

SME REPORTING IN AUSTRALIA

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Motivation for the Research

- Large number of Australian SMEs that make an important economic contribution
- Burden of financial reporting is not cost-neutral: Are these actually being used?
- Have users' decision-making needs been clearly canvassed?
- Australian reporting situation contains an inherent tension introduced with the reporting entity concept that often blurs attempts to evaluate the requirements of users of SME reports.
- Timing – release of ED192 and IFRS for SMEs
- Unclear scope of application of IFRS for SMEs



Our research questions:

- How much financial information is needed by SME report users?
- What particular financial statement line items are most useful?



Sources of data

Research method

- 2011 – Respondents to ED 192: Revised Differential Reporting Framework interviewed, as well as other involved accounting community members
- 14 interviews in total
- 2011 - Online survey to ICAA, NIA and AICD members – 98 responses of “users”
- List of 32 line items in survey based on Cole et al (2012) amended for Australia during pilot testing – Appendix A for the list



Supporting Literature

'if financial reporting cannot influence decisions, it would seem that it would serve no purpose' (Lennard, 2007)

Supporting Literature

- Burden of reporting on SMEs (Spencer, 2014; Group of 100, 2009; Collis & Jarvis, 2000; Keasey & Short, 1990)
- Cost burden arising from IFRS recognition and measurement (Christie et al, 2010; Potter, 2013)
- Who are the users of SME reports? (Cole et al, 2012; Collis & Jarvis, 2000; Jonas & Young, 1998; Allee & Yohn, 2009; Dang-Duc, 2011)
- Lack of user involvement in standard setting (Jonas & Young, 1998; Young, 2006; Deaconu et al, 2009; Potter, 2013)
- Capital markets standards for non-capital markets entities (Ram & Newberry)
- Best impact for simplified standard? (Carsberg et al. 1985)
- Why is size important? (Allee & Yohn, 2009; Collis et al, 2004; Holmes & Nicholls, 1989)



RQ: How much financial information is needed by SME report users?


- Interview data reveals two opposing positions:
 - In favour of no (or minimal) reduction in reporting content
 - Advocates for a lower reporting burden for SMEs

No reduction

- Provide for the needs of 'potential' users
- Need for consistent reporting
- Concerns with SPFS

Advocates for a simplified standard

- Absence of identified users
- Relevance of complex reports to SMEs
- Competitors
- Cost of report preparation



RQ: What particular financial statement line items are most useful?

Source of documents

- 80% obtained directly from entity in question
- 51% used statements not prepared specifically for them
- Used as part of their work function (51%), in a professional capacity on behalf of a client (29%), personal use (13%), other (7%)

Perspective for using reports

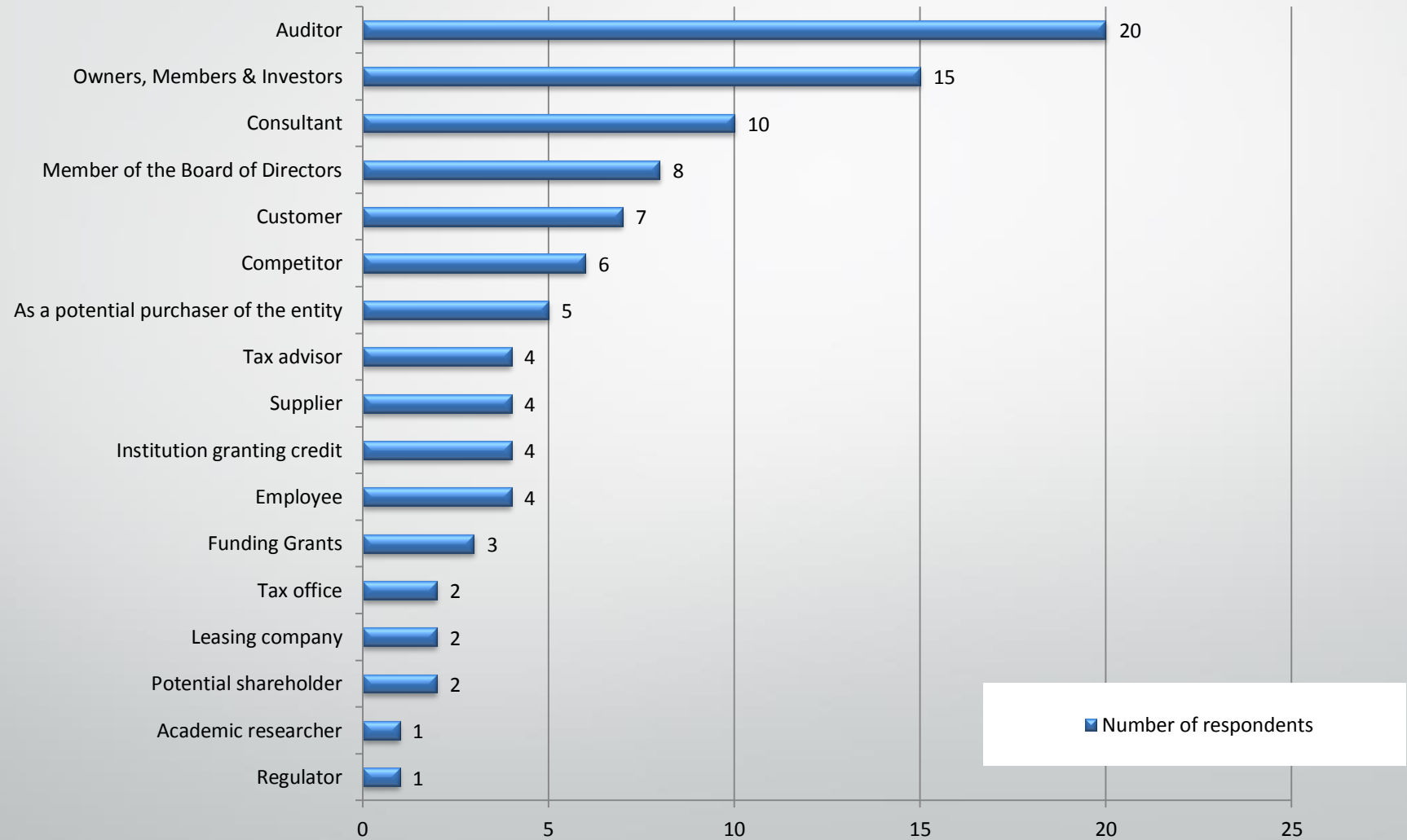


Table 2: Most important items used on financial statements

Item	Very unimportant (%)	Unimportant (%)	Neither	Important (%)	Very important (%)
Sales or revenue	2	2	4	38	54
Operational Profit	3	3	9	29	56
Working capital	4	3	9	37	47
Level of debt	7	4	6	27	56
Cash flow statement	6	4	9	29	52

Reasons why information was important or very important

Reason	%
Comparison of the entity's performance to its performance in previous periods	53
Assurance of good management	51
To confirm the correctness of other financial statements or claims made by the entity	50
To assess performance trends	47
Making investment decisions	30
Comparison of the entity's performance to other Australian entities	28
To aid in auditing the entity	25
Comparison of the entity's performance to other entities in the same group	13
Comparison of the entity's performance to your own entity	12
Confirmation of credit risk (as a financial institution)	10
To aid in auditing a similar entity	10
Confirmation of credit risk (as a supplier or potential supplier)	9
To aid in auditing a competing entity	6
To calculate remuneration	4
Comparison of the entity's performance to other non-Australian entities	3



Discussion