

THE BATTLEGROUND OF THE SME ACCOUNTANT

Background

Accountants serving the SME environment have their technical foundation based on the traditional four pillars of accountancy being, Financial Accounting, Management Accounting, Auditing and Tax.

Although these four pillars will remain the basic point of departure for the initial professional training of accountants, the SME accountant finds him/herself in an economic sector that demands much more. Overall, one must take cognisance of the fact that the cash resources of all enterprises in this sector will always be limited. This basic fact puts the SME Accountant in a position where he/she has to be enabled to provide a more comprehensive service than the service offering of accountants engaged in the corporate sector.

Traditional methods of finance hardly exist as commercial banks prefer to support larger enterprises. Therefore, the SME Accountant must be able to not only provide services in the form of cash flow forecasts but also budgets per project. The quest for alternative forms of finance such as factoring must be considered and tested against the client's needs. If executed properly, clients furthermore find themselves able to fund the cost of working capital by negotiating discounts and material purchases.

Most SMEs are required to have a B-BBEE Level 2 compliance. As their annual turnovers are also less than R50m, a designated black partner holding 51% of the authorised share capital of the company saves a lot on B-BBEE annual audits. However, the SME Accountant must now have sufficient knowledge of the Companies Act (71 of 2008) as the SME entrepreneur will expect the accountant to be able and sufficiently qualified to draft a shareholders' agreement that not only safeguards the original owner's asset base, but that also conforms to the rules and regulations that govern B-BBEE.

A number of these SMEs must rely on imported materials and the SME Accountant must be sufficiently qualified to advise his/her client on foreign exchange risks and the rules and regulations governing imports. The same applies if the SME exports its products to other African countries.

Overall, the SME Accountant must be able to advise and sometimes even warn his/her client on the inherent risks attributable to some contracts and be able to provide possible solutions to these challenges.

To be able to assist his/her client professionally, the accountant must be able to write opinion letters on the same level as an advocate will write and advise on a legal question. The only difference is that the accountant has the added burden of always providing an opinion on the tax treatment and accounting disclosure.

Business environment

It's common knowledge that particularly engineering firms in the SME sector are subjected to dwindling profit margins, predatory actions from larger international

engineering firms and payment terms that suit the client more than the engineering firm. Payment terms are up to 120 days after invoice and the operating cycle for these types of clients run into several months, and in the case of larger projects, even years.

The environment of commercial farmers has fast become riddled with various forms of risks, most of these risks relating to statutory compliance. One particular challenge that has to be properly managed is the issue of water. Water is now a scarce resource and the statutory compliance burdens currently placed on farmers with particularly unregistered dams and irrigation pivots can destroy a commercial farm within months. Farmers, being more conservative than industrialists or other SME entrepreneurs, refuse to allow other professional into their inner circles and expect the Professional Accountant to not only advise on corrective measures, but also to manage these measures on behalf of the farmer.

Small scale miners are subjected to much stricter B-BBEE rules and regulations and adherence to tax laws are much more focused than on any other enterprise type. Mining companies also sometimes engage in unique transactions such as take-off or forward sales and the contractual and tax implications must be clearly understood by the Professional Accountant. Mining legislation also places a substantial amount of pressure on accountants that are charged to preserve the future of these companies not only for the owners, but also for the communities in which these companies operate.

Tax practice

Although taxation is one of the traditional four pillars of Accountancy, accountants were traditionally taught taxation to be operating in its own sphere of law. All tax laws are however subject to the Constitution of the Republic of South Africa (1996) and the Promotion of Administrative Justice Act (3 of 2000). The SME Accountant should not only know the relevant tax rules but should also be cognisant of the applicable sections in these acts when resolving disputes. Once again, the SME entrepreneur cannot afford a legal specialist to do this and the SME Accountant is expected to protect his/her client even against the unfair treatment of the tax authorities.

Larger enterprises can afford long drawn-out court cases. SMEs need to stay clear of the courts as they can ill-afford the fees associated with litigation. The new Rule 41A(2)(a) of the High Court now requires an initiating party to issue a notice of agreement to mediation to a summons or motion. This has been done to give the parties to a dispute one last opportunity to settle a matter before the parties present their respective cases to the court. The SME Accountants' input is invaluable here as the outcome is often reliant on the knowledge and skills of the SME Accountant.

In the tax environment this rule is followed in terms of the Tax Administration Act and SME Accountants must be extremely diligent in applying these processes. However, the rights of the client in terms of the Constitution and Promotion of Administrative Justice Act must be protected to the fullest. As the SME Accountant

has intimate knowledge of the client's enterprise, he/she is in a much better position than any other professional to literally *"get the figures to do the talking"*

Labour legislation

Once again, SME entrepreneurs expect their accountants to advise them on matters relating to labour. The SME Accountant is already knowledgeable in terms of salary structures and statutory legislation pertaining to UIF, PAYE and Workmen's Compensation. Any labour dispute starts off with a conciliation and secondly arbitration process. These processes are normally semi-formal, but the evidence obtained during these two processes will be used in a labour court if the matter is referred to it. The primary cause of labour problems normally stems from incomplete record keeping of the employers and/or unfair treatment. It is the duty of Professional Accountants to advise their clients on these matters as these are also the first matters addressed during conciliation and arbitration as well as Labour court hearings.

Statement of the problem

The operating environment of the Professional Accountant serving the SME sector is much more demanding than one would have initially thought. He/she does not merely provide a limited accountancy service but literally becomes part of the survival kit of the SME entrepreneur.

The question may now also be posed:

What do we know about the operational environment of the SME Accountant?

Academic journey

My academic journey started in 2002. At the time we were required to attend an induction course for new lecturers. When I introduced myself to the presenter, he expressed his concern with the accounting profession and claimed that accountants do not actually practice a science. In his opinion, accounting teaches students the technique of keeping records without any philosophical intervention.

As an academic I made my first mistake by not debating the issue with the presenter. I argued that accountants generate huge amounts of money and student numbers increased over the years. I continued to lecture (teaching students the technique) for a number of years. During this time, I also became a partner in an accounting firm and thought I achieved the ultimate goal in the accounting profession.

The second mistake I made in my academic career was when we debated the lack of research output by accountants with university management. Our argument was that keeping up to date with all the new developments in the field of accountancy could be considered research activities. The campus rector at the time asked the question: "Why do accountants only apply the reporting standards?" In the alternative, his question was: "Why don't accounting academics develop new reporting standards?"

Another notable event in my academic career was when I attended a practitioner's forum and was asked to present the accounting updates to the practitioners. In no uncertain terms an older and experienced practitioner expressed his concern about

the current state of accounting education and claimed that there is a huge gap between what we teach students and how accounting is practised in the real world. He even said that he would rather train accountants himself than to appoints a person with a university degree. I was very sad to notice that a relatively large number of the attendants agreed with this practitioner.

The last experience I would like to mention is when Prof Sonia Swanepoel talked to the academic staff at the School of Accounting Sciences for the first time when she was appointed executive dean. She asked us if we could add one entry to our CV's at the end of each academic year. I realised that lecturing only is not a valid entry, and that I should strive to enter research outputs in the form of research conferences and articles.

Understanding the SME environment

As mentioned in the background, the four pillars of accountancy are Financial Accounting, Management Accounting, Auditing and Tax. My very first attempt to understand the world of the SME accountant was when I asked practitioners to rank the main subjects/disciplines of accounting.

Subject	Rank
<i>Taxation</i>	<i>First</i>
<i>Accounting</i>	<i>Second</i>
<i>Auditing</i>	<i>Third</i>
<i>Management Accounting</i>	<i>Fourth</i>

Management Accounting

I had the privilege to supervise six master's students in the field of Management Accountancy and one PhD student who recently submitted his thesis for examination. In his thesis entitled "Adoption of Management Accounting Practices: challenges and opportunities for Small and Medium Enterprises in Zimbabwe", Mr. Banele Dlamini developed a management accounting framework for SMEs in Zimbabwe. In developing the framework, he proposed a six staged systematic implementation method. Data was gathered using focus group discussions and in-depth face-to-face interviews.

Three articles were published from this study.

When asked how applicable management accounting practices are to their business participants said the following:

"Ok, I hear you, my friend, we are not using those systems. We have not identified the need for all that, as long as I am making a profit it is fine with me. These bookish things won't take us anywhere, we need to make money."

"This is for large entities that have many things that need attention and have complex production processes, besides this is not important. We think the funds required for these systems are more than the benefits obtained from their use"

When asked about government support the participants said:

“...there is absolutely nothing we are getting from the government, except for the statutory instruments which hamper our operations most of the time”

“We always hear it in the media that the government is supporting and promoting the success of SMEs maybe we are yet to witness this support shortly”

Auditing

In the field of auditing, I supervised one masters and one PhD student. The PhD study of Dr. Corrie Cloete developed a risk analysis tool to assist SMEs targeted by any statutory authority. By means of a problem-solving approach, six case studies have been analysed.

The study was presented and published in a conference proceeding. Dr Cloete also won the best SAIPA PHD award in 2018.

In connection with the business activities of SMEs, Dr. Cloete noted:

“The SME sector of any economy is regarded as important to most of the economies in the world in terms of job creation”

“SMEs worldwide account for over 95 percent of the business population and constitute 60 to 70 percent of total employment.”

“SMEs in the South African context contribute 36,1 percent of the country’s gross domestic product while at the same time it employs 68,2 percent of the workforce in the private sector.”

With regards to the perceptions of auditing by SMEs he noted:

“The perception still exists that a statutory audit does not really add any value to the reader or the entrepreneur.”

“By the time the financial statements of a company are subjected to auditing it is already too late.”

Dr. Cloete expressed his concern about the excessive rules and regulations applicable to the SME sector. He reported that the South African government produced 2 864 separate regulatory instruments during a three-year period. He further noted that:

“While excessive regulation affected all businesses negatively, small firms were the hardest hit, with labour and employment equity regulations cited as the most damaging compared with tax laws”

Dr. Cloete furthermore noted that, although the traditional audit function is not so relevant to the SME sector, another type of audit burden was placed on the shoulders of the SME Accountant. Section 29 of the Tax Administration Act states that a tax practitioner is required to ensure that:

“proper tax records have been kept in one of the official languages of the Republic in connection with that person so as to

reflect and explain all transactions as required in terms of the relevant Acts administered by the Commissioner; (Section 29(c)),

and

that tax practitioner has obtained all information, vouchers, and other documentation which in the opinion of that tax practitioner was necessary for the proper performance of those duties”

Accounting

Not only did I supervise five masters and five PhD students, but my own PhD study was also in the field of accounting/accountancy.

In my PHD entitled: “The feasibility of the Statement of Generally Accepted Accounting Practice for Small and Medium Enterprises” I used the Value Survey Model of Hofstede to evaluate the influence of cultural differences on the application of accounting standards within South Africa, as well as between South Africa and the UK.

I also evaluated the contents of the Statement of GAAP for SMEs/IFRS for SMEs against the reporting practices of SME accountants using a five-point Likert-type scale. Lastly, my study considered the relevance of the contents and the illustrative financial statements, contained in the Statement of GAAP for SMEs, by means of a content analysis of financial statements compiled by the South African SME sector. I published four academic articles from my PhD.

In relation to the characteristics of the SME owner I noted that:

“The imposition of formality, no matter how flexible, is incompatible with the dominant culture of SMEs”

“The formal mechanisms may restrict entrepreneurial flair”

Taxation

I supervised thirteen master’s students in taxation and I currently have three PhD students in taxation. Mr. Ernest Bruce-Twum is submitting his thesis, entitled “The self-assessment system of taxation: Tax compliance costs and behaviour of SMEs in Ghana” for examination at the end of this academic year. Mr. Munyaradzi Duve is planning to submit his thesis, entitled “The context and role of presumptive taxation: implications of current taxation practices in Zimbabwe” for examination next year. In an effort to simplify the compliance burden of SME taxpayers, both these students investigated the feasibility of a presumptive tax system in order to reduce the administrative burden of tax compliance.

Another PhD candidate, Ms Mphahahlele Ndlovu, is developing a tax compliance framework for micro-businesses in South Africa.

The combined research output of the aforementioned PhD candidates is currently one academic article published, one academic article that was accepted and three conference proceedings.

Key observations from their studies were:

“Small businesses stimulate innovation, provide jobs, foster competitiveness and support economic growth”

“SMEs have been recognised as a seedbed for indigenous entrepreneurship”

“Taxes could become a burden to businesses, especially SMEs, if the costs of complying with these taxes are too high.”

Conclusion

I often hear the argument that there are limited research opportunities in the field of accountancy. I disagree. Even though we do not conduct traditional experiments in a laboratory like in the natural sciences, we can still add valuable knowledge to our discipline by gauging perceptions of our key stakeholders or proposing new or alternative techniques and processes.

In the social sciences we should understand the needs of our key stakeholders. Instead of teaching students the rules from a textbook, accountants should strive to provide customised solutions that cater for the unique needs of different groups and users of the financial statements. The evidence suggests that the challenges of SMEs will continue to exist. It is our responsibility as accountants to find innovative ways to provide more support to SMEs struggling to survive in the very difficult circumstances in which they operate.

