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

- Auditor: 20
- Owners, Members & Investors: 15
- Consultant: 10
- Member of the Board of Directors: 8
- Customer: 7
- Competitor: 6
- As a potential purchaser of the entity: 5
- Tax advisor: 4
- Supplier: 4
- Institution granting credit: 4
- Employee: 4
- Funding Grants: 3
- Tax office: 2
- Leasing company: 2
- Potential shareholder: 2
- Academic researcher: 1
- Regulator: 1

Number of respondents
<table>
<thead>
<tr>
<th>Item</th>
<th>Very unimportant (%)</th>
<th>Unimportant (%)</th>
<th>Neither</th>
<th>Important (%)</th>
<th>Very important (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales or revenue</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>38</td>
<td>54</td>
</tr>
<tr>
<td>Operational Profit</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>29</td>
<td>56</td>
</tr>
<tr>
<td>Working capital</td>
<td>4</td>
<td>3</td>
<td>9</td>
<td>37</td>
<td>47</td>
</tr>
<tr>
<td>Level of debt</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>27</td>
<td>56</td>
</tr>
<tr>
<td>Cash flow statement</td>
<td>6</td>
<td>4</td>
<td>9</td>
<td>29</td>
<td>52</td>
</tr>
</tbody>
</table>
### Reasons why information was important or very important

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