminars. It is important to note that Hattingh (1999; 2001) advocated a *two* tier system of GAAP, but nowadays differential reporting in South Africa is referred to as a *three* tier reporting framework (Muller, 2008), consisting of IFRS, IFRS for SMEs and a specific standard for smaller entities. This is similar to other countries, for example the United Kingdom (Deloitte, 2009; Nobes, 2010) and Ireland (O'Keeffe & Hackett, 2009).

Prior research by the International Federation of Accountants (IFAC) (IFAC, 2006; 2008) also questioned the suitability of the IFRSs for SMEs for micro entities. Related prior research in South Africa (Stainbank, 2008; Van Wyk & Rossouw, 2009) suggested that although the IFRSs for SMEs were well received in South Africa by non-listed entities, there still seems to be a need for a three-tier financial reporting framework. The objective of a *third* tier of financial reporting is to provide an easier and simpler framework which can be used by smaller non-public entities (Muller, 2008). Consequently, a working group was formed to develop a reporting framework for non-public entities (SAICA, 2009a). The working group first issued ED 257: Proposed Framework for Non-public Entities and later ED 275: Financial Reporting Framework for Non-public Entities (SAICA, 2009b) (which was in issue at the time the empirical research for this article was conducted and which was commonly referred to as "micro GAAP") (Van Wyk, 2010). ED 275 was later replaced by ED 285: Financial Reporting Framework for Non-public Entities (SAICA, 2010).

It is against this background for the need for a *three* tier financial reporting framework that the views of the accounting practitioners were analysed in this research. The article is structured as follows: In sections 2 and 3, the research objectives and methodology will be outlined. The results of the empirical research on the practitioners' views on micro GAAP will then be discussed, after which a summary and conclusion is given in the last section of the article.

## 2. RESEARCH OBJECTIVES

The Accounting Practices Board (APB) is responsible for approving accounting standards in SA (APB, 2007). In considering the then proposed ED 257 – Proposed Framework for Non-public Entities (which was subsequently revised and re-issued as ED 275 – Financial Reporting Framework for Non-public Entities), the following concerns were raised at the meeting of the APB (noteworthy is the fact that the SA Statement of GAAP: IFRS for SMEs was approved for issue at the same meeting) (APB, 2009).

- It was unclear whether this proposed framework (being the third tier reporting framework) was intended to be a fair presentation framework and whether or not this was aimed at general purpose financial statements.
- The differences between this proposed framework and IFRS for SMEs were not substantial. Therefore the APC questioned the need for a third tier reporting framework that was similar to IFRS for SMEs and aimed at the same group of companies.

- The 'Scope' of the proposed framework was not defined to clearly distinguish it from IFRS for SMEs.

The purpose of this article is to obtain the accounting practitioners' views on the following, which also address the concerns of the APC:

- whether financial statements prepared under the then proposed micro GAAP framework will achieve fair presentation;
- whether the non-public entities (as identified by ED 275) prepare general purpose financial statements;
- whether there is a need for a third tier reporting framework (in addition to IFRS and IFRS for SMEs); and
- if there is indeed a need for a third tier reporting framework, which entities the practitioners believe should then be complying with micro GAAP.

In light of the current legal backing for SA Statements of GAAP and the hype surrounding the new Companies Act, it was also decided that the practitioners' views on whether micro GAAP should have legal backing should be gained, in addition to researching the concerns of the APB.

### 3. RESEARCH METHODOLOGY

To achieve these stated research objectives, empirical research was conducted to obtain the views of the practitioners. As the objectives are to provide empirical data on the views of the practitioners, a detailed literature review was not conducted. Accounting practitioners were selected as the population for the empirical research because they are assumed to be knowledgeable in accounting and understand their clients' information needs with regard to financial reporting (also compare Stainbank & Wells, 2007). For the purpose of this research the accounting practitioners' clients generally constitute non-public entities of smaller size compared to public entities, and are referred to as non-public entities in this article. During March to May 2010, a survey was conducted among accounting practitioners using a group-administered questionnaire (Trochim, 2006; Fraenkel & Wallen, 2008). The questionnaires were completed by the delegates attending twelve seminars across South Africa on ED 275 (on "micro GAAP") presented by the authors across South Africa (convenience sampling – Fraenkel & Wallen, 2008). The seminars were held by the South African Accounting Academy in various regions. The detailed concepts and requirements of ED 275 were discussed during the seminars. The delegates were therefore deemed to have sufficient and relevant knowledge of the matter to be able to complete the questionnaire, thus providing the authors with reliable and relevant data. In order to obtain unbiased responses from the delegates, the presenters (authors) did not express their own views on the ED, and it is important to note that the questionnaires did not cover the ED itself, but rather the delegates' views on micro GAAP in general (rather than the technical requirements of the ED). Use of this method ensured a substantially higher number of completed questionnaires ( $n = 819$ ) when compared to other prior research in South Africa (Kruger, 2004 ( $n=54$ ), Stainbank & Wells, 2005 ( $n=64$ ); Stainbank & Wells, 2007 ( $n=64$ )).

The empirical research in this study was qualitative because the accounting practitioners involved in preparing the financial statements of non-public entities were asked to give their views and perceptions of the need for a third tier reporting framework and other aspects of micro GAAP. According to Maykut and Morehouse (1994:56), qualitative research gains a "deep understanding of some phenomenon experienced". Donalek and Soldwisch (2004:354) describe

qualitative research further as “the organized, systematic exploration of some portion of human experience. It is not concerned with the interpretation of data but rather with the discovery of common emergent themes”. Through an organised, systematic investigation, the research will thus attempt to gain a deep understanding of the views and perceptions of the accounting practitioners. Since the practitioners were selected to obtain their views and perceptions, the sampling was purposeful and effective. The authors regarded the practitioners as a suitable source that could provide information-rich data (Maykut & Morehouse, 1994) because they are involved in the financial reporting of non-public entities in general.

In previous related research (Kruger, 2004) questionnaires were sent to the preparers and users of financial statements, but the response rate from the users was extremely low. To counter this, the authors believed that sufficient empirical feedback would be obtained from practitioners (preparers of financial statements/auditors) who are involved in accounting transactions of smaller entities on a daily basis. Hence, the practitioners attending the above-mentioned accounting seminars on ED 275 were supplied with questionnaires. The authors did not involve the users of financial statements in the research due to the low response rate in previous related research. It is acknowledged that this may place a limitation on interpreting the results, and may be an area for future research.

The respondents represent a wide spread of the geographical areas of South Africa. These areas are listed in **Table 1** in alphabetical order .

**TABLE 1: Demographic information of the respondents**

<i>Region</i>	<i>Frequency</i>	<i>Percentage</i>
Bloemfontein	55	6.72
Boksburg	54	6.59
Cape Town	154	18.80
Durban	86	10.50
George	35	4.27
Johannesburg	138	16.85
Pietermaritzburg	11	1.34
Port Elizabeth	56	6.84
Potchefstroom	58	7.08
Pretoria	90	10.99
Roodepoort	39	4.76%
Stellenbosch	43	5.25
Total	819	100.00

**Source:** Authors' calculation

The business activities in South Africa sometimes differ from region to region and therefore the above spread between regions can be regarded as representative of South Africa. More than two-thirds of the respondents are from the larger metropolitan areas, namely the Gauteng, Cape and Durban regions, and represent a total of 551 (67.28%) respondents. The other 32.72% of the respondents are from smaller regions.

In order to establish their practical background, the respondents were asked whether they are involved with non-public entities. **Table 2** indicates the involvement of respondents:

**TABLE 2: Respondents' involvement with non-public entities**

<i>Involvement</i>	<i>Frequency</i>	<i>Percentage</i>
Involved with	736	89.87
Not involved with	60	7.33
Did not respond	23	2.81
Total	819	100.00

**Source:** Authors' calculation

Virtually all the respondents (89.87%) are in some way or other involved with non-public entities. The high rate of involvement is a clear indication that the respondents have the necessary practical experience and knowledge of, and insight into, the challenges faced by non-public entities, and the respondents are well represented in this regard.

Respondents were also asked to indicate whether they are members of an accounting profession. The following professions were represented by the respondents:

**TABLE 3: Accounting professions represented by respondents**

<i>Profession</i>	<i>Frequency</i>	<i>Percentage</i>
SA Institute of Chartered Accountants (SAICA)	228	27.84
SA Institute of Professional Accountants (SAIPA)	297	36.26
SA Institute of Business Accountants (SAIBA)	63	7.69
Chartered Association of Certified Accountants (ACCA)	4	0.49
Other professions	100	12.21
Non-member	69	8.42
Did not respond	58	7.08
Total	819	100.00

**Source:** Authors' calculation

The accounting professions that are active in South Africa, namely SAICA, SAIPA, SAIBA and ACCA, are represented by 592 respondents, which indicates that 72.28% of the respondents have a well-rounded knowledge of accounting principles and standards and are in a good position to evaluate the accounting standards that should be applicable to non-public entities.

It is clear from **Table 2** and **Table 3** above that the South African accounting practitioners are well represented by the respondents and the respondents do have the necessary practical experience and the knowledge to evaluate the accounting needs of non-public entities.

The information in **Table 3** was used to perform a Chi-square test to analyse data that is reported in categories (Fraenkel & Wallen 2008:233) by testing relationships between variables. The Chi-square ( $\chi^2$ ) statistic is used to test for a significant relationship between two categorical variables, in this research the professional membership of the respondent and specific questions relating the key concerns of the APB. The Chi-square test is structured around two-way frequency tables. The categories (professions) in **Table 3** were used in a two-way table to analyse the research questions relating to fair presentation (paragraph 4.1), general purpose (paragraph 4.2), the need for a third level (paragraph 4.3) and legal backing (paragraph 4.5). For the purpose of performing the Chi-square tests the "Did not respond" category in each

question was excluded. If the  $p$ -value of the Chi-square test is smaller than 0.05, then there is significant relationship, which means that one variable differs significantly between categories of other variables. If the Chi-square test indicates a significant relationship it means the distribution of the one variable differs between categories of the other variable. In other words, for the purpose of this article, a significant relationship means that the percentage of the respondents' answers to the questions below differs significantly between the members of different professions/institutes.

## 4. EMPIRICAL RESULTS

The empirical results of the views of the accounting practitioners are presented and discussed in this section. This section is structured in the same sequence as the research objectives were outlined in section 2 above.

### 4.1 Fair presentation

The question on fair presentation is important, as financial statements should fairly present the financial position and the results of the operations of an entity. The Companies Act (DTI, 2008b:section 29(1)(b)) and the Close Corporation Act (DTI, 1984: section 58(2)(b)) require fair presentation of the financial information of the relevant entities.

In terms of the new Conceptual Framework for Financial Reporting, fair presentation “describe information that has the qualitative characteristics of relevance and representational faithfulness enhanced by comparability, verifiability, timeliness and understandability” (IASB, 2010b). This notion is rather similar to the previous Framework for the Preparation and Presentation of Financial Statements, whereby it is assumed that the application of the principal qualitative characteristics and of appropriate accounting standards normally results in fair presentation (IASB, 2010c). IFRS, IFRS for SMEs and ED 275 basically share the same qualitative characteristics and it may be deduced that, if micro GAAP is considered to be an “appropriate accounting standard”, fair presentation may be achieved. In the introduction and background of the article it was briefly indicated that IFRS and IFRS for SMEs were not considered to be fully appropriate for the smaller entities, and the objective of the working group (see section 1) was indeed to develop an appropriate new financial reporting framework for the smaller non-public entities.

Respondents were therefore asked whether, in their opinion, financial statements prepared under micro GAAP would result in fair presentation, and their opinion is summarised in **Table 4**.

**TABLE 4: Will micro GAAP represent fair presentation?**

<i>Fair presentation</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Ignoring the nonrespondents</i>	
			<i>Frequency</i>	<i>Percentage</i>
Will result in fair presentation	745	90.96	745	96.80
Will not result in fair presentation	25	3.05	25	3.20
Did not respond	49	5.98	N/A	N/A
<b>Total</b>	<b>819</b>	<b>100.00</b>	<b>770</b>	<b>100.00</b>

**Source:** Authors' calculation

As can be seen from the above, 90.96% of respondents are of the opinion that the proposed micro GAAP will result in fair presentation. This opinion of the respondents sends a very strong message to standard setters to go ahead with the acceptance of the micro GAAP framework.

In **Table 4.1** the Chi-square test, referred to above, was used to test for significant relationships between the various professions (see **Table 3**) and whether or not fair presentation will be achieved by micro GAAP. The "did not respond" category, totalling 49 in **Table 4**, was excluded for this purpose.

**TABLE 4.1: Will micro GAAP represent fair presentation? (analysed by profession)**

<i>Profession</i>	<i>Yes</i>	<i>No</i>	<i>Total</i>	<i>Percentage "Yes"</i>
SA Institute of Chartered Accountants (SAICA)	214	6	220	97.3
SA Institute of Professional Accountants (SAIPA)	269	9	278	96.8
SA Institute of Business Accountants (SAIBA)	58	1	59	98.3
Chartered Association of Certified Accountants (ACCA)	4	0	4	100.0
Other	89	2	91	97.8
Non-member	59	5	64	92.2
Did not respond	52	2	54	96.3
Total and average percentage	745	25	770	96.8

**Source:** Authors' calculation

The *p*-value of the above Chi-square test in **Table 4.1** above is 0.4964, which indicates that the percentage of "yes" answers did not differ significantly between the different professions. It is therefore clear that all the different categories of professions are in agreement that micro GAAP will result in fair presentation.

## 4.2 General purpose financial statements

General purpose financial statements are "financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs" (IASB, 2009:par. P7, P8; IASB, 2010c:par. 6; IASB, 2010d). Respondents were also asked whether the financial statements prepared under the micro GAAP framework should be for general purpose (to meet the needs of all the users) or for special purpose (to meet the needs of specific users such as the owners, tax authorities and financial institutions). The stated definition of general purpose above was included in the questionnaire to ensure that respondents understood the question they answered. The results are listed in **Table 5**.

The majority (55.56%) of the respondents clearly indicated that the financial statements that are prepared on the basis of micro GAAP should be for general purpose, and only 33.58% of the respondents are of the opinion that it should be for special purpose. The then ED275 stated that the financial statements prepared in accordance with it will result in special purpose financial statements and the use thereof will "not be deemed general purpose". The use of the financial statements shall be restricted to owners, managers, credit providers and the relevant tax authority (SAICA, 2009b). The views of the majority of practitioners are thus in contrast to the purpose of preparing micro GAAP financial statements, and standard setters may need to



reconsider this aspect (which would also be an area for future research). It is also interesting to note that the new ED 285 does not even address general or special purpose financial reporting.

**TABLE 5: Purpose of financial statements of micro and small entities**

<i>Purpose</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Ignoring the non-respondents</i>	
			<i>Frequency</i>	<i>Percentage</i>
General purpose	455	55.56	455	62.30
Special purpose	275	33.58	275	37.70
Did not respond	89	10.87	N/A	N/A
<b>Total</b>	<b>819</b>	<b>100.00</b>	<b>730</b>	<b>100.00</b>

**Source:** Authors' calculation

In **Table 5.1** the Chi-square test, referred to above, was used to test for significant relationships between the various professions in **Table 3** above and whether or not micro GAAP financial statements can be regarded as for general or specific purpose. The “did not respond” category totalling 89 in **Table 5** above was excluded for this purpose.

**TABLE 5.1: Purpose of financial statements of micro and small entities, analysed by profession**

<i>Profession</i>	<i>General purpose</i>	<i>Specific purpose</i>	<i>Total</i>	<i>Percentage “general purpose”</i>
SA Institute of Chartered Accountants (SAICA)	120	92	212	56.6
SA Institute of Professional Accountants (SAIPA)	184	81	265	69.4
SA Institute of Business Accountants (SAIBA)	39	14	53	73.6
Chartered Association of Certified Accountants (ACCA)	1	3	4	25.0
Other	46	39	85	54.1
Non-member	32	26	58	55.2
Did not respond	33	20	53	62.3
<b>Total and average percentage</b>	<b>455</b>	<b>275</b>	<b>730</b>	<b>62.3</b>

**Source:** Authors' calculation

The  $p$ -value of the above Chi-square test in **Table 5.1** is 0.0073, which indicates that the percentage of “general purpose” answers differs significantly between the different professions. It is evident that the SAICA respondents in particular were not so convinced that micro GAAP should be for general purpose use, while the SAIPA and SAIBA respondents were more convinced than the average of all the professions.

### 4.3 The need for a third tier (in addition to IFRS and IFRS for SMEs)

As mentioned above, two tiers of accounting framework are already applicable in South Africa, namely IFRS (SA GAAP) and IFRS for SMEs (SA GAAP: IFRS for SMEs). It was indicated in the background section that the accounting literature suggests that there is a need for a third tier of financial reporting in South Africa. The working group also acknowledged the “continuing concern raised by members of various professional associations, practitioners and business

owners and managers" and embarked on developing a third tier financial reporting framework (SAICA, 2009a).

The respondents were asked whether a third tier of reporting framework for the smaller and micro entities (i.e. non-public entities) is indeed needed (i.e. another standard in addition to IFRS for SMEs for non-public entities), and the responses are indicated in **Table 6**.

**TABLE 6: The need for a third tier reporting framework of accounting in South Africa**

<i>Need for a third level</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Ignoring the non-respondents</i>	
			<i>Frequency</i>	<i>Percentage</i>
Third level needed	634	77.41	634	83.0
Third level not needed	130	15.87	130	17.0
Did not respond	55	6.72	N/A	N/A
Total	819	100.00	764	100.0

**Source:** Authors' calculation

It is evident from **Table 6** that the majority of accounting practitioners are of the opinion that there is a definite need for a third tier reporting framework in South Africa, as 77.41% of the respondents are in favour of a framework at a lower level than the current SA GAAP: IFRS for SMEs. If one ignores the 55 respondents who did not respond to this question, the percentage in favour of a third tier reporting framework increases to 82.98% of those who responded. This empirical result confirms prior related research (as was indicated in the background section) that the IFRS for SMEs is not regarded as fully appropriate to all small and micro entities. This is a very strong message to standard setters that the current SA GAAP: IFRS for SMEs in South Africa does not fulfil the needs of financial reporting for all non-public entities.

In **Table 6.1** the Chi-square test, referred to above, was used to test for significant relationship between the various professions in **Table 3** and whether or not a third tier of accounting framework is needed. The "did not respond" category totalling 55 in **Table 6** was excluded for this purpose.

**TABLE 6.1: The need for a third tier reporting framework analysed by profession**

<i>Profession</i>	<i>Yes</i>	<i>No</i>	<i>Total</i>	<i>Percentage "Yes"</i>
SA Institute of Chartered Accountants (SAICA)	201	20	221	91.6
SA Institute of Professional Accountants (SAIPA)	218	54	272	80.2
SA Institute of Business Accountants (SAIBA)	46	12	58	79.3
Chartered Association of Certified Accountants (ACCA)	4	0	4	100.0
Other	66	25	91	72.5
Non-member	53	10	63	84.1
Did not respond	46	9	55	83.6
Total and average percentage	455	275	764	83.0

**Source:** Authors' calculation

The  $p$ -value of the above Chi-square test in **Table 6.1** is 0.0028, which indicates that the percentage of “yes” answers differs significantly between the different professions. It is clear that the SAICA respondents in particular (91.6%) were more convinced that micro GAAP should be introduced as a third tier (there was an average of 83% for “yes” answers).

#### 4.4 Reporting framework for different entities

In relation to the need for a third tier reporting framework, the question then arose what type of entities should adopt the various levels of reporting frameworks. Respondents were asked to identify which accounting framework they believe should be applicable to smaller entities. Public companies were ignored, as they have public accountability and could therefore not follow IFRS for SMEs or micro GAAP because both standards deal with smaller non-public entities only. Other accounting bases such as the tax and cash basis, with explanations of what it entails, were also included in the questionnaire just to test whether another accounting basis may be applicable. **Tables 7, 8** and **9** indicate the practitioners’ view on which framework of accounting they consider to be appropriate for certain non-public legal entities.

Private companies can be divided into owner-managed and non-owner-managed. **Table 7** indicates the most preferred framework for these two categories of private companies.

**TABLE 7: Preferred framework for private companies according to ownership**

Framework	Private company: non-owner-managed		Private company: owner-managed	
	Frequency	%	Frequency	%
Full IFRS	90	10.99	15	1.83
IFRS for SMEs	493	60.20	164	20.02
Micro GAAP	140	17.09	525	64.10
Tax-based	6	0.73	30	3.66
Cash-based	0	0.00	1	0.12
Other	0	0.00	1	0.12
Did not respond	90	10.99	83	10.13
Total	819	100.00	819	100.00

**Source:** Authors’ calculation

It is apparent from the above that the majority of respondents favour the proposed IFRS for SMEs for non-owner-managed and micro GAAP for owner-managed private companies. There was also some support for full IFRS and IFRS for SMEs for non-owner-managed and owner-managed private companies respectively.

The new Companies Act provides that the financial statements of certain private companies are to be audited or reviewed or not audited or reviewed (DTI, 2008b: section 29(1)(e)). Thresholds have been set to categorise the companies into these different categories (DTI, 2011: regulations 26–29). **Table 8** indicates the practitioners’ views on the most preferred framework, depending on whether the financial statements of the private companies are to be audited or reviewed or not.

It is evident that the majority of accounting practitioners are of the opinion that private companies that need to be audited should apply IFRS for SMEs (54.95% of the respondents),

although 20.27% of the respondents indicated that micro GAAP would also be acceptable. The respondents favour micro GAAP for private companies that need to be reviewed (50.43% of the respondents) and for those companies not to be reviewed or audited (71.43% of the respondents).

**TABLE 8: Preferred framework for private companies according to audit/review categories**

Framework	Private company: To be audited		Private company: To be reviewed		Private company: Not to be audited or reviewed	
	Frequency	%	Frequency	%	Frequency	%
Full IFRS	115	14.04	27	3.30	3	0.37
IFRS for SMEs	450	54.95	271	33.09	83	10.13
Micro GAAP	166	20.27	413	50.43	585	71.43
Tax-based	8	0.98	22	2.69	50	6.11
Cash-based	0	0.00	1	0.12	12	1.47
Other	0	0.00	1	0.12	4	0.49
Did not respond	80	9.77	84	10.26	82	10.01
Total	819	100.00	819	100.00	819	100.00

**Source:** Authors' calculation

The practitioners' views on the financial reporting of other legal entities such as close corporations and trusts were also evaluated.

Table 9 indicates the most preferred framework for these two types of entities.

**TABLE 9: Preferred framework for other legal entities**

Framework	Close corporations		Trusts	
	Frequency	%	Frequency	%
Full IFRS	2	0.24	7	0.85
IFRS for SMEs	38	4.64	64	7.81
Micro GAAP	624	76.19	494	60.32
Tax-based	64	7.81	129	15.75
Cash-based	12	1.47	28	3.42
Other	4	0.49	10	1.22
Did not respond	75	9.16	87	10.62
Total	819	100.00	819	100.00

**Source:** Authors' calculation

It is apparent from the above that the majority of respondents are of the opinion that micro GAAP may be an applicable reporting framework for close corporations (76.19%) and for trusts (60.32%).

## 4.5 Legal backing

In terms of the Companies Act, Act 71 of 2008 (DTI, 2008b), companies must basically comply

with IFRS or IFRS for SMEs. However, provision is also made for the development of different standards applicable to profit and non-profit companies and for different categories of profit companies (section 29), but the Close Corporation Act (DTI, 1984) currently does not require compliance with any specific accounting standard. Against this background and the development of regulations in terms of the Companies Act relating to the financial reporting framework for different categories of companies at the time the empirical research was conducted, it was decided that the practitioners' views on whether compliance with micro GAAP should be a legal requirement should be gained. The question of legal backing for the third tier reporting framework was also addressed in the questionnaire, and the opinion of the respondents is summarised in **Table 10**.

**TABLE 10: The need for legal backing**

<i>Need for legal backing</i>	<i>Frequency</i>	<i>Percentage</i>	<i>Ignoring the non-response</i>	
			<i>Frequency</i>	<i>Percentage</i>
Need legal backing	643	78.51	643	84.5
No legal backing needed	118	14.41	118	15.5
Did not respond	58	7.08	N/A	N/A
<b>Total</b>	<b>819</b>	<b>100.00</b>	<b>761</b>	<b>100.0</b>

**Source:** Authors' calculation

The majority of respondents are strongly in favour of legal backing for the third tier reporting framework. If one ignores the 58 who did not respond to this question, the percentage in favour of legal backing of a proposed third tier reporting framework increases from 78.51% to 84.49% of those who responded. It can therefore be deduced that accountants do need some sort of backing when adopting a certain framework, and perhaps this matter should be taken into account when the acts and regulations that govern legal entities in the future are drafted. This empirical result is in contrast with the newly published regulation for companies, whereby companies with a public interest score of less than 100 and whose financial statements are internally compiled are not required to comply with any formal Financial Reporting Standard (DTI, 2011: regulations 27).

In **Table 10.1** the Chi-square test referred to above was used to test for significant relationships between the various professions (see **Table 3**) and whether or not legal backing is necessary to enforce micro GAAP. The "did not respond" category, totalling 58 in **Table 10**, was excluded for this purpose.

The  $p$ -value of the above Chi-square test in **Table 10.1** is 0.1553, which indicates that the percentage of "yes" answers does not differ significantly between the different professions. It is therefore evident that the different categories of professions are in agreement that legal backing is needed to enforce micro GAAP.

**TABLE 10.1: Need for legal backing, analysed by profession**

<i>Profession</i>	<i>Yes</i>	<i>No</i>	<i>Total</i>	<i>Percentage "Yes"</i>
SA Institute of Chartered Accountants (SAICA)	191	29	220	86.8
SA Institute of Professional Accountants (SAIPA)	235	38	273	86.1
SA Institute of Business Accountants (SAIBA)	52	7	59	88.1
Chartered Association of Certified Accountants (ACCA)	3	1	4	75.0
Other	66	22	88	75.0
Non-member	53	10	63	84.1
Did not respond	43	11	54	79.6
Total and average percentage	643	25	761	84.5

**Source:** *Authors' calculation*

## 5. Summary and conclusion

Differential reporting has been identified as a need for non-public entities for some time now. Even though the acceptance of the IFRS for SMEs provided some relief for the financial reporting burden of South African non-public entities there remained a need for a third tier reporting framework. The accounting literature suggested that non-public entities still require easier and less stringent accounting principles to follow.

Some exposure drafts on the so-called micro GAAP were issued. However, the APB had some concerns about the concepts under micro GAAP and it has, at present, not been approved as an official accounting standard. Their concerns centred round fair presentation, general purpose financial reporting and whether third tier reporting standards were indeed needed.

Empirical research was conducted to obtain the views of accounting practitioners on various aspects on micro accounting. Data was collected through questionnaires (n=819) completed by accounting practitioners at accounting seminars across South Africa dealing with the detailed requirements of the then ED 275: Financial Reporting Framework for Non-public Entities.

The majority of the accounting practitioners are of the opinion that micro GAAP would indeed achieve fair presentation of the financial information for non-public entities. Their view is also that general purpose financial statements can be prepared under the micro GAAP framework, even though the then ED 275 proposed that micro GAAP financial statements would be regarded as for a special purpose.

Even though the IFRS for SMEs is also aimed at non-public entities, the majority of accounting practitioners are of the opinion that a third tier reporting framework (i.e. micro GAAP) is indeed needed for non-public entities. The practitioners' view micro GAAP to be specifically appropriate for owner-managed private companies, private companies that will only be reviewed (and not audited) and private companies that would not require a review or an audit under the new Companies Act. Furthermore, micro GAAP is considered to be appropriate for close corporations and trusts in general. The majority of accounting practitioners also believe that compliance with micro GAAP should be backed by legislation.

This research focused only on the views of the accounting practitioners on the proposed micro GAAP, and consideration of the views of the users of the financial statements of non-public

entities would therefore be an area for future research. The detailed principles and requirements of micro GAAP are also areas that could be researched in future.

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