AN INVESTIGATION OF SELECTED FINANCIAL MANAGEMENT FUNDAMENTALS INFLUENCING FINANCIAL STABILITY OF SMALL AND MEDIUM ENTERPRISES IN DURBAN

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DECLARATION

I, Nonhlanhla Patricia Mbatha, do declare that the work in this dissertation represents my own work and findings. All information used from published or unpublished work from other research or papers has been acknowledged.

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Nonhlanhla Patricia Mbatha

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Date

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DEDICATION

This dissertation is dedicated to my son Kwazi Mbatha.

ABSTRACT

This study investigates the influence of the selected financial management fundamentals towards the financial stability of Small and Medium Enterprises (SMEs) in Durban. The SMEs play an important role in the South African economy, by developing new skills. The study was descriptive and quantitative in nature. The tool used in collecting data was a questionnaire, which was self-administered and distributed at the business location of the respondents, with a minimal number of respondents receiving the questionnaire after it was scanned and emailed to them. The respondents consist of following different sectors of SMEs in Durban; trading, manufacturing, industry and Accounting firms.

The results obtained were based on the supporting objectives of the study. The findings achieved show that financial reporting contributes indirectly towards the financial stability of the business. The study found that the lack of understanding of financial reporting and insufficient financial experience would have an influence on the financial stability of SMEs. Factors that were found to affect the credibility of financial reporting include poor administrative control of resources, as well as a lack of accurate information and financial data, which results in incorrect financial reports. Other factors found, in establishing the contribution and relationship between financial reporting and financial stability, include: lack of knowledge, lack of financial control processes, and weak cooperation among staff, with training, education, and financial reports management, as well as upgrading and modification of the accounting system

The majority of the respondents have experience in the finance sector, and while most have access to training, there are little or no follow-up programmes by internal or external users of financial reports, such as shareholders, banks or the government. As a result, recommendations are made to develop short accounting programmes that will allow owners and accounting staff to gain practical experience in the financial reporting background, which will enable an increase in the level of understanding of financial reporting processes and usability of allocating financial information correctly.

TABLE OF CONTENTS

ABBREVIATIONS

SMEs	Small and Medium Enterprises
GAAP	Generally Accepted Accounting Practice
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Boards
CA	Chartered Accountant
SOCI	Statement of Comprehensive Income
SOFP	Statement of Financial Position
SOCF	Statement of Cash Flow
GDP	Gross Domestic Product
SOD	Segregation of Duties

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CHAPTER ONE
OVERVIEW OF THE STUDY

1.1 INTRODUCTION

This study focuses on the influence of financial reporting on Small and Medium Enterprises (SMEs), in order to examine to what level these selected financial management fundaments contribute towards the financial stability of SMEs. Pounder (2009:7) outlines that financial reports are designed in such a way that they generate meaningful information from the raw data of economic transaction events.

The study examines financial reports in order to evaluate and establish the contribution between the two variables of financial reporting and financial stability, analyzing the role of financial statements in business sustainability. The study also determines the relationship between financial reports and financial statements of SMEs, as well as the contribution of staff training and skills development, in improving the performance of the business in the market Kavanagh and Drennan (2008:280). Rajaram (2008: 1) explains that strong management, with an appropriate financial skill, can result in improvement of financial performance.

Financial stability is still an ongoing problem for the SME sector in this 21st century, as a result some enterprises succeed while others fail (Isam; Khan; Obaidullah and Alam, 2011: 289). Due to lack of understanding and whose role it is to apply the information, most business experiences lower the level of financial performance in the market. A study, conducted by the Organisation for Economic Co-Operation and Development (OCED) in 2009, based on “the impact of the global crisis on SME and entrepreneurship financing and policy responses” is evidence of this. As a result, almost the entire country experiences the same challenges with SMEs, namely that of capital, growth, late payment by customers and liability exceeding assets.

Pretorius *et al.* (2011:3) explain that the purpose of financial reports is to provide significant information regarding the status of the business entity's financial position, financial performance and change in equity. As a result, these standards present guidance and control over financial transactions. However, SMEs still find it very difficult to stay in the market, with their withdrawal often resulting in liquidation, more often than not, due to the lack of understanding and applying of accounting standards and regulations. The growth of the business depends on the staff attitude and commitment towards the business objective.

The major objective of business is to make profit and improve the financial stability. As stated by Olaniyan and Ojo (2008: 326), "the effectiveness and success of an organisation therefore lies on the people who form and work within the organization". As a result, staff training and development have an impact on the business' operation and financial stability. Olaniyan and Ojo further maintain that staff training and skill development benefit the employee and the business in achieving the objective of the business. Staff training also enables staff to take the business to other levels, in terms of improving the performance and financial stability of the business.

Pretoruis, Venter, Well and Wingard (2011:3) further state that information plays a vital role for users in making economic decisions and affording an overview of the financial stability of the business entity, which the financial report presents. This study establishes the relationship between financial reporting standards and financial stability, in order to identify to what extent it contributes towards the sustainability of SMEs. New businesses are constantly formed but, only a few months or a year down the line, they liquidate.

Most business lack an understanding of the principle that the assets of the business or owner must not exceed the liabilities, which is what the business still needs to pay (Marshall, McManus and Viele 2011:35-36). This leads to businesses being liquidated. In addition, staff training skills development not only provides information and knowledge, it also improves the skills of the employees and owners. Businesses differ from each other, with the result that different types of skills are required, depending on the nature of the business.

Staff training, according to Paisey and Paisey (2010:89), equips employees with different skills, such as “computing/information technology skills, critical thinking, problem-solving skills and ability to extract and analyse information”. The authors further explain that staff training also develops the interpretation of financial information skills (Paisey and Paisey, 2010:89). This plays an important role within the business, as it enables staff to understand and use the financial information in improving the business’ financial stability.

It is, therefore, important to understand the different reports under financial reporting, to achieve a holistic view of the business’ financial position, financial performance, as well as the cash flow of the entity, in order to examine its financial stability. These comprise the main reports in the financial statements.

The study also examines the influence of financial reporting standards on the reporting of financial stability of SMEs. This is important, since SMEs contribute significantly to the economy as a whole, playing a major role in assisting to decrease unemployment, which is an ongoing issue in the country. Beck and Demirgue-Kunt (2006: 2932) classify SMEs as the backbone of economic growth. However, it is important that existing and developing SMEs implement methods and strategies that will keep them financially stable for an extended period. The importance of staff training is that it provides staff with creative thinking skills, in addition to other elements that the business needs in order to improve its performance and financial status (Paisey and Paisey, 2010:89). Elements, such as meeting deadlines, working under pressure, teamwork and presenting financial reports within a relative period, are included. The study also determines the processes and methods of financial reporting for SMEs, in order to analyse what financial data are needed, and how the data is being processed and communicated to other users, once the financial reports have been completed.

1.2 BACKGROUND OF THE STUDY

Fair value has a significant impact on a business entity asset, including those of SMEs. According to Laux (2012: 10) the outcome of the study established that, should share prices react positively to fair value accounting rules being relaxed during a crisis, the problem's origin could be attributed to relaxed rules allowing banks to encounter financial and regulatory problems. As a result, information is needed, in order to understand the fair value method from the past transactions of cash movement.

However, this is not the only information that is needed, as an understanding of accounting transactions, and in some cases, advanced accounting training skills, are also required (Jun Lin, Xiong and Lui 2005:149). Knowledge and information plays a dynamic role in every business on the global market. The skills and understanding of the nature of the business and the financial interpretation thereof, is an important role, which is provided through staff training and skills development (Olaniyan and Ojo, 2008:326).

According to Mohamed, Asmaa, Ichrak, and Yusuf (2013:488), SMEs are identified and understood as the sector that provides employment and skills development, and can be managed / owned by one person or more. These businesses also improve the lifestyles of the staff, by providing income and available resources to develop and improve their skills (Olaniyan and Ojo 2008:327). The key significance of SMEs, is that they generate more employment than traditional enterprise structures (Stefanović, Milošević and Miletić, 2009:131).

A financial report is a document that records all the financial events and transactions of a business, person, or other entity (Bassens, Derudder and Witlox 2012: 36). Service (2013: 38) describes financial reporting as a method of recording financial information. It is furthermore explained that financial reporting plays a vital role in the economy, as this provides the worth of the entity/business, which is the main consideration in economic resource and decision-making.

The continuity of a business depends on its financial stability, and the financial stability of SMEs is determined by the scope of the business, the level of growth, and improvement of financial control, which is specifically important to investors, creditors and shareholders (Falkena, Abedian, Blottniz, Coovadia, Davel, Madungandaba, Masilela and Rees 2010: 2). Several authors argue that, in supporting the economy, wealth is the objective of financial stability, and this involves growth and employment (England, 2007; Board, 2011; and Mayer, 2013). However, the existence and future of the business entity are determined by its financial stability. Therefore, it is important that the business has internal staff, who have analyses and interpretation skills of financial reporting training, within the business.

1.3 PROBLEM STATEMENT

The understand-ability and usability of financial reporting is still an on-going issue for SMEs in South Africa, primarily because the accounting standards, terminology and procedures keep on changing from time to time. This development involves advanced knowledge and skills of the accounting profession, in order to meet the standards of global market changes. As a result, SMEs find it very difficult to have updated information, so that they are able to understand the usage of financial reporting. As a possible solution, the International Financial Reporting Standards (IFRS) for SMEs consequently omit and eliminate certain topics from the financial reporting process (Service, 2013: 25). However, SME management fails to understand the process of financial reporting and its qualitative characteristics, which involves relevance and reliability of information.

According to Kongolo (2010: 2288), there are several other challenges faced by SMEs in South Africa.

> "*The main challenges affecting SMEs in South Africa include lack of management skills, finance management, access to bank credit, access to markets, appropriate technology, low production capacity, recognition by big companies, lack of interest, long bureaucracy processes*…" Kongolo (2010: 2288).

The consequences of these challenges result in the presentation of skewed and false financial reports, resulting in businesses liquidating, an increase in unemployment, and the decline of the economy. The main issue is that the misrepresentation of financial information and analyses can therefore, lead to incorrect financial stability reports and the subsequent decline of confidence by shareholders, investors, and creditors.

1.4 AIM AND OBJECTIVES OF THE STUDY

The study proposes to identify and examine the contribution of selected financial management fundamentals that influence financial stability of selected SMEs in Durban, in terms of: the role played by financial reports in the financial stability understand-ability and usability of financial reporting. To achieve this goal the following supporting objectives were established.

1.4.1 Supporting Objectives

- To establish an ov**No table of figures entries found.**erview of financial stability of SMEs
- To identify the factors that influence the financial stability of SMEs
- To identify factors affecting the credibility of financial reports for SMEs.

- To determine the processes and methods of financial reporting for SMEs.
- To establish the contribution of financial reporting to the financial stability of SMEs.

1.5 RATIONALE OF THE STUDY

It is expected that the findings of the study will be used to determine the contribution of financial reporting in the financial stability of SMEs in Durban. Recommendations will be made to SMEs and training institutions regarding a data process and the drafting of financial reports, according to the International Financial Reporting Standards (IFRS) for SMEs. As stated by Olaniyan and Ojo (2008: 327), the intention of staff training is to provide the skills, knowledge and understand-ability with that particular job, in order to improve the accuracy, while increasing efficiency by reducing ‘spoilt work’.

1.6 DELIMITATIONS OF THE STUDY

The study is confined to manufacturing, trading and industry SMEs, as well as accounting firms and Chartered Accountants (CA’s) in Durban and surrounds.

1.7 STRUCTURE OF CHAPTERS

Chapter 1: Introduction and overview of the study

The importance of the study is outlined in this chapter, covering the background, problem statement, aim, and objectives of the study and its delimitations.

Chapter 2: Literature review on overview of SMEs in KwaZulu-Natal and South Africa

This chapter reviews significant literature and discusses the theoretical and conceptual framework underpinning the study.

Chapter 3: Literature review on history of Financial Management Fundamentals and Financial Reporting

This chapter identifies to procedures and background of the financial statements, as well as financial managements fundamentals.

Chapter 4: Research Methodology

The research methodology, research design, data collection, analysis, limitations, and delimitations of the study are presented in this chapter.

Chapter 5: Data Analysis and Findings

An analysis of the results and discussion of the findings are set out in this chapter.

Chapter 6: Discussion of the Empirical Findings

In this chapter, the findings from the previous chapter are analysed and interpreted.

Chapter 7: Recommendations and Conclusions

The research conclusions are presented in this chapter, with recommendations made for further study.

1.8 CONCLUSION

The chapter outlined the study intention, which is to analyse the impact of financial reports in supporting SMEs to be sustainable in the market. In regards to providing an understanding of the financial reports, staff training is needed to improve skills and develop employees, which will lead to more effective and progressive employees. The delimitations and rationale of the study consist of only targeted manufacturing, industry, and trading sectors, and accounting firms, as well as independent accountants.

The next chapter presents the literature review relevant to this study, in order to examine the work of other researchers regarding similar problems or issues. Also, in examining further investigation done by other researchers, in terms of the objectives of the study, the relationship between financial reporting and financial stability is determined. Factors influencing the financial stability of the business and those affecting the credibility of financial reporting are also identified.

CHAPTER TWO
OVERVIEW OF SMES IN KWAZULU NATAL AND SOUTH AFRICA

2.1 INTRODUCTION

The previous chapter covered the identification of factors that influence the financial stability of SMEs, classifying factors affecting the credibility of a financial report for SMEs and determining the processes and methods of financial reporting used by SMEs, while also formulating and defining the research problems and objectives. One of the problems encountered within SME's is that some businesses survive in the market place while others fail (Islam, Khan,Obaidullah and Alam*.* 2011: 289). However the KwaZulu Natal (KZN) Treasury Department budgeted more than R500m for existing businesses and also hopes to grow even more (KZN Treasury Funding Fair, 2014).

This chapter presents the literature on the overview of SMEs globally, the importance of SMEs towards economic growth, definition, and the success and failure of SMEs in the worldwide market.

2.2 DEFINITION OF AN SME

2.2.1 Introduction

Several studies have been done regarding the role and development, sustainability and profitability of the SME sector. The contribution of SMEs to both the formal and informal sectors is recognised internationally (Mahembe, 2011:24). However, SMEs have to date not obtained a straight-forward definition (Rajaram, 2008: 17). This is supported by the National Credit Regulator (NRC, 2011: 65), who find that SMEs have no formal definition. This is, however, not only applicable in South Africa but also internationally (Rajaram, 2008: 17) and Mahembe (2011: 22) states that defining SMEs is still a challenge globally. However, SMEs can be identified by the number of employees, sales and gross profit or turnover. The European definition of SMEs is determined by the number of employees in the business, where a company with 10 to 90 workers is classified as a Small entrepreneur, while a company with 100 to less than 500 employees is classified as a Medium entrepreneur (Abor and Quartey, 2010: 220).

Although there is no general or common definition of SMEs, the majority of countries have suggested definitions that best suit the scope and nature of their small business sector. Additionally, the South African context defines SMEs using the business' annual turnover, the number of employees and gross assets (Maheme, 2011: 24).

2.2.2 Definitions

TABLE 2.1: Selected definitions of Internationals

COUNTRY	CLASSIFICATIONS	DEFINATION
European	• Number of employees • Annual turnover • Annual balance sheet	• Small and Medium : fewer than two hundred to fifty, • Not exceeding EUR 50 million. • Not exceeding EUR 43 million.
Australia	Number of employees	• Small : minimum 20 • Medium : 21 to 200 • Large: maximum 200
France	Number of employees	Not less than 250 employees
Malaysia	• Number of employees, • Turnover • Other qualitative factors	• Permanent employees fewer than 150 • Annual sales not exceeding RM 25 million • Incorporated under the Companies Act • The shareholders by Malaysian must be at least 70%. • Business must be involved in the manufacturing sector or provision of services related to manufacturing.
United States	• Official certification process do not apply	• The definition varies from industry to industry.
United Kingdom	• Number of employees • Turnover	• Medium-fewer than 250 employees. • Small – Max 50 • Medium - 22.8 million pounds turnover and 11.4 million pounds balance sheet total. • Small – 5.6 million pounds turnover and 2.8 million pounds balance sheet.

(Source: Rajaram 2008: 20)

Modimogale and Kroeze (2011:2) also state that there is no direct definition of SMEs; however, they can be identified by the quantity of employees. Table 2.1 describes each country with its classification and definition, which shows SMEs as classified in a variety of different ways.

2.2.3 Summary of the chapter

Due to the nature of the research objectives being undertaken, SMEs will be defined using quantitative research. In addition, the research focuses on how the financial reporting and financial management fundamentals influence SMEs' financial stability. Therefore the principle definitions, utilised by the International Accounting Standards Board (IASB) will be incorporated.

For the purpose of this study, the following definitions and explanations will be used in the empirical research:

The Small business:

- Does not have public accountability;
- Publishes general financial statements for external users;
- Employs between five but not more than 50 people;
- Is subject to formal registration requirements; and,
- The owner manages and controls.

The Medium Sized business:

- Does not have public accountability
- Publishes general financial statements for external users;
- The maximum number of employees is 200 people;
- The maximum asset value of the business is R5 million; and,
- Is subject to formal registration requirements.

Having established a suitable definition for the classification of SMEs, a valuation will be made regarding the business background in KZN. This assessment of the business environment will be done in order to determine existing supporting instruments for small business, the success of these businesses and the failures, as well as the needs of the sector.

2.3 OVERVIEW OF THE SMEs SECTOR IN KWA-ZULU NATAL

2.3.1 Introduction

Several studies have been done regarding the development and profitability of the SME sector. According to the National Credit Regulator (NRC, 2011:65) SMEs have no formal definition. However, they can be identified by the number of employees, sales, gross profits or turnovers. The Europeans define SMEs by the number of employees in the business, so that, where a company has 10 to 90 workers, it is classified as a Small entrepreneur and from 100 or more but less than 500, it is classified as a Medium entrepreneur (Abor and Quartey 2010:220). The improvement of SMEs results in a sustainable global market (Stefanovic, Milosevic and Miletic 2009:127).

SMEs are a very important factor in the economic growth of business sectors, whether formal or informal (Lekhanya, 2010: 26) playing an integral role in the formal and informal sector in the provision of job opportunities Lekhanya (2010:1). As a result, it is important for business owners to understand and have knowledge with regards to financial management Jindrichovska (2013: 79). According to the National Development Plan (NDP), 11 million new jobs will be created by 2030 in KZN, through SME development.

The improvement of SMEs will result in a sustainable global market (Stefanovic, Milosevic and Miletic 2009: 127). Furthermore, SMEs assist in developing new skills and providing employment. Kuntchev *et al.* (2012: 2) find that the highest contribution towards job creation is by small businesses and medium-sized firms, while the biggest proportion is made up of the youth, which plays a major role in the economy as a whole. Approximately 90 percent of the businesses in South Africa are SMEs (Abor and Quartey, 2010: 1450).

Kongolo (2010:2288) contends that SMEs play a vital role in addressing unemployment and developing new job opportunities within the economy. SMEs are described by Stefanović, Milošević and Miletić (2009:127) as a sector that plays an important role in every economy, as they provide employment to both skilled and unskilled members of the workforce and it is a sector that influences the economy in a progressive manner, which leads to an increase in the money market.

Historically, SMEs have been a part of economic growth, providing employment to middle and low class populations. Beck and Demirgue-Kunt (2006: 2932) refer to SMEs as an "*engine of economic development*". SME's have a significant part in human lifestyles, with the result that the demand for new products and services are required to meet the standards of living, due to the changes in technology and living standards. However, competition in the market is very high for SMEs. The records of financial performance and position are therefore essential in determining their contribution in the market

2.3.2 SMEs Failures and Successes in Kwa-Zulu Natal

- ***Reason for SME Failure***

It is important to understand that SMEs contribute more towards economic growth than the formal sector. Bisseker (2014) states that 60 percent of total employment in South Africa comes from SMEs, with a global average of 77 percent. However, the problem of more than 70 percent of SMEs liquidating within the first two years still remains the same (Bisseker, 2014).

Wiese (2014: 38) supports this and explains that the liquidating rate of SMEs sees nine out of ten firms failing in the first year of operation, while 80 percent of new start-ups fail during the first three years. Statistics in fact show that three out of five small businesses fail within the first few months (Wiese 2014: 38). In South Africa, the failure rate of SMMEs is probably between 70 and 80 percent, with a related cost of the 117 246 SMME failures thought to be in excess of R68 million over a four year period (Lekhanya 2010: 33). In an international survey, South Africa is shown to have the highest rate of SMEs failing in the market. In the United States of America (USA), about 2 400 small businesses are started, while 2 100 are liquidated on a regular basis, while older firms tend to survive for longer than younger firms (Lekhanya, 2010: 33). When considering the lifecycle and growth of SMEs, it is found that small business are indeed developing and growing. Wiese (2014: 30) defines a business lifecycle as when a business develops from a lower to the next level, or in the case of SMEs, from small to medium-sized businesses.

A business lifecycle works hand-in-hand with the growth of the business and the success of the entity is measured by its lifecycle (Gecevska, Chiabert, Anisic, Lombardi and Cus 2010: 324). Sha (2012: 60) describes the business lifecycle as the development path of SMEs, based on the “size and maturity” of the business in the market. Table 2.1 illustrates the business lifecycle model. Wiese (2014: 32) outlines four difference phases that the business goes through, when it starts to operate in the market.

Table 2.2 Business Life Cycle Model

Phases	Period	Characteristics	Failure rate
Start-up	0-3 years	Goods are introduced to market; business entry to global competition and failure is very high with shortage of capital.	Approximately – 80%
Growth	4-6 years	Management decision plays an important role in the future of the business, in terms of product development, sales, labour.	40 %– 50 %
Maturity	6-9 years	Implementing new business ideas and concepts will no longer guarantee expansion, and declining growth rates.	20%
Stability	+10 years	Advancement towards a broader business concept within which each new line of products or services.	10%

(Adapted from: Wiese 2014: 32)

According to Lekhanya (2010: 33) the most important phase a small business goes through, depends on its ability to grow shortly after the start-up stage. This also depends on the enterprise introducing a broader product range, its level of capital and increasing the size of its customer base, as this leads to the growth and development of the business. However; should the Department of Trade decide to improve or increase the exports and imports of products, it may lead to SMEs not developing in the industry.

The following factors play an important role in avoiding the failure of SMEs:

- Financial support
- Economic climate
- Government programmes
- Education and training
- Political, social context, Institutional
- Access to physical infrastructure
- Crime

GEM Report (2011: 43)

These factors contribute towards the business' financial stability, growth and success when the implementation plan, with knowledge and understanding, is in place. The study conducted by Wiese (2014: 68) shows that financial stability is negatively affected by "unsustainable high profit, lack of experience, bad services, and economic downturn".

- ***SME success***

The achievements or improvement of SMEs in the marketplace results in a stable and growing economy of the country (Chittithawron *et al.* 2011: 179). Knowledge and understanding of not only the nature of the business but also the financial management sector, is a very vital skill in business (Jindrichavska, 2013: 86). Furthermore, information, with regards to failure or success of the business, is normally presented in the form of Financial Reporting, which is the financial position or performance statement (Atrill and Mclaney 2009: 23). Therefore, financial reporting describes the financial stability of the business, using Financial Management (Jindrichavska, 2013: 86).

Nonetheless, success and performance of the business can be ensured by including analyses of cost-effectiveness (profit), productivity, sales/turnover, and cost structure, as well as marginal revenues (Wiese, 2014: 35):

Regardless of SMEs sustainability referring to growth development, there are factors that must be implemented, in order to maintain sustainable SMEs, such as; management training, increased products and services abroad, managing resources and finance, as well as new strategies (Wiese, 2014: 37).

2.4 CONCLUSION

The focus of this chapter was on the literature of the SME sector worldwide, contextual and definition of SMEs, outlining the importance of SMEs and their contribution to the economy. The chapter further included literature on the reasons that cause the failure and success of SMEs.

Numerous factors thus contribute towards the success of the business, and knowing and understanding these factors benefit the business' performance and success (Anderson, 2013: 1). The next chapter details those factors that affect the business' financial stability, addition to which, financial management fundamentals are also explained.

CHAPTER THREE
HISTORY OF FINANCIAL MANAGEMENT FUNDAMENTALS AND FINANCIAL REPORTING

3.1 INTRODUCTION

The previous chapter discussed the literature review on SMEs. This chapter examines factors that can contribute to the business' failure or success in the business world. The background of financial reporting and its purpose in the business, as well as International Financial Reporting Standards for SME's (IFRS for SMEs); skills and training based on accounting are discussed in this chapter. The supporting literature review on; the supporting objectives are also discussed which also defines the factors influencing financial stability, as well as factors that affect the credibility of the financial reporting. Factors influencing the financial stability and credibility of financial reporting are also examined.

It also determines the role of financial reports in the entity's sustainability, and establishes the relationship between the financial reports and financial stability. Several views will be considered, in order to narrow the emphasis for the purposes of the empirical research.

3.2 HISTORY OF FINANCIAL ACCOUNTING

In a bigger view, accounting is the procedure of identifying, measuring and communicating economic information about any business, to enable decision-making and informed judgments (Marshall, McManus and Viele, 2011: 3). In the 19th century, financial reports were not formally produced by business managers. Instead, investors and shareholders trusted the managers with their finances, which lead to fraud, since there was no proper way to keep records of any financial transactions. Bookkeeping was then introduced, to minimise fraud and to provide information about asset movements.

Melville (2010: 4) states that financial reporting must be in line with policies and standards of accounting. The consequences, if these rules and regulations are not understood, are that incorrect information will be produced regarding the financial stability of the business, as a result of inaccurate financial statement information. If any business goes against its own rules and regulations, it may lead to an organisation not meeting its own objectives (Marshall *et al.* 2011:21). This will result in the organisation becoming financially unstable. Therefore, bookkeeping then becomes essential to every business, to keep all of the necessary documentation and records of every transaction that takes place in the business, safe and in order.

Cotter (2012:2) explains that bookkeeping began a long time ago, and states that in 1494, Chatfield introduced the debit and credit accounting principle, which is known as double-entry bookkeeping. Since then, the double-entry principle in accounting has been used to give guidance and understanding regarding the increases and decreases of the income, expenses, assets and liabilities. The double-entry principle recognizes that, for every debit there must be credit. Sangster (2010:23) states that double entry bookkeeping is a highly commended principle in the accounting history and a well-recognised principle. Leiwy and Perks (2013:23) explain with the example that, should the business decide to buy a vehicle with R10 000 cash, the assets for the business will increase by one vehicle worth R10 000, whereas the cash or the money in the bank, will decrease by R10 000.

Table 3.1 Double Entry Principle

The business bought the car for R10 000 cash from Mr. B car dealer		
	Debit	Credit
Car – (Assets)	10 000 – 00(+)	
Cash/ bank – (Assets)		10 000 – 00(-)

(Source: Leiwy and Parkes 2013:23)

Analysis

The business bought the car, costing R10 000, which will lead to an increase in the number of cars - assets (+), however, this car was bought for cash, which means the bank account of the business will decrease (-) by R10 000, because the money was paid from the business' account to the dealers' account.

Example 1 (Leiwy and Perks 2013:23)

3.3 SUPPORTING OBJECTIVES OF THE STUDY

3.3.1 FINANCIAL STABILITY

The financial systems and financial polices used in financial reporting play a vital role in financial stability reports. Allen and Wood (2005: 3) state that financial stability can be defined by different characteristics and phases of economy. Financial stability can also be defined as the business' welfare, which is determined by who controls the business resources and the transaction events regarding payments that also affect the financial stability. Nevertheless, Gadancz and Jayaram (2010: 365) hold that "financial stability is difficult to define and even more difficult to measure". Financial stability directly determines financial markets and a country's Gross Domestic Product (GDP).

Most SMEs lack skill and strategies for fundraising. They therefore, find it very hard to increase capital, due to the financial information in the financial statements not being recorded correctly. Brekk (2014) maintains that banks are hesitant to provide funding to SMEs. Describing further the global financial situation at hand, the fundamental difficulties are to maintain the financial stability, manage sovereign risk, and ensure long-term finance for economic growth of the business (Brekk, 2014).

The ongoing issue facing the accounting industry world-wide, is that of financial crisis. With regards to establishing the relationship between financial stability and financial reporting, Arnold (2009: 803) states that the problem with accounting is the gap between academic theory and practice in the world of work.

SMEs provide and support global, economic, financial stability (Haas and Franco, 2010: 504). However, should SMEs not be financially sustainable, it will cause a decline in the global economy.

3.3.2 FACTORS INFLUENCING FINANCIAL STABILITY

It is shown that the majority of SMEs are developed but liquidate down the line in the market. One of the factors that most affect the continuity of the SMEs business is that they are lacking in innovative capacity (Haase and Franco, 2010: 505). Haase and Franco (2010: 505) also identify that controlling equity and debt finances, to achieve a balance between the two factors, still appears to be an issue for SMEs to date. Islam, *et.al* (2011: 184) assert that understanding the business requirements and strong control over resources, in order to obtain financial stability, have a significant effect on financial stability.

Knowledge, understanding and skills are important in the world of work, which go hand in hand with the specific field. Schmitt (2010) states that the majority of people in SMEs working in the accounting section have no relevant qualification of accounting. While post-graduates may have academic knowledge, they lack perception and experience in the practical side.

Not only has the lack of experience among staff members affected the financial stability of the business, but it has also been affected by the lack of experience to perform their duties and activities. External users of financial reporting consist of investors namely, banks, creditors and shareholders, who provide the business entity with resources and capital to expand in the global economy (Biddle, Hilary and Verdi, 2009: 114). Economic growth has an important effect on investment and resources of the business entity (Gatt, 2012: 2).

While funding for SMEs has been available to develop and improve businesses in both the public and private sectors, the problem arises when these small businesses need to have strategies in place to control and maintain the funding, with the strategies needed to develop innovative solutions (Heffrman, 2011: 9). Financial Stability reports are prepared from the financial reports.

3.3.3 FACTORS AFFECTING CREDIBILITY OF FINANCIAL REPORTING

The factors influencing the credibility of financial reporting for SMEs include poor administration of resources and lack of information communication, which are common issues. It is mentioned by Gatt (2012: 2) though, that tax implication and administration are the major factors that affect SMEs financial sustainability.

A study compiled by Persons (2010: 38) outlines that misrepresentation of financial reporting as a result of fraud, is still an ongoing problem today, with over 76 percent of businesses the victim of this act. The accuracy of the statement is supported by a survey done by KPMG in 1993.

Fraudulent financial reporting results in incorrect financial data, which means that updated and accurate information plays a very important role in the business environment as a whole. However, Cohen (2012: 69) examines an interesting part of the accounting element, by asking, “does information risk really matter?” The study aimed to identify and determine the purpose of financial reporting information (Cohen, 2012: 70).

Ensuring the accuracy of financial reporting business has to recompense large amounts to accountants, auditors or accounting firms (Engle et al. 2010: 136). As a result, the liability of the business entity increases.

On the other hand, Fisher (2013: 2) asserts that the new updated IFRS for SMEs was developed to improve the procedure of financial reporting, specifically for SMEs. IFRS for SMEs was also introduced to identify clearly, how the SMEs should present their profit or loss and compile a balance sheet of the assets and liabilities in the financial statements. Engle et al. (2010: 136) outline that "audit committee's play a crucial role in firms" during the process of financial reporting.

3.3.4 THE PROCESSES AND METHODS OF FINANCIAL REPORTING

Accountants work on the premise that directors and senior management put in the internal control and risk management of an entity (Armstrong, Guay and Weber, 2010: 179). The framework of measuring assets and liabilities, using fair-value as the measurement tool in determining the business welfare, has increased drastically and most businesses apply this method.

Accounting software systems are developed in such a way that they establish and satisfy the specific need of an organisation or a business. In order to monitor and evaluate these systems, and ensure the accuracy of updated information, upgrading is essential. Accounting Information Systems (AIS) are often implemented to collect, store and process financial information and accounting data, which is used by the decision makers in the business. The systems software therefore, needs to be upgraded, to limit the risk of losing information. According to Khoo and Robey (2007: 559), when the software is up and running, the control of the upgrade depends on the internal control of the business and also the environment.

- **Modification of the accounting software system**

Due to the high risk of losing information, it is in the business' interest to protect the data. The modification of the system plays a significant role in reducing and decreasing fraud in the business, especially in the finance and resources department.Ashokkumar,Sunartio,Kentish, Mawson,Simons,Vilkhu and Versteeg(2008: 156) maintain that the organisation should undergo systems modification, in order to improve the creation of specific product or services development. In addition, it also has a positive impact on internal controls, results in the improvement of workflow, and also provides training to staff (Kazdin, 2012: 2).

- **Staff Training**

"Conceptual and practical work is needed to fill the corresponding gaps" (Borio and Tsatsaronis, 2005: 2). However, the accounting industry and accountants have, as their main goal, the provision of financial information, with regards to the business' financial position and stability. The technique changes from time to time and, as a result, new skills become in demand in the global market. Businesses need to meet these standards and develop, in order to survive in the market. Consequently, Oiniyan and Ojo (2008: 326) state that, "training both physically, socially, intellectually and mentally are very essential in facilitating not only the level of productivity but also the development of personnel in any organisation".

Timing is very important during training as Management Accounting Systems change constantly with time. The businesses, however, lack the understanding and knowledge as to how and when to change their management accounting system, in order to add subsidiaries and acquisitions in the accounting systems (Yazdifar, Zaman, Tsamenyi and Askarany 2006: 405).

- **Duration of training**

Testad and Ballard (2010: 80) specify that staff training and learning courses to develop their profession, must be provided to employees. It not only improves the quality of work but also increases the knowledge of new innovation taking place. Other important factors include follow-up programmes, to ensure training does have a positive effect on the business work-flow, in order to improve financial stability (Testad et al.2010: 80).

Setting time apart in which to train staff is very important, so that businesses are able to understand and afford the cost implications of the training. With regards the cost implication, it is important to understand how long the training will take, in order for the organisation to also develop strategies of segregation of duties (SOD).

- **Segregation of duties**

The division of duties is an essential element of internal control in a business. The main aim of SOD is to assign more than one person in control of the task, in order to limit abuse of power (Bedard, Hoitash and Westrmann, 2011: 58). The result is that everyone must be responsible and accountable for their duties. Furthermore not only one person is responsible for the flowing of cash management. Bragg (2006: 5) explains that "while another records the transaction and a third approves the transaction, with no one being responsible for more than one of the handling, recording or authorization tasks".

Financial accounting and management accounting are linked. Leiwy and Perks (2013: 21) mention that bookkeeping plays a major role in the process of developing financial statements. Whereas management accounting is where planning, decision-making and controlling the performance of the business takes place, SOD as part of internal control was only introduced in the organisation or business later. Management accounting was established to provide reliable financial information, in order for the business to be managed properly (Leiwy and Perks, 2013: 317).

3.3.5 RELATIONSHIP BETWEEN FINANCIAL REPORTING AND FINANCIAL STABILITY

Laux (2012: 239) maintains that weak cooperation among financial staff in a company can affect both financial reporting and financial stability in a negative manner. Whereas the lack of knowledge and information about accounting software systems affects financial reporting and has a negative impact on the financial stability of a business entity, inadequate control of financial processes also influences the financial stability of the business and has an impact on financial reporting.

According to Leiwy and Perks (2013: 317), managers make decisions, trusting that financial information is reliable and appropriate to take the decision that will have an impact on the business' financial stability. There are different types of decisions taken within the business by the owners or managers. Short-term decisions involve short assessments on how to raise funds within a short period. Medium-term decisions refer to decisions that managers must take time on, such as how to budget for non-current assets and how to increase them. Long-term decisions involve, for example, long-term investment, property and land for the business to invest in, in order to maintain financial stability of the business or increase the business' sustainability (Leiwy and Perks, 2013: 320).

Financial reports are used in drafting the planning of budgets, on what the business hopes to achieve in the following years, regarding the business' financial position and performance.

Borio and Tsatsaronis (2005: 1) maintain that, in allocating financial information, financial systems are the key factors in indicating the direction in which the business is going in terms of financial position, performance and stability. This information plays an important role in the profitability and non-profitability business of firms.

3.4 SKILLS AND DEVELOPMENT OF ACCOUNTING TRAINING

Recent research, regarding the accounting sector's training and skills development, shows that more work needs to be done by universities and employees, in trying to develop and enhance the level of learning (Kumpikaite 2008: 25). According to Kavanah and Drennan (2008:279) the accounting system technology developed very fast in the global market. As a result, new and existing businesses, especially those that are not financially stable, have found it very difficult to survive or manage to compete in the large-scale market.

SMEs therefore assist in developing new skills and providing employment. This plays a major role in the economy as a whole, with approximately 90 percent of businesses in South Africa being SMEs (Abor and Quartey 2010:1450).

Kavanagh and Drennan (2008: 279) find that businesses continuously need new, fresh ideas, in order to maintain a standard on a par or better than the competition. Staff training impacts creative thinking, which will lead to further learning and result in understanding, knowledge, and skills development (Kumpikaite 2008: 25). This, in turn, will lead to more productivity from both new and existing staff, in order to take the business to the next level. Kumpikaite (2008: 26) states that, “the idea of a learning organisation is not training, but self-development”.

Not only does staff training and learning assist in developing business performance and increased productivity, it also improves and builds-up the ability to produce work that is satisfactory, while enhancing professional empowerment, and team work (Kumpikaite 2008: 27).

Traditionally, there were two ways of doing accounting or recording transactions of the business, as explained by Merwe (2006 :25). The author states that these consisted of either a manual system or a computerised system.

Manual and Computerised Accounting Systems

The main difference between a manual accounting system and that of a computerised system is that a manual system is where all transactions are recorded by the bookkeeper by hand, while a computerised system has all transactions captured on a computer, where the accounting software will record and analyse the business' finances.

Table 3.2: Advantages and disadvantages of Manual and Computerised Accounting Systems

MANUAL SYSTEM		COMPUTERISED SYSTEM	
ADVANTAGE	**DISADVANTAGE**	**ADVANTAGE**	**DISADVANTAGE**
Less expensive. It takes one to two people to process the data. Easy to control.	Journals or paper work can be lost. It takes time to process the information or all the records to journals. This filling of journals takes a lot of space within the offices. The information can be incorrect due to human error.	It is faster to process the data after being captured on computer, as opposed to manually. Businesses choose accounting software that is suitable for the nature of the business. No large office space is needed. Improving skills and developed more learning awareness in the business.	Accounting software and computers are very expensive. Maintaining of the accounting system is very costly and up-grading and back-up services are also required. Staff training is needed but it is very expensive. Data can be destroyed by computer viruses. Time consuming in the implementation phase.

(Source : Merwe 2006:25)

3.5 FINANCIAL REPORTS

3.5.1 Financial Reporting Background

Financial reports assist users of financial statements with financial information, to evaluate and construct decisions based on the financial position statement and financial performance statement of the business entity (Atrill and Mclaney, 2009: 23). The growth of SMEs can be identified by financial improvement, since SMEs depend on the number of investors and the entity's sustainability in the market, therefore the financial information is very important (Modimogale and Kroeze, 2011: 1).

The users of financial statements are investors, creditors, banks and government (Prett, 2009: 3). Due to the increase of SMEs in the country, the

International Accounting Standards Board (ISAB) implemented IFRS for SMEs under financial reports (Service, 2013: 5). The reason being that businesses have their own, specific objectives, which differ from entity to entity. Therefore, IFRS for SMEs was introduced to meet those specific objectives, in terms of financial reporting (Service, 2013: 5)

This study aims to examine to what extent financial reports contribute to the financial stability of SMEs. Dick and Missonier, as cited in Piera (2010: 1), state that financial information plays an important role in the business entity. Lubbe and Watson (2006: 1), on the other hand, define financial reports (statements) as a type of communication between the users of the financial statements, accountants and the business entity. For the communication to be recognised, both parties must understand the specific language (Lubbe and Watson, 2006: 5). Communication can be verbal or in writing. In this case, the communication is based on the financial transactions that take place every day, to convert them into one document, namely financial reports. Service (2013: 4) maintains that accounting is also a language.

In this case, a financial report is a document that records all the financial events and transactions of a business, person, or other entity (Bassens, Derudder and Witlox, 2012: 36). Service (2013: 38) describes financial reports as a method of recording financial information and explains that financial reports play a vital role in the economy, as these documents provide the worth of the entity, which is the main consideration in economic resources and decision-making. However, financial reports have a specific role in the business (Mackenzie, Lombard, Coetsee, Njikizana, Chamboko and Selbst 2011: 1).
Financial reports are comprised of:

- Statement of Comprehensive Income - Usually known as the Income Statement
- Statement of Financial Statements – Normally called the Balance Sheet
- Statements of Cash Flow
- Statement of Changes in Equity

3.5.2 Role of Financial Report

Financial reporting is created to identify the movement of business resources in order to recognise, the wealth of the business though financial statements (Harrison *et al.* 2014:2). Financial reports also help to establish the financial performance and position of the business, in order to determine the wealth and fitness of the business entity in the market. These documents also play a role in establishing ratio analyses of the business entity, such as profitability ratio, liquidity ratio and solvency ratio (Service, 2013: 1038).

Ratio analyses are mostly used in examining the relationship between items and their contribution. The profitability ratio, for instance, is used to establish how much profit is used against the turnover and on assets bought, return on capital provided by supplies or investments and to determine the profit percentage against the cost of sale (Service, 2013: 1039).

On the other hand, the aim of liquidity ratio is to establish whether or not a business can repay a debt in the short term, which is less than 12 months (Perks, 2013). This only focuses on current assets and liabilities from the financial position statements. The current assets are those assets that generate cash within a year and current liability is debts that are repaid within 12 months (Service, 2013: 1032).

The liquidity ratio takes the following main ratios into account:

- Current ratio
- Acid – test ratio
- Working capital
- Debtors collection ratio
- Inventory: in determining inventory, the turnover ratio is needed
- Creditors payment: in determining the period of paying back the creditors
- Business cycle ratio

The identify solvency ratio is a ratio that shows whether the business cash flow is adequate to cover all current and non-current liabilities. In these ratios, the role of financial reports is to provide figures in order for analysis to take place.

Financial reports provide information regarding whether or not the business is making a profit or loss (Watts and LaFond, 2008: 449). The role of financial reporting goes hand in hand with the purpose of financial reporting.

3.5.3 Purpose of Financial Reporting

A financial report provides financial information to users, allowing them to make economic decisions about the business entity (Pratt, 2011: 3, and Melville, 2010: 4). With regards to whether or not the business is making profits, financial reports supply data according to the line item of the business income and expenses.

Financial reports help to keep track of goods sold or services acquired and the movement of cash in or out of the business. The performance and position of a financial report also gives guidance to managers, in terms of decision making and planning, with regards to business enhancements (Leiwy and Perks, 2013: 317). Where IFRS for SMEs has been implemented, it is essential to understand who the users of the financial statements or reports are.

3.5.4 Users of financial reports

There are different users of the financial information and the information is used for different purposes in order to reach specific economic decisions (Harrison *et al.* 2014: 10). However, these users are divided into internal and external users, with each having different interests regarding the usage of the financial information.

Table 3.3: Internal Users of Financial statements

Name of the Users	Management/ Directors	Employees	Owners
Purpose of Information	Managers prepare these financial reports to presents it towards the business owners or shareholders.	The business performance information employees needs for two principal reasons. 1. Wage and salary negotiation. 2. Assessment of current and forwards opportunity in terms of employments. They would be interested in both the current financial stability and the long term availability of the business for the main of job security.	They would like to see how the business operates, in terms of profit and position.

Source: Pratt (2011: 5)

Table 3.4: External Users of Financial statements

User names	Purpose of Information
Investors / Shareholders	● They would consider whether to invest or disinvest in the entity. ● The investors would also be interested in profitability and its trend over a period of time. ● Whereas shareholders takes a short-term view for the current dividend are of interest and long-term view would concern future earnings.
Government	● The government is decision makers and their forward economic plans are influence by the performance of all business within various sectors in the economy. ● The government requires published financial information for the purposes of company taxation and vat. ● The current financial reports will be used as a base in the economic models for assessing future performance.
Creditors/Lenders	● They are interested in the current and future profitability growth prospects of the entity, in order to determine if the capital loans can be pay back. ● It would include the short, medium and long-term lenders of money.
Supplies	● They are interested in the financial stability of the business in terms of cash flow and firm's ability to meet its short-term liabilities. ● As well as, their interested in the company future strategy in term of(product strategy plan).
Customs	● They would be interested in the business short and long term stability and its potential to supply high quality goods and services, with where appropriate, sound after sales services. ● They also have interest in the environmental policy of the business.
The Public	● The public are often referred to shareholders and businesses do not exist solely in isolation ● Businesses are part of society at large and such generate much public interest ● The factors employment and environment are often the key interest at local and national level.

Source: Ryan, (2008: 16)

Melville (2008: 6) outlines that financial reporting is developed according to certain standards and legislation, by specific committees or bodies of

Generally Accepted Accounting Practice (GAAP) and International Accounting Standards (IAS).

Generally Accepted Accounting Practice (GAAP)

GAAP known as Generally Accepted Accounting Practice contributes to understanding the context based on practices and principles used in recognising measures and financial events that occur during the financial year of the business entity (Weirch, Pearson and Churyk, 2010: 50-53).

The business environment uses financial accounting as the language of communication to its users. Accounting equations and double-entry systems form part of the accounting language (Lubbe and Watson, 2006:5).

Table 3.5: The Accounting Equation

E = A – L	Equity =	Asset -	Liabilities
A = E + L	Assets =	Equity +	Liabilities

(Source ,Lubbe and Watson, 2006:5).

The purpose of the accounting equation for a business entity is that it needs to establish and understand how business events influence the owners' equity, through the movement of assets and liabilities. The Accounting Equation simply indicates that assets are equal to owners' equity and liabilities.

3.6 IRFS FOR SMEs

The International Accounting Standards Board (IASB) adopted and implemented the new IFRS for SMEs on 9 July 2009 by Deloitte and Touch, developed according to United States General accepted Accounting Principles (US GAAP) procedures and regulations.

The IFRS for SMEs standards don't apply to all SMEs, only those who are not affected by public accountability and where financial statement are being published for the aim of external users (Mackenzie *et al.* 2011: 1).

International Accounting Standards Board (IASB)

The development of International Accounting Standards means the IASB is accountable for those policies and regulations (Lubbe and Watson, 2010: 8). Hence, IFRS is part of the IASB.

3.7 FINANCIAL STATEMENT

Financial accountants play an essential role in developing and preparing financial reports. Engel, Hayes and Wang (2010: 136) mention that large amounts are being paid to accountants and auditors, in order to enhance the level of understanding of the business entity.

Financial accountants analyse the information given to them in the form of statements, in this case, the financial statements. Auditors identify whether the rules and regulations have been followed and applied accordingly. The Income Statements are currently known as a Statement of Comprehensive Income (SOCI) (Table 3.6).

Table 3.6: Income Statement / Statement of Comprehensive Income (SOCI)

Income Statement / Statement of Comprehensive Income (SOCI) for year ended – 31 February 2013		
Revenue / Sale	R10 000 - 00	A
Less: Cost of Sale	(R 3 000 - 00)	B
Gross Income	**R 7 000 - 00**	**A-B=C**
Add: Total Income	R 1 700 - 00	D+F= G
Rent Income	R 1 000 - 00	D
Interest Income	R 700 - 00	F
	R 8 700 - 00	C+G = H
Less Operating Expenses	(R 4 700 - 00)	I
Net Income	**R 4 000 - 00**	**H-I=J**

(Source: Ittelson 2009:44)

The SOCI represents an important part of the business, which is the profitability (Ittelson, 2009: 44), in other words, the financial performance of the business. SOCI does not show all the parts of the business' wellbeing. The foregoing statements form part of the development of the financial report. (Table 2.4)

Table 3.7: Old and new financial statements terms

Old terms	New terms
Balance Sheet	Statement of Financial Position
Cash Flow Statement	Cash Flow Statement

(Source: Ittelson 2009:44)

The stability of the business is indicated by how much of the net income is allotted to operating expenses. The information on the SOCI is used to compile the financial stability report, which is needed, in order for managers to make informed decisions based on the financial position and performance of the business. Financial information is needed by managers to make informed decisions (Leiwy and Perks, 2013: 317). This decision-making is sub-divided into three: short-term decisions, medium-term decisions and long-term decision-making. Management accounting makes use of this financial information to assist managers to develop effective decisions.

3.8 CONCLUSION

This chapter evaluated research beyond financial reporting and financial stability of the business entity. The review was based on the issue at hand and on the study objectives. The objective was identify factors influencing financial stability and those factors that affect the credibility of financial reporting of SMEs, while also determining the processes and methods of financial reporting used by SMEs. The importance of staff training within an organisation, contributes to its financial stability. In addition, another objective is to establish the contribution of and the relationship between financial reporting and financial stability.

The next chapter will explain the research methodology of this study, how the data was collected and analysed, from whom the information was collected and why, as well as the method used in obtaining the information.

CHAPTER FOUR
RESEARCH METHODOLOGY

4.1 INTRODUCTION

The preceding chapter presented a breakdown of the literature relevant to this study. In this chapter, the research methodology that guided the research and enabled the researcher to collect and analyse the data is described. To accomplish the aim and supporting objectives of the study, appropriate research processes and procedures were undertaken.

The research processes consists of two major parts, Part A; demographic information and Part B; supporting objectives which were further divided into four sections. (Table 4.1)

Table 4.1 Context of Research Methodology

Part A	**Demographic**	Q1 – Q8
Part B	**Supporting Objectives of the study**	
Section One	To identify factors that influence financial stability of SMEs.	Q9
Section Two	To identify factors affecting the credibility of financial reporting.	Q10
Section Three	To determine the processes and methods of financial reporting.	Q11 – Q20
Section Four	To establish the contribution of financial reporting to the financial stability of SMEs.	Q21

The aim of this chapter is to present the results of the empirical investigation about selected financial management fundamentals that influence the financial stability of SMEs, regarding the factors that influence financial stability; factors affecting the credibility of financial report; and the relationship between financial reporting and financial stability of the business entity. The research design used in this study; targeted population; sampling method and the measuring instrument used in collecting the data together data analysis are also discussed in the chapter. Furth more validity and reliability of the study is also identified.

4.2 RESEARCH DESIGN

4.2.1 Research Approach

The research design that the study used was quantitative research, as the study was investigating the selected financial management fundamentals influencing financial stability of SMEs. This design was appropriate for the study, to identify and investigate the relationship between financial stability and financial reporting. According to Allan, Titsworth and Hunt (2009: 7), the purpose of quantitative research is when the research wants to identify and establish specific behaviour, by examining or investigating the relationship between variables or a phenomenon. The study was investigating relationship between the financial reporting and financial stability of the SMEs furthermore examining factors that influence both variables.

The advantage of using a quantitative approach is that data are significant and fair, whereas data obtained by means of a qualitative approach, could be biased (Anderson, 2006: 3). Consequently, by using a qualitative approach, the researcher is part of the process during the data collection, unlike with a quantitative approach. Saunders, Lewis and Thornhill (2009: 151) further elaborate on a quantitative research approach, as being primarily a technique used in data collection. It is used for questionnaires and data analysis procedures graph the use of numerical data and statistics. The study used questionnaire to get data from the targeted population.

Apart from examining the contribution of financial reporting to the financial stability of SMEs, the study also attempts to identify other factors that influence financial stability of SMEs. In addition, the study pursues an understanding of the processes and methods of financial reporting for SMEs, as well as the motive behind the specific procedures or techniques that the business entity practices, in developing the financial reports. A quantitative research approach was therefore used in order to understand how the SMEs view the financial reporting and under-stability and knowledge of financial statements fundamentals. Stated by Leedy and Ormrod (2010: 102) this approach allows the researcher to understand and explain a hypothesis. We as Anderson (2006: 3) describe quantitative research as when the researcher pursues an explanation of the procedures behind the specific act.

4.2.2 Descriptive Research

Malhotra (1999: 87) defines descriptive research as mostly applicable when an object is described in order to obtain straightforward answers. The questionnaires required the respondents to give straight answers by selecting the option that were given, in order to understand the respondent's knowledge of financial reporting. Easton (2010:118) stated that, under descriptive quantitative research also guide the researcher to understand general trends. According to Leedy and Ormrod (2010: 191), descriptive research includes the following approaches to gather information, namely "correlational research, developmental design, observation studies and survey research".

4.3 TARGET POPULATION

Cavana, Delahaye and Sakaram (2013:278) recommend a number of 100 for a population of 80. Lekhanya and Mason (2013: 44) state that, based on the information from the Department of Youth Affairs from the KZN provincial office, the indication is that about 800 SMMEs exist in the KZN province. Therefore 107 SMEs were sufficient for the study. This prompted the selection of 107 SMEs, with the belief that the targeted number was realised. The selection of the target population was spread over all the SME industries in the Durban area; such as trading and manufacturing (Table 4.2).

The target population can be described as a collection of community, people, organisations or things that the researcher is interested in exploring or investigating (Sekaran and Bougie, 2010: 196; and Manana, 2008: 55).The Research Advisor (2006) was used to determine the required sample size from the target population.

4.4 SAMPLING METHOD

There are two types of sampling design: probability and non-probability sampling (Sekaran and Bouble (2010:267). The population of this study were not selected randomly. The accurate selection or random procedure is used in probability sampling, while in non-probability sampling selection is not built on a random procedure (Lekhanya, 2010: 100).

A non-probability sampling, a purposive or judgement sampling method was used in this study. The study was aimed to cover the SMEs industries in Durban but it was not possible to include all SME in this study. The reason for this was that there was not a formal sampling frame available for the population and, therefore probability sampling could not be utilized.

A purposive sampling method, according to Inderal (2013: 69) is when a researcher specifically selects respondents based on own discretion. Floyd and Fowler (2009: 3) also describe purposive sampling as the selected data that is capable of providing the required information needed by the study.

Khure (2013: 45) describes sampling as a method that allows the researcher to reach the conclusion by analysing the data obtained from the sampling. On the other hand, Sekaran and Bouble (2010: 266) describe sampling as a suitable population quantity of that specific population or group, chosen by the researcher.

Sampling units can also be classified from the population by gender, profession, position, or salary level (Creswell, 2013: 148). For this study, the research sample was classified by department, designation and the respondents' knowledge, based on financial reporting in the business and in the industry.

The primary data were collected, by means of the questionnaire, with non-probability sampling applied in the quota sampling population (Table 4.1) to select respondents for this study. This method depends on the personal judgement of the researcher and does not apply to the sampling procedures.

Table 4.2: Targeted Population and Sampling Size

Description	Targeted	Sample Size
Trading	39	35
Manufacturing	27	25
Industry	21	20
Accounting Firm	10	10
Accountant and /CA	10	10
Total	107	100

According to Adams, Khan and Raeside (2014: 76), "the reason behind the quote sampling is that certain relevant characteristics describe the dimensions of the population". The quota samples allow the sample that is of great interest to the study (Polgar and Thomas, 2013: 33).The sector of the business or type was an arbitrary category, for the purpose of the study, while the population investigated was made up of the finance staff members in the following sectors: trading, manufacturing and industry of the SMEs in KZN. Therefore, based on this information regarding the SMEs in KZN, quota samples of 107 SMEs were selected.

4.5 MEASUREMENT INSTRUMENTS

The questionnaire was used as an instrument to collect the data and as part of the recruitment process the researcher personally delivered the questionnaire to the respondents. No interviews were done or schedules. The first page of the questionnaire was the letter of information of consent, which respondents were required to sign to indicate that they participate voluntarily in this study. The questionnaire was divided into parts A and B and comprised 21 questions, with eight questions in Part A, where respondents provide demographical information. Part B consists of 12 questions, addressing the core objective of the study.

4.5.1 PRIMARY DATA COLLECTION

The questionnaires were distributed to respondents, in order to collect data and to obtain their understanding of the contribution of financial reporting to the financial stability of SMEs. The questionnaires required the respondents to choose from a specific selection of answers, which involved only closed questions. Open-ended questions were not used in this study. In addition, the study did not involve any structured or unstructured interviews with respondents, only questionnaires were used. As a result, a qualitative approach was not applicable to this study.

4.5.2 RESEARCH PROCESS

This research is descriptive by nature. The intention of descriptive research is to give a clear picture about the problem statement (Leedy and Ormord 2010:191). Descriptive research was used to gain and develop significant data, in order to interpret the contribution and the role of financial reporting in SMEs financial stability.

- **Data Collection**

Floyd and Fowler (2009: 96) state that there are many techniques of collecting data namely, e-mails, cell phones, the internet, face-to-face consultations, door-to-door and personally delivered questionnaires of these emails were used for this research.

To accomplish the objectives of this study, questionnaires were personally delivered and distributed to the respondents. This technique was appropriate, since businesses, firms and accountants tend to be very sceptical and uncomfortable when it comes to providing personal information, which was required by the questionnaire.

Personally delivering the questionnaires was a most useful method to collect data. For this study, questionnaires were dropped at the receptionist of the selected target population of finance staff, owners of the SMEs, accounting firm delegates and chartered accountants, to take to their office and complete. It took most respondents a day or two to return the questionnaires to the receptionist or to the researcher, due to their workload.

The difficulty encountered during the distribution of questionnaires involved the time it took to travel from one enterprise to another. As a result, due to the large number of SMEs selected, emailing of questionnaires was used for the same questionnaire.

The questions were prepared in a manner that made it easy and simple to understand by the respondents. Sibanda (2009: 2) states that the questionnaire must be easily understandable, in order to meet the objectives of the study.

- **Data collection Plan**

The data collection time-frame was from January to February 2014. However, due to the limitation of travel time from one business to another, an e-mailing method was implemented for some questionnaires, while others were delivered in person.

The e-mail method was used to obtain a quick and easy response from the respondents. This meant that, in some cases, questionnaires were delivered and collected to the business by the researcher, while other respondents scanned the completed one and returned the questionnaire to the researcher via email. In this case it saved time and travelling cost. In total, 107 questionnaires were sent to the targeted population.

4.6 QUESTIONNAIRE

A questionnaire is described as a set of questions used to collect information from a group of people or an individual. The questionnaire is used as the data collection technique that researchers use to gather information from the specific population, relevant to the study **(**Sakaren and Bougie, 2010: 197; McMillan and Sehumacher, 2006: 104).

4.6.1 Questionnaire design and layout

The design of the questionnaire was drawn and developed in accordance with the aim and objectives of this research. The questions were clear and easily understood by the respondents, identified as being familiar with accounting and financial reporting standards. The questionnaire was split into two parts.

Part one: Required the name of the organisation, gender, highest qualification, job title and years of service. A letter of information and consent was also included, describing that: (a) Participation is voluntary and participants are free to withdraw from the study at any time without giving reasons, and without prejudice or any adverse consequences; (b) The information will only be used for research purposes, will be aggregated with other responses and only the overall or average information will be used.

Part two: The second part of the questionnaire was divided into four sections, with 28 questions in total. Section One and Two consisted of nine questions, requiring the respondent to make an 'X' next to the appropriate box. To acquire relevant and reliable information, based on the factors that influence the financial stability and factors affecting the credibility of financial reporting standards, the participants were required to choose and make a selection (Table 4.2).

Table 4.3 Linked Scale

Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
SD	D	N	A	SA

Section Three contained seven multiple choice questions, where respondents were required to make an 'X' next to the suitable answer. Only two 'yes' or 'no' questions were asked, without any space for comments to support the answer.

In Section Four; the first three questions were closed-ended question, requiring only the mark next to the relevant box. In this case the participants were required to give their opinion and comments based on the questions, in terms of whether they agree or disagree with the given statement. The questionnaire was mostly based on closed–ended questions; the respondents were not asked for any point of view and judgment of the related to financial reporting or financial stability of the business. The open–ended questions were not specifically included in the study. The questionnaire was distributed to the categories of SMEs in Durban comprised of Trading, Manufacturing, Industry, Accounting firms and CA's.

The layout of the questionnaire was designed according to the main and supporting objectives of the study.

4.7 PART A: DEMOGRAPHIC AND BUSINESS INFORMATION

This part of the questionnaire involves demographic details of the respondents, which contains the following, in order to determine the respondent's information with regards to the study:

Type of business sector (Question 1)

This question was asked in order to establish in which sector the respondents work, since the financial processes and procedures differ from each section trading, industry or manufacturing and / or accounting firms, or whether he/she is an independent accountant.

Gender (Question 2)

The respondents were asked to indicate their gender. This question was to establish whether female or male staff were mostly in control of the finances of the business.

Race (Question 3)

With this question, respondents were asked to state their race, to establish the rate of development in different race groups.

Age (Question 4)

The respondents were asked to indicate their age group, in order to determine which age group is mostly participating in the financial reporting within the businesses.

Qualification (Question 5)

In this question, respondents were asked to indicate their highest qualification, to establish the level of education and the level of understanding financial reporting. Education plays an essential role in a person's development of knowledge and skills; therefore, it was important for respondents to indicate their highest level of education, to determine their level of knowledge. Feedback from a respondent at National Diploma level will differ from that of a respondent at B.Com level.

Department (Question 6)

The respondents were asked to indicate in which department they work. This was in order for the study to obtain relevant data, with respondents who work in accounts or the finance department, being preferable.

Job title (Question 7)

The questionnaire also requested the respondents to specify their job title. This allowed a better understanding of which position the respondent holds in the business. The reasoning is that an opinion of a senior staff member will be different from that of someone from a less senior position. In addition, the respondent’s duties and responsibility in the business entity plays a significant role in terms of their replies on the questionnaire.

Years with the company (Question 8)

The length of time the respondents had been working in the business entity was also important, in order to determine how long the respondent had been involved/ working in the finance/ accounting sector and to establish the extent and influence of their experience.

4.8 PART B: SUPPORTING OBJECTIVES OF THE STUDY.

This part of the questionnaire involves the supporting objectives of the study, which is to establish an overview of financial stability of the SMEs, to identify the factors that influence the financial stability, to identify factors affecting the credibility of financial reports, to determine the processes and methods of financial reporting and to establish the contribution of financial reporting to the financial stability of SMEs.

4.8.1 Section 1: To identify factors that influence financial stability of SMEs (Question 9)

The objective of this section was to identify the factors that influence financial stability of SMEs. Respondents were asked to indicate where they strongly disagree, disagree, are neutral, agree or strongly agree to the questions presented to them, from question 9.1 to 9.5.

Understanding of financial reporting (Question 9.1)

Lack of in-depth understanding of financial reporting has a significant impact on the financial stability of a business entity.

Respondents were asked to comment on these statements in order to evaluate their understanding of financial reporting. The lack of understanding financial information could influence the operational side of the business, which can result in insolvency.

Staff experiences (Question 9.2)

An inexperienced employee dealing with financial reports has a negative effect on the financial stability of a business entity.

This statement was to establish whether a person with no work experience or background in finance would perform adequately for the financial stability of the business.

Team work (Question 9.3)

Lack of integration among staff members has a significant impact on the financial stability of a business entity.

Teamwork results in growth improvement and skills development, which will lead to a good environment, resulting in more productivity in the business entity and better workflow. This statement was to evaluate whether teamwork plays an important role in improving financial stability.

Investors (Question 9.4)

Creditors, shareholders and investors, who invest in the business by supplying resources and capital, have a positive impact on the financial stability of a business entity.

This statement was included to establish whether SMEs necessarily need outside funding, in order to maintain or increase the financial stability of the business.

Economic growth (Question 9.5)

A slow growth in the economy has a consequence on the financial stability of a business entity.

Economic crises have an impact on the financial stability of any business. This statement was to establish significantly, whether the economy has an effect on the financial stability of the business.

4.8.2 Section 2: To identify factors affecting credibility of financial reporting (Question 10)

The objective of this section was to identify factors affecting the credibility of a financial report for SMEs. The respondents were required to indicate whether they strongly disagree, disagree, are neutral, agree or strongly agree, in term of the following statements:

Administration control (Question 10.1)

Poor administration of resources has a negative impact on financial reporting.

Uncontrolled resources and data can result in incorrect payment, simply because of staff negligence, which can lead to incorrect data being presented in financial statements. This question was to assess the view of the respondents, in terms of the significance of internal controls in the business.

Lack of financial data (Question 10.2)

Lack of precise financial data has a negative impact on financial reports.

Updated information, principles, and standard of accounting play an important role in the process of compiling financial reports. This statement was to determine the views of the respondents in their understating whether the lack of accurate financial data influence the manner in which they present the financial reports.

Accuracy of information (Question 10.3)

The accuracy of accounts information has an impact on the validity of financial statements.

The financial decisions taken by the directors or managers have an influence in the sustainability of the business; therefore accuracy of information must be maintained at a high level. This question was to establish validity of financial information and its reliability, with regard to managers' decision making.

4.8.3 Section 3: To determine the processes and methods of financial reporting (Question 11 -20)

The objective of this section was to determine the processes and methods of financial reporting for SMEs. In order to meet this objective, the following questions were asked, to establish what ways and procedures SMEs in Durban use, in order to develop the financial reports. The respondents were then asked to tick the appropriate answer for their organisation/ business.

Accounting software system (Question 11)

What accounting software system is your organisation currently using?

Due to a high level of technology, developing businesses have a variety of systems to choose from. This was to establish which system is mostly used by

SMEs, as the accounting software packages offer different methods and processes of data capturing. Therefore, the respondents were given the following, 13 accounting packages, to choose from (Table 4.3).

Table 4.4 Accounting Packages

ITS		Tas Basics	
JD Edwards		Gnu Cash	
SAP		NCH Express Invoice	
Pastel Accounting		xTuple Post Books	
Sage ACCAPAC's		VT Cash Book	
Turbo Cash		Invoice Expert XE	
Adminisoft Accounts		Other: Please specify:	

Organisation upgrade in accounting software (Question 12)

How often does your organisation upgrade its accounting software?

Upgrading of a system could change some formula and also the setout of the reports. Therefore, in order to ensure the accuracy of information, upgrading is very important to maintain current information. The respondents were asked to indicate one option, from once a month; once a year or never.

Modification of the accounting software system (Question 13)

When last was the software system modified?

The high risk of losing information during the process of data capturing and the modification of an accounting systems, is a challenge most SMEs have to consider. It is therefore in the interest of business, to protect and guard that information in keeping records. The respondents were asked to choose when last the software system was modified, with choices being: less than six months ago, last year, or not sure, in order to establish how well the information is being protected.

Training cycle (Question 14)

Indicate the frequency with which financial staff undergo training

Table 4.5 Training cycle

At least every 6 months	
At least every year	
Less than once a year	
Never	

Technology and techniques change from time to time, and it is important to maintain the operating skills required to meet standards of development. The respondents were requested to indicate the frequency with which financial staff undergo training from, at least every six months, once a year, or never.

Businesses implement new systems and advance techniques but there is a question as to whether the staff has the ability to work with those changes, in order to meet the goal to increase profit. This question was evaluated based on when staff go for training or workshops, with regards to their field.

Duration of training (Question 15)

How long does it take to do staff training?

This was to establish the time it takes to train and prepare the staff, taking into account how long it takes the staff to become familiar with a new way of doing things. This also has an impact on the allocation of duties by skilled staff. The respondents were asked to choose one option; either it takes a month or less than six months.

Segregation of duties (Question 16)

Indicate your agreement that, during the process of data collection and capturing, segregation of duties has an important part in financial reports.

Segregation of duties limits and avoids fraud to a great extent in the organisation and facilitates accuracy of the financial reports.

Usage of segregation of duties principle (Question 17)

Does your organisation have segregation of duties?

The respondents had to indicate yes or no. This question was to determine whether segregation of duties is being performed in the business.

Financial reports management (Question 18)

Who is mainly accountable for managing financial reports in your company?

Table 4.6 Financial Reports Management

Entrepreneur/ Manager	
Supervisor	
Accountant only	
Accounts Clerk	
Other: Please Specify	

Respondents were asked to select one option only, to establish who is ultimately responsible for the financial reports in the business.

Decision-making (Question 19)

How many people are involved in financial decision-making in your company?

Table 4.7 Financial Decision Makers

One	
Two	
Three	
Other : Please specify	

To ensure accuracy of financial reporting, evaluation is required. Respondents were required to indicate how many people are involved in making evaluation decisions that will influence the accuracy of the financial reporting of the business, by selecting the option relevant to them.

Processes and methods of financial reporting (Question 20)

Who selects the processes and methods for financial reporting in the company?

Table 4.8 Selection of Processes and Methods of Financial Reporting

The owner/Manager	
Accountant	
Workers/ Accounts clerk	
Other: Please specify	

The SMEs select their processes and methods suitable for the business with “IFRS for SMEs guidance”. This question was to establish not only who selects and who is responsible for the processes but who selects those processes and methods for financial reporting in the company

4.8.4 Section 4: To establish the contribution of financial reporting to the financial stability of SMEs. (Question 21)

The objective was to establish the contribution of financial reports on financial stability of SMEs, by determining to what extent financial information plays a role in the financial stability, after being presented. The following statements were made or questions asked for the respondents to indicate their agreement.

Weak cooperation within staff (Question 21.1)

Weak cooperation among the financial staff can negatively affect the financial stability of a company.

This statement intended to determine if the lack of cooperation of staff members can affect operational business, in which case it can lead to destruction of the finances of the entity.

Lack of knowledge and information (Question 21.2)

The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity.

As technology plays an important role in larger companies, this question was to establish if that is the case with SMEs, specifically when considering that technology is very expensive. Respondents were asked to indicate their agreement with newly developed systems affecting their business financials.

Lack of financial control processes (Question 21.3)

Inadequate control of financial processes has a negative impact on the financial stability of a business entity.

This statement was to determine whether the lack of procedures and instructions, based in financial matters, influence the accuracy of the financial reports. This was done to establish whether there are existing internal controls, with regards to financial securities.

IFRS for SMEs (Question 21.4)

The new International Financial Reporting Standards (IFRS) for SMEs principles and disclosure of items has a significant impact on the business' financial stability.

This was to establish if the change in Accounting principles and the implication of reporting standards has an influence on financial information. Also, to determine the contribution of these changes on the financial stability of SMEs.

Awareness of financial accounting (Question 21.5)

Knowledge and understanding of the financial accounting and accounting framework contribute to the understanding of the financial stability of a company.

In order for the users to establish financial reports an understanding of the financial background of the business and knowledge of the financial information about the business are necessary. This statement was to establish whether or not financial reports contribute to financial stability, in terms of outside funding from external users. In order to establish if this is understood the respondents were asked to indicate their level of agreement.

4.9 DATA ANALYSIS

The empirical data was analysed by means of descriptive statistics. To ensure that the objective of this study was achieved, a statistician was consulted. In addition, the following statistical techniques were employed in the study:

- Frequency table;
- Frequency figure; and
- Cross-tabulation.

The frequency tables and figures, these techniques were used to indicate the value of the variable specifies in chapter five (table 5.1 – 5.16 and figure 5.1 –

5.21.5). The cross-tabulation tables are applied in chapter six in determining the relationship between difference variable (table 6.1- 6.7).

4.9.1 Data Analysis Methods

According to Mvitondi (2012: 4) testing the difference between two means and two proportions. The following testing of hypotheses are commonly used:

- Descriptive statistics, including means and standard deviations. Frequencies are represented in tables, figure or graphs.
- Chi-square goodness-of-fit-test: A univariate test, used on a categorical variable, to test whether any of the response options are selected significantly more/less often that the others. Under the null hypothesis, it is assumed that all responses are equally selected (Derrac *et al.* 2011: 6). This test method was applied in Questions 12, 17, 18 and 20. The Chi-square test and the one sample t-test was carried out to test the hypotheses and establish a need for financial accounting software upgrade, staff training for accounting and financial management.
- Wilcoxon Signed Ranks test: A non-parametric test used to test, in this study, whether the average value is significantly different from a value of three (the central score). This is applied to Likert scale questions. It is also used as an alternative to the paired t-test. According to Derrac *et al.* (2011: 6) a Wilcoxon signed ranks test is defined as the method used to test different hypotheses. This method is applied in questions 9, 16, and 21.
- Chi-square test of independence: Used on cross-tabulations to establish whether a significant relationship exists between the two variables represented in the cross-tabulation (Derrac *et al.* 2011: 6).

4.10 PILOT STUDY

A pilot study was undertaken to establish whether the selected research design, methodology and the measuring instruments, based on the study, are relative and effective. The same questionnaire used in pre-testing was used in the main study. Ten participants were selected randomly, to participate in the pilot study, in order to test the questionnaire, and allow for corrections to be done at an early stage of the research. The respondents used in the pilot study were not part of the sample of the study.

Aaker, Kumar and Day (2007: 333) describe a pilot study as the technique used to "pre-test" the research methodology and to be certain that the questionnaire will be clearly understood

The questionnaire from the pilot study was evaluated by the participants to ensure that the respondents would understand the questions. Each participant was contacted in person or by e-mail, to determine how long it took them to complete the questionnaire, as well to check whether the questions were clear and easy to answer. The questionnaire was modified with the queries by the participants. Pre-testing of the questionnaire enabled the researcher to achieve the under-stability of the questionnaires

4.11 LIMITATIONS OF THE STUDY

The study only focused on the SMEs in Durban not in Kwa-Zulu Natal; the study also only included finance department no other department such Human Resources or Information System. The study cannot be generalised.

4.12 RELIABILITY AND VALIDITY

The validity of the study relies on the study reliability and vice-versa. According to Hlongwena (2011: 60), when validity is tested, reliability is also tested.

4.12.1 Reliability

The responses on the polity study and from the main study questionnaire, the answers were similar. This is supported by Campbell and Vigar-Ellis (2012: 103) state that the reliability of the study can be arrived at by the similarity of responses from the responses in repeated subsequent tests. The reliability is where the findings of a specific question or statement given to respondent and the answer are similar.

4.12.2 Validity

To determine validity, the questionnaire was designed in line with the supporting objectives of the study. It refers to how well the data measure what they are supposed to measure (Denscombe, 2010: 106). Furthermore, Denscombe (2010: 106) mentions that validity is the significance of the data that needs to be accurate enough to meet the research objectives.

4.13 CONCLUSION

This chapter discussed the research methodology, which contain research design, the research process, and data collection employed in this study. To ensure reliability and validity in this study, the questionnaire was designed in line with the objectives of the study, in order to obtain relevant information. Questionnaires were personally delivered, emailed and collected from the respondents.

The next chapter analyses the data collected from the questionnaires that were distributed to respondents.

CHAPTER FIVE
FINDINGS AND DATA ANALYSIS

5.1 INTRODUCTION

The previous chapter presented the research methodology, the methods used in collecting information and the sources, regarding who the information was obtained from.

The objective if this chapter is to empirically analyse the feedback obtained from the questionnaire distributed and present the findings with data analysis. The data was analysed using chi-square goodness-of–fit test, Wilcoxon signed ranks test and chi-square test of independence to provide a more precise analysis of each objective.

5.2 DESCRIPTIVE STATISTICS

Descriptive statistics in the form of frequencies and percentages was used in order to ascertain the biographical and business information of the sample as well as those factors that influence the financial stability of the business. These statistics are presented in tabular form and figures.

The results of the survey are presented by means of descriptive statistics. The data analysis and findings were broken down into demographic statistics of respondents and the objectives of the study.

5.3 DEMOGRAPHIC STATISTICS RESULTS (Part A)

The first part of the questionnaire is based on respondent's biographical and business information (Figure 5.1.)

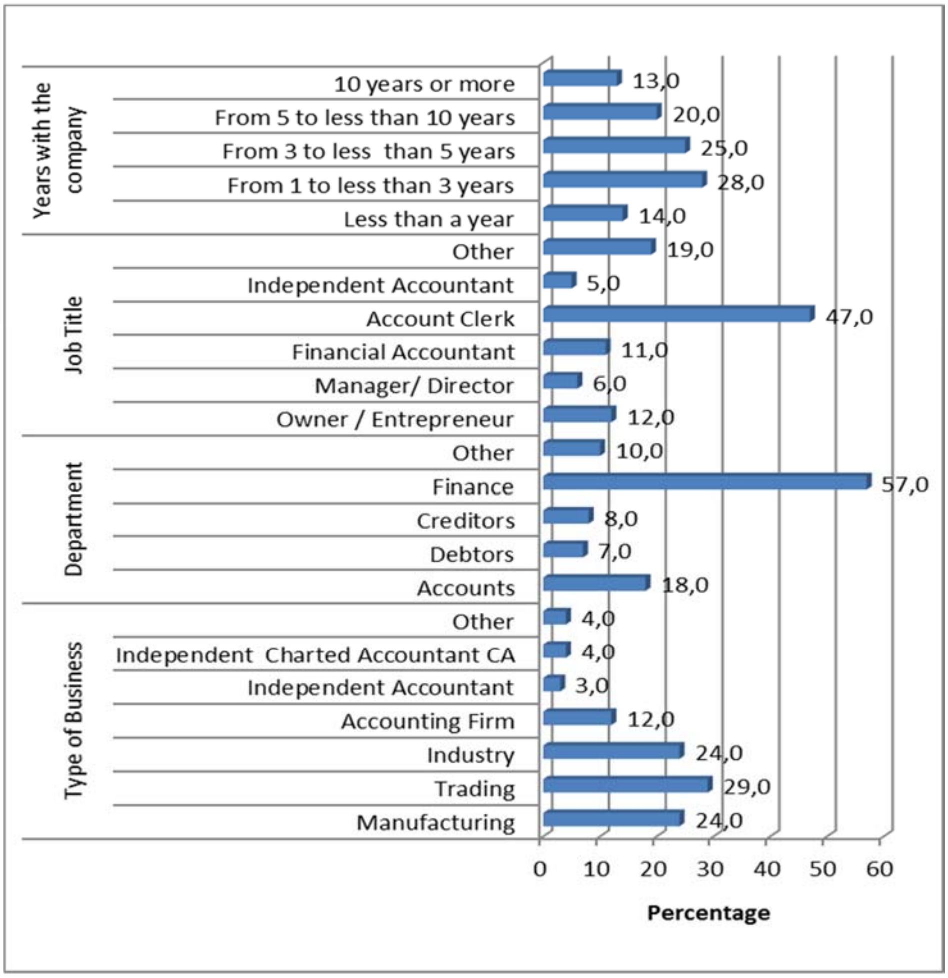


Figure 5.1: Combined figure for type of business, department, job title and number of years' experience of the respondents (Q1, Q6, Q7 & Q8)

5.3.1 Type of Business (Q1)

A large number (31 or 29 percent) of the respondents were from the Trading sector, whereas a total of 26 (24 percent) respondents were from manufacturing and industry, respectively. The accounting firms were 13 (12 percent) respondents with only a few (four or 4 percent) being independent chartered accountants and other (Table 5.1, Figure 5.2). The trading sector has a high percentage.

Table 5.1 Type of business sectors of the respondents (Q 1)

Description	Frequency	Percent
Trading	31	29
Manufacturing	26	24
Industry	26	24
Accounting Firm	13	12
Other	4	4
Independent Charted Accountant	4	4
Independent Account	3	3
Total	107	100

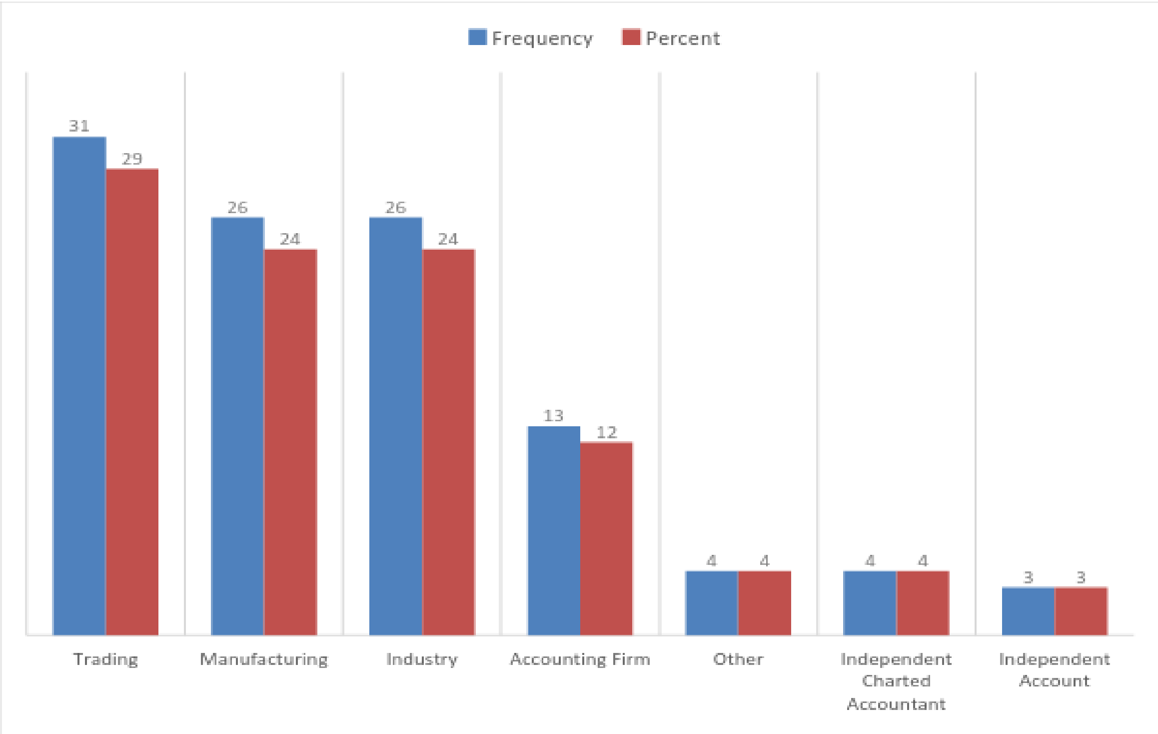


Figure 5.2: Type of business sectors of the respondents (Q 1)

5.3.2 Department (Q6)

The majority of 61 (57 percent) respondents were from the finance department. Almost a fifth or 19 (18 percent) were from accounts departments. The other departments included Auditing, IT, Control, management, manufacture, admin and owners, from which only 11(10 percent) of respondents were obtained and

9 (8 percent) respondents were from creditors department, while only 7 (7 percent) were from the debtors department (Table 5.2; Figure 5.2).

Table 5.2: Departments of which the respondents works (Q 6)

Description	Frequency	Percent
Finance	61	57
Accounts	19	18
Other	11	10
Creditors	9	8
Debtors	7	7
Total	107	100

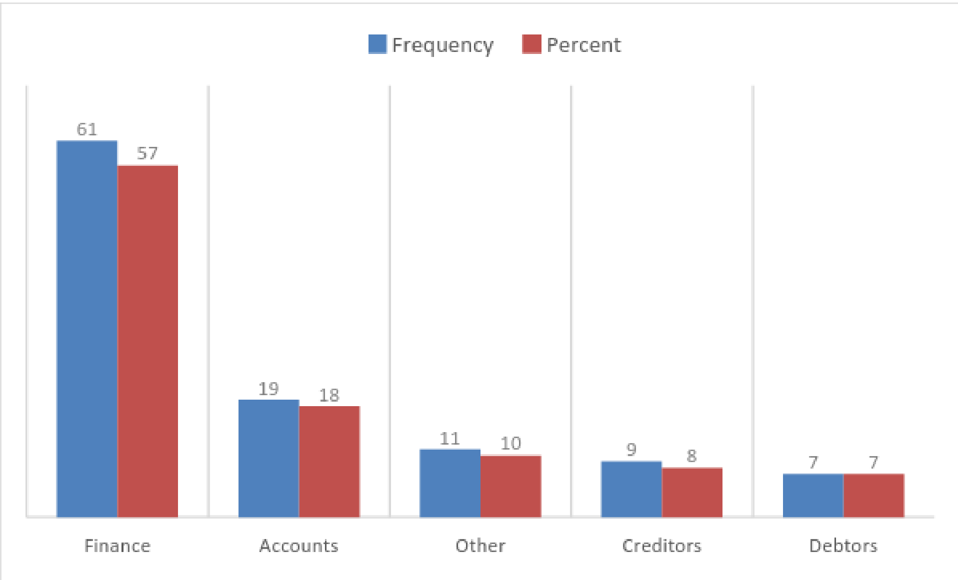


Figure 5.3: Departments of which the respondents works (Q 6)

5.3.3 Job Title (Q 7)

Most of the respondents 51(47 percent), hold the position of accounts clerk. The other positions, 20 respondents (19 percent), are referred to as auditors, cashiers, salaries clerks, asset clerk and admin clerk. The lowest responses 6 (6 percent), were from managers/directors, and the very lowest response rate of 5 (5 percent) was from the category of independent accountant (Table 5.3; Figure 5.4).

Table 5.3: Job Title of the respondents (Q 7)

Description	Frequency	Percent
Account Clerk	51	47
Other	20	19
Owner/Entrepreneur	13	12
Financial Accountant	12	11
Manager/Director	6	6
Independent Accountant	5	5
Total	107	100

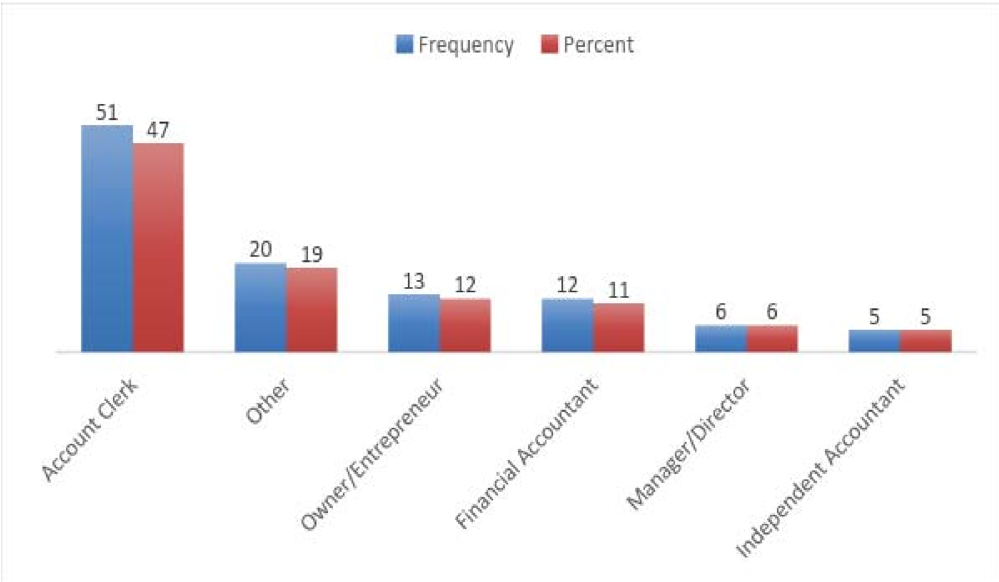


Figure 5.4: Job Title of the respondents (Q 7)

5.3.4 Years with the company (Q8)

The findings show that 17(14 percent) of the respondents had less than a year of services with the business. (Table 5.4; Figure 5.4). This indicates the lack of experience and the respondents a not fully acquainted with accounting methods and knowledge. This will than increase level of not understanding due to short working experience.

The respondents who had been employed from 1-3 years higher number 34 (28 percent), showing that these employees they still need more training and skill development. However, 30 (25 percent) respondents who have had above 3 years within the flied and, 24 (20 percent) respondents had 5 – 10 years, showing that these employees have been employed long to understanding the basics and have understanding of financial management fundamentals. The lowest number of, 16(13 percent) respondents had more than 10 year of employment.

Table 5.4: Total working experience of the respondents (Q 8)

Description	Frequency	Percent
Less than a year	15	14
From 1 to less than 3 years	30	28
From 3 to less than 5 years	27	25
From 5 to less than 10 years	21	20
10 years or more	14	13
Total	107	100

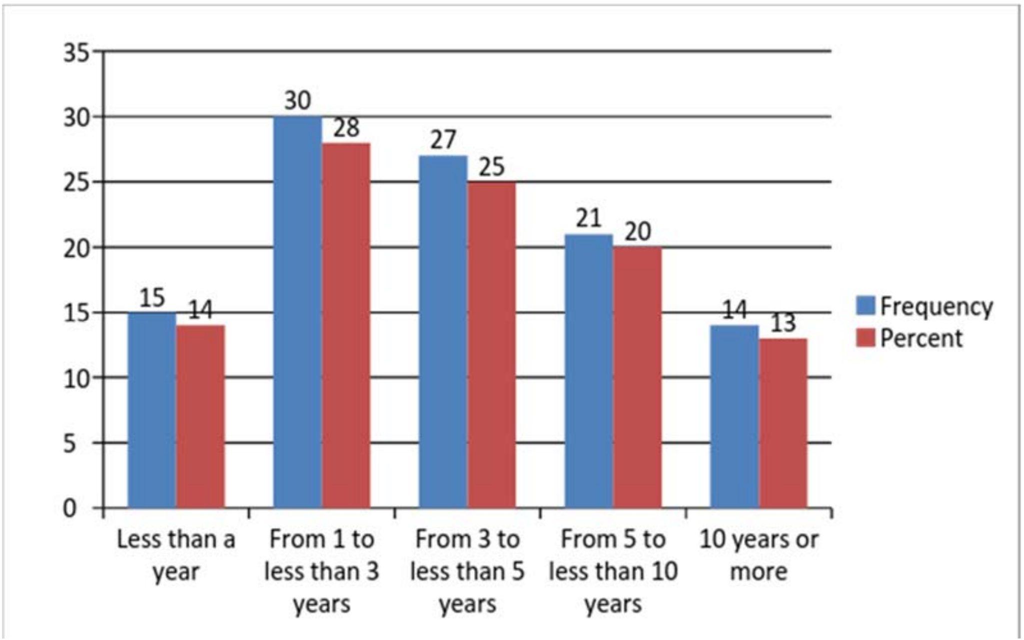


Figure 5.5: Total working experience of the respondents (Q 8)

5.3.5 Gender (Q2)

The gender consisted of 107 SMEs 56 (52 percent) of respondents were male and 51(48 percent) of the respondents were female. This shows that the demographics of business sectors in SMEs, in terms of gender are mostly comprised of males. In other words, there are more males in SMEs, as opposed to females at the SMEs finances. Therefore, SMEs still have to improve on this aspect. (Table 5.5; Figure 5.6)

Table 5.5: Gender of the respondents (Q 2)

Description	Frequency	Percent
Female	51	48
Male	56	52
Total	107	100

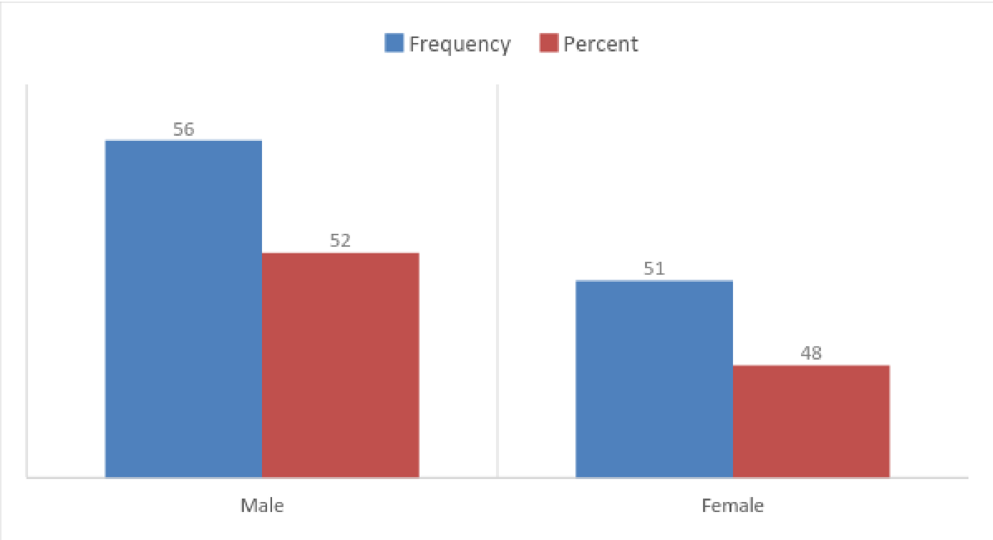


Figure 5.6: Gender of respondents (Q 2)

5.3.6 Race (Q3)

The research showed that the majority of the respondents (76 percent) in this study are Black African, which makes this race group a constant factor in the analysis, and the Indian respondents were only (18 percent) and Coloured respondents were (6 percent). This shows that the majority of SME employees are Black. This is because the majority of the population in Durban, working within the city consist of African and other cultures.

Table 5.6: Race of the respondents (Q 3)

Description	Frequency	Percent
Black	81	76
Indian	20	18
Cultured	6	6
Total	107	100

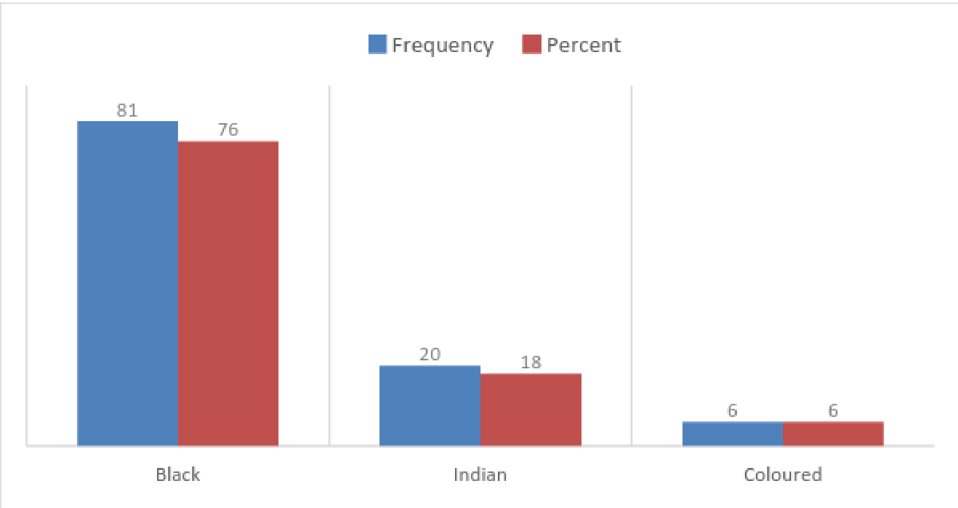


Figure 5.7: Race of respondents (Q 3)

5.3.7 Age (Q4)

The results of the age group are shows that 72 (67 percent) and 25 (23 percent) of the respondents were from the up to 30 and 31 – 40 year age groups, respectively. (Table 5.7 and Figure 5.8). From this, it would appear that youth in Durban are participating in entrepreneurship and self-empowerment by introducing new jobs in the market, in order to fight poverty and decrease unemployment numbers. Although 7 (7 percent) of the respondents were from the 41 – 50 year age group, the lowest number of 3 (3 percent) of the respondents were from the 51 – 60 year age group. This could indicate that respondents at this age did not participate because at this they are mostly retired.

Table 5.7: Age of the respondents (Q 4)

Description	Frequency	Percent
Up to 30	72	67
31- 40	25	23
41-50	7	7
51-60	3	3
Total	107	100

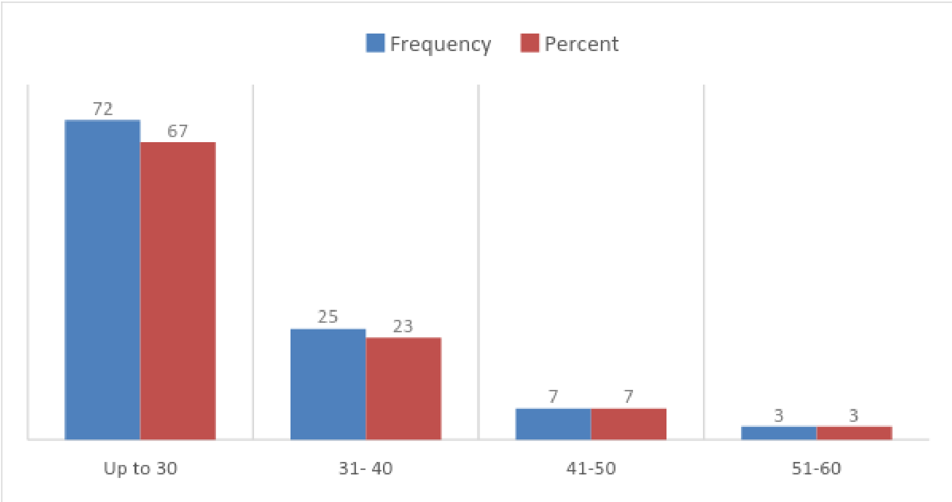


Figure 5.8: Age of respondents (Q 4)

5.3.8 Qualification (Q5)

As far as qualifications are concerned, the study showed that the majority of the respondents (55 percent) had a National Diploma/Matriculation, while less than a quarter of the respondents (21 percent) had B.Tech as a qualification. The lowest number of respondents had higher degree qualifications (3 percent). This therefore indicates that the majority of the respondents do however have a basic foundation of financial management (Table 5.8 and Figure 5.9).

Table 5.8: Qualification of the respondents (Q 5)

Description	Frequency	Percent
National Diploma/Matric	59	55
B.Tech	23	21
Degree	13	12
Some schooling	5	5
Other	4	4
Higher Degree	3	3
Total	107	100

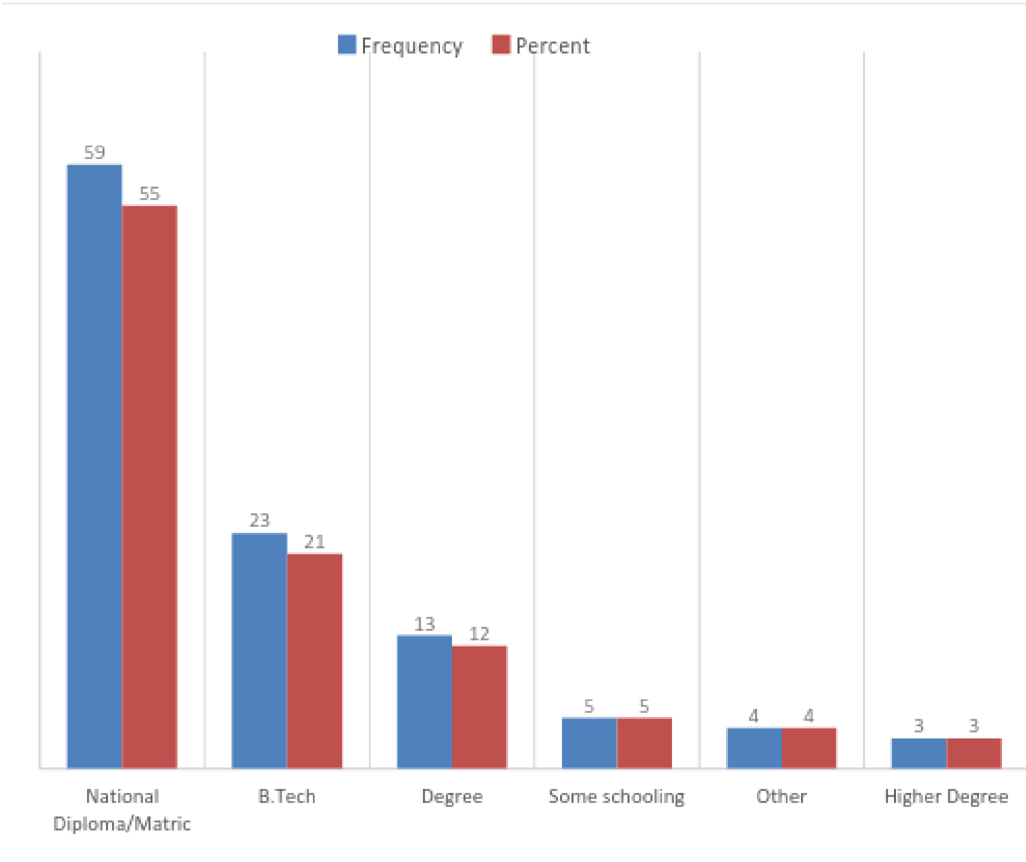


Figure 5.9: Qualification of the respondents (Q 5)

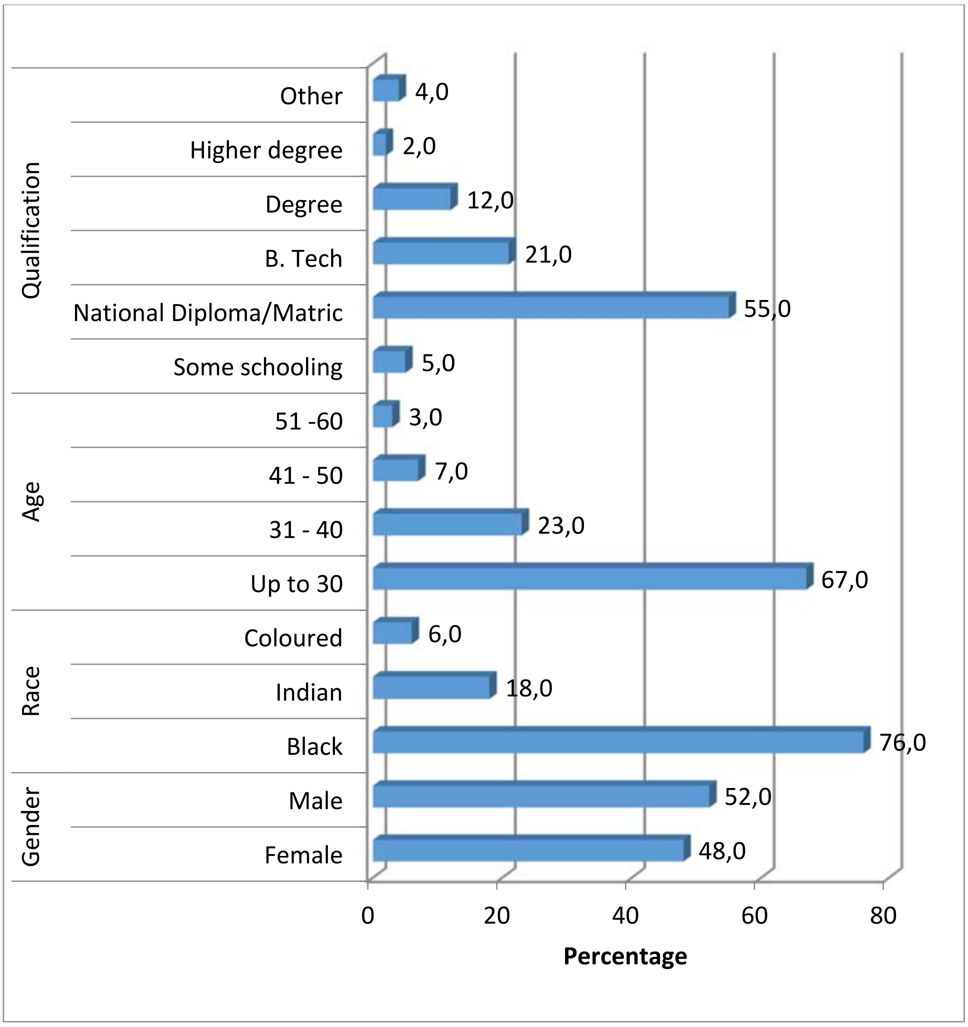


Figure 5.10 – Combined figure for respondents qualification, age, race and gender (Q2,Q3,Q4 and Q5)

5.3 Part B: The study objectives

This part consists of four sections, covering the findings on the objective of the study. Thirteen questions were asked in this part of the questionnaire and the graphs included, incorporate the questions and findings.

5.4 Section 1: Factors that influence financial stability (Q 9)

The purpose of this section was to identify the factors perceived to affect the financial stability of SMEs. Results from a Wilcoxon signed ranks test show significant agreement by the respondents on the following factors:

5.4.1 Lack of Understanding of Financial Reporting (Q9.1)

The result presented shows that the majority of the respondent 53 (49 percent) agree that the lack of understanding of financial reporting has a negative impact on the financial stability of the business. In addition, 43 (40 percent) respondents strongly agree. Figure 5.11.1

Only 3 (3 percent) of the respondents strongly disagreed with the statement. Which shows that a limited number of SMEs still do not understand the importance of financial reporting.

According to Jindrichovska (2013:80), a number of owners run the business without being involved in the financial reporting process, as a result "do not have enough knowledge or interest in recording transactions, preparation and analysis of financial statements".

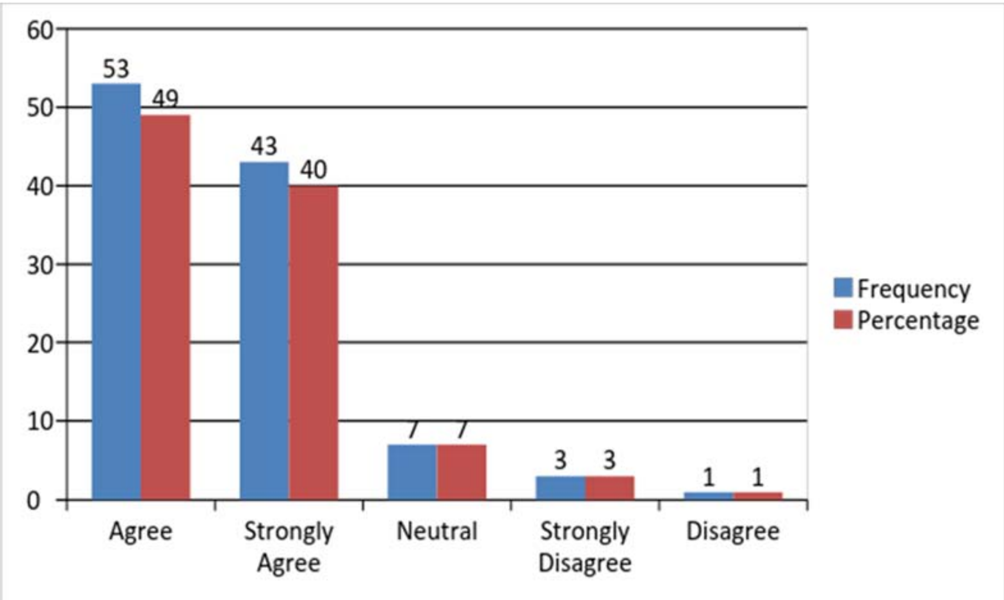


Figure 5.11.1: Lack of Understanding of Financial Reporting (Q9.1)

5.4.2 Inexperienced Staff (Q 9.2)

The results shows that 52(48 percent) of respondents agree and 48 (45 percent) strongly agree that inexperienced staff dealing with financial reporting has a negative impact in financial stability. Only 3 (3 percent) respondents disagree and 4 (4 percent) were neutral. (Figure 5.11.2). As stated by Wiese (2014: 68), a lack of experience threatens the business' sustainability.

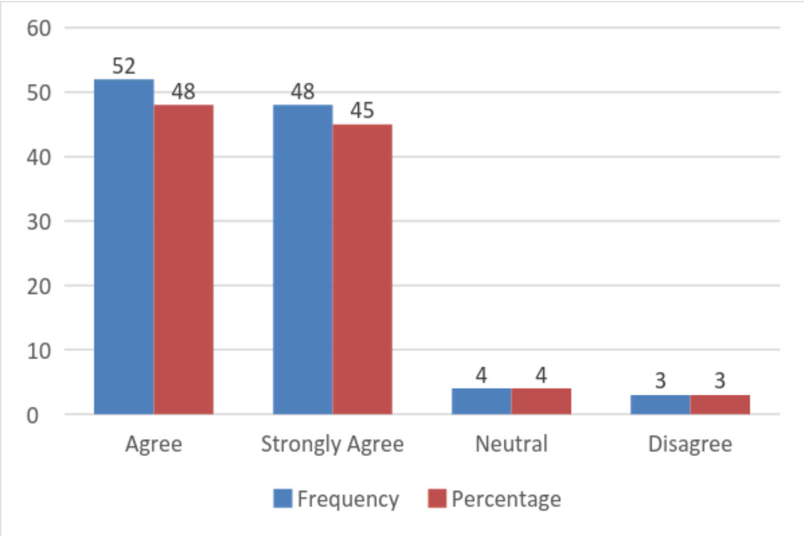


Figure 5.11.2: Inexperienced Staff (Q 9.2)

5.4.3 Lack of integration among staff (Q 9.3)

The results that shows that 52 (48 percent) of respondents agreed and 48 (45 percent) strongly agreed that the lack of integration is another factor that impacts financial stability negatively. Only 4 (4 percent) of the respondents were neutral, while 3 (3 percent) disagreed.

This indicates a need for small businesses to run workshops or team building that will put staff together, in order to build unity, sound communication, and strong relationships among staff (Islam, *et al.* 2011: 290).

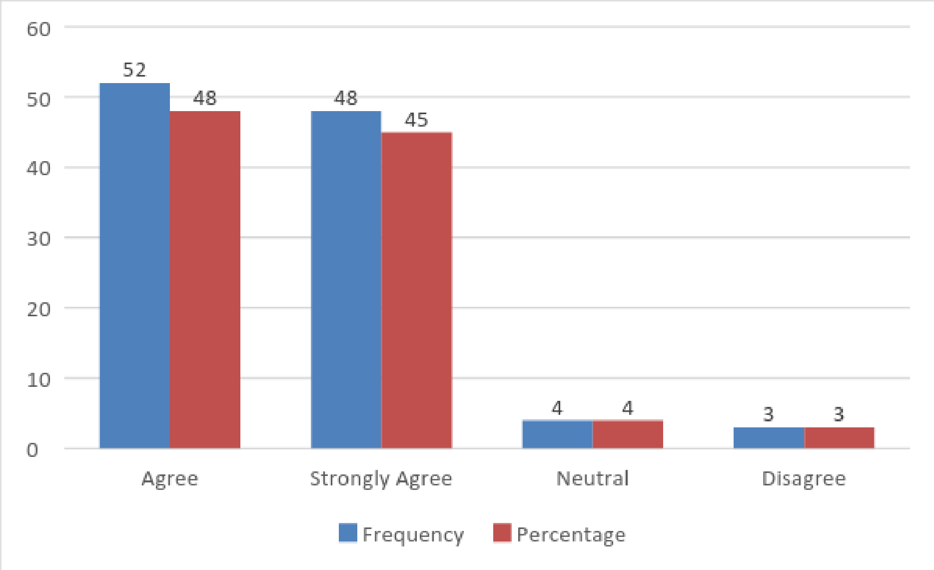


Figure 5.11.3: Lack of integration among staff (Q 9.3)

5.4.4 Investors (Q 9.4)

The results show that investors play an important role in the business' financial stability, with 59 respondents indicating that they strongly agree and 40 respondents who agree (Figure 5.11.4). Only four respondents disagree and one strongly disagrees.

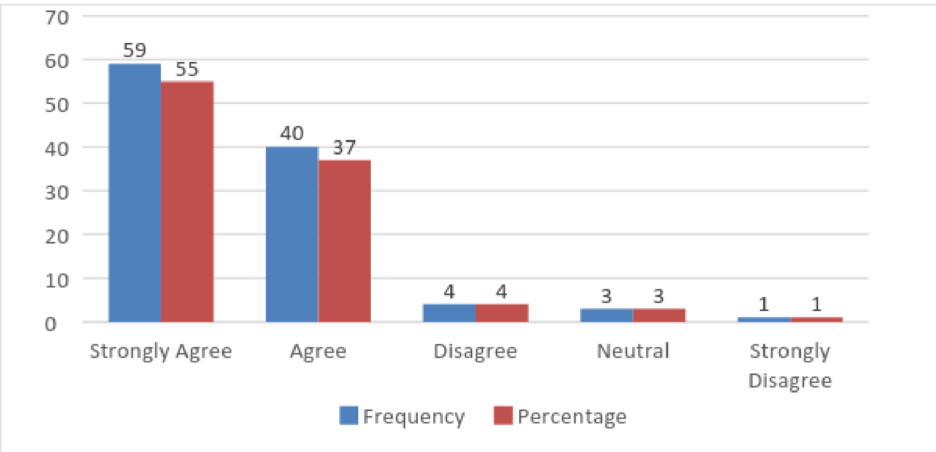


Figure 5.11.4: Investors (Q 9.4)

5.4.5 Slow growth in the economy (Q 9.5)

The findings shown in Figure 5.11.5 illustrate that the majority of 49 respondents agree and 44 strongly agree with the statement that the economy's slow growth and economic downturn affect the business' sustainability, as confirmed by Wiese (2014: 68). The minority of 11 respondents were neutral, while two strongly disagreed and one respondent disagreed

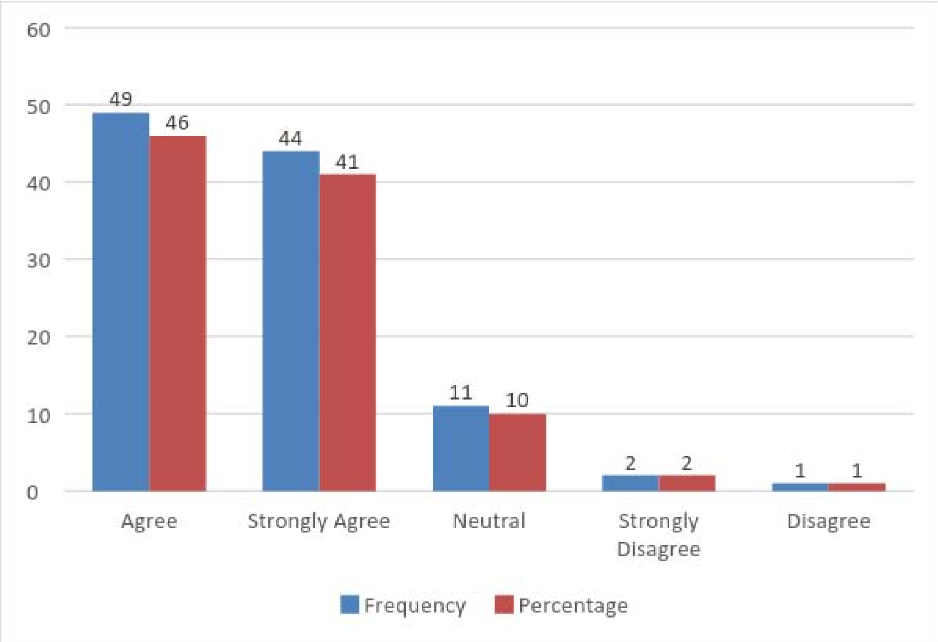


Figure 5.11.5: Slow growth in the economy (Q 9.5)

5.4.6 Summary Conclusion

Mvitondi (2012: 4) describes Wilcoxon signed ranks test as the other type of testing hypotheses in order to test the difference between two means. The following results were determined by using Wilcoxon signed ranks test. (Appendix 3):

- Lack of understanding of financial reporting (Z (N=100) = -7.693, p<.0005); has a negative impact with a mean score of 4.22 (Q9.1)

- Inexperience has a negative impact on the financial stability of the business (Z(N=100) = -8.491, p<.0005); with a mean score of 4.35 (Q9.2)
- Lack of integration among staff (Z(N=99) = -8.182, p<.0005); has a negative impact towards the financial stability, with a mean score of 4.17 (Q9.3)
- Investors, namely creditors, shareholders, banks, have a positive impact on financial stability (Z (N=100) = -8.276, p<.0005); with a mean score of 4.41 (Q9.4)
- Slow growth in the economy (Z (N=100) = -7.833, p<.0005) has a negative impact on financial stability, with a mean score of 4.23 (Q9.5)

5.5 Section 2: Factors affecting credibility of a financial report (Q 10)

The purpose of this section was to determine the factors that affect the credibility of financial reporting and those elements that have an impact on the correctness of the financial reporting. Results from a Wilcoxon signed ranks test clearly demonstrate the factors below have a negative influence on the credibility of financial reporting:

5.5.1 : Poor Administration Control (Q 10.1)

The findings shows that 57 respondents strongly agree and 47 agree that poor administration of resources can affect financial reporting negatively. Only two respondents strongly disagree and one respondent disagree. Figure 5.12.1

Jindrichovska (2013: 80) explains that most of small businesses are unsuccessful due to a lack of knowledge and poor management.

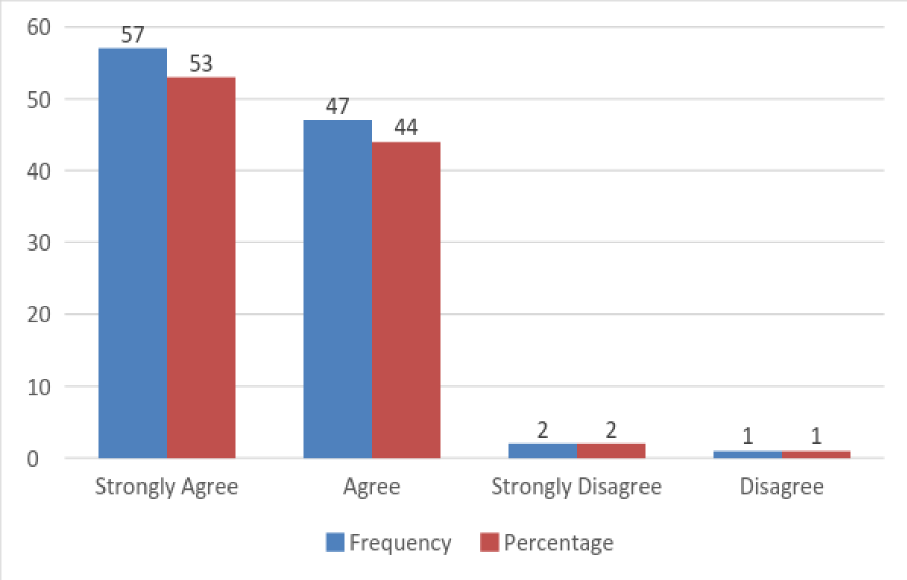


Figure 5.12.1: Poor Administration Control (Q 10.1)

5.5.2 Lack of Financial Data (Q 10.2)

The result illustrates that the lack of precise financial data has a negative impact on the credibility of financial report. The majority of respondents 57 agree and 48 respondents strongly agree; only 1 respondent disagreed and other one was neutral. Figure 5.12.2

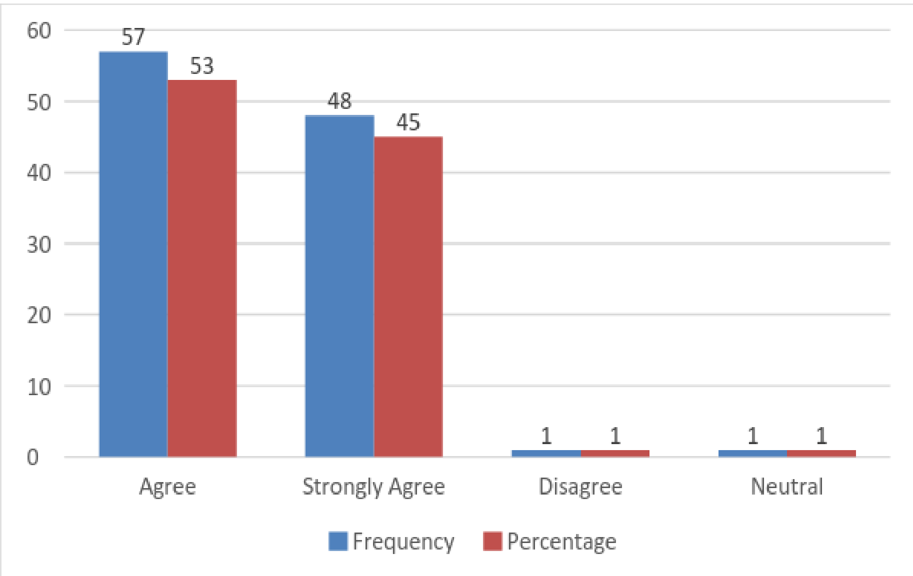


Figure 5.12.2: Lack of Financial Data (Q 10.2)

5.5.3 Accuracy of Information (Q 10.3)

The largest number of respondents 60 (56 percent) strongly agree and 44(41 percent) agree with only 4(3 percent) respondents were neutral. Figure 5.12.3

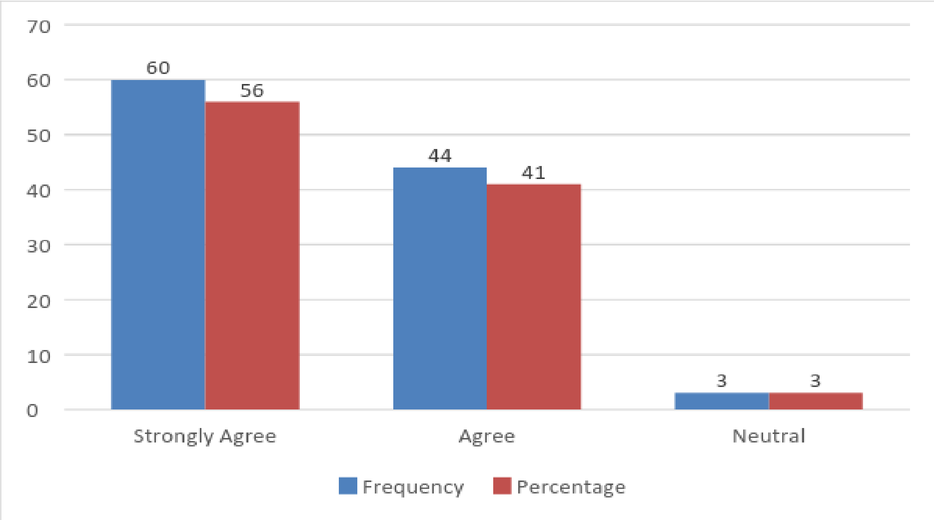


Figure 5.12.3: Accuracy of Information (Q 10.3)

5.5.4 Summary Conclusion

The analysis was determined by testing hypotheses between the following factors that affect the credibility of financial reporting. Wilcoxon signed ranks test was applied. (Appendix 3):

- Poor administration has a negative impact on financial reporting (Z(N=100) = -8.319, p<.0005), with a mean score of 4.36(Q10.1).
- Lack of precise financial data also has a negative impact towards the credibility of the financial reporting (Z (N=100) = -8.825, p<.0005), with a mean score 4.42 (Q10.2).
- Accuracy of information (Z (N=100) = -8.848) has a negative effect on the reliability of the information, with a mean score 4.53 (Q10.3).

5.6 Section 3: Processes and methods of financial reporting (Q 11)

The results revealed that 27 percent of the respondents are using ITS, whereas 19 percent of the respondents are using Pastel Accounting (Table 5.9 ; Figure 5.13). This is followed by 14 percent of the respondents who use SAP and 12 percent of the respondents applied DJ Edwards. The lowest systems rates that respondents use were only 1 percent, which are Turbo cash and Admini-Soft Accounts.

Table 5.9: Accounting Software Systems (Q 11)

Description	Frequency	Percent	Valid Percent	Cumulative Percent
ITS	29	27.0	27.0	27.0
Pastel Accounting	20	19.0	19.0	72.0
SAP	15	14.0	14.0	53.0
JD Edwards	14	12.0	12.0	39.0
xTuple Post Books	8	7.0	7.0	88.0
VT Cash Book	6	6.0	6.0	94.0
Sage ACCAPACS	4	4.0	4.0	76.0
Tas Basics	3	3.0	3.0	81.0
Invoice Expert XE	3	3.0	3.0	94.0
Other	3	3.0	3.0	100.0
Turbo cash	1	1.0	1.0	77.0
Admini-soft Accounts	1	1.0	1.0	78.0
Total	107	100.0	100.0	

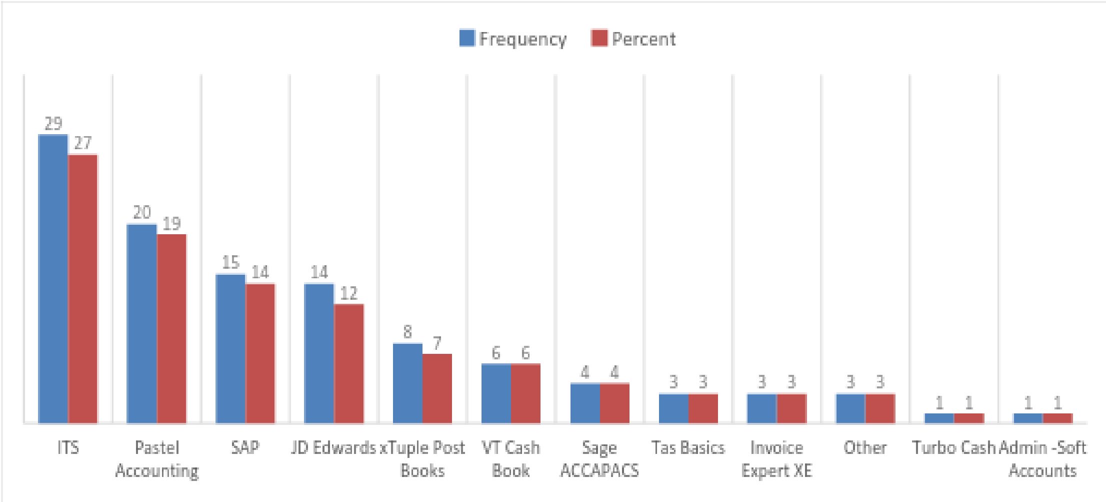


Figure 5.13: Accounting Software Systems (Q 11)

5.6.1 Organisation upgrade in accounting software (Q12)

Results from a chi-square goodness-of-fit analysis shows that most (42 percent) respondents indicate that they upgrade their accounting software every six months, while a lesser number (35 percent) upgrade once a year. Some of the respondents never thought of upgrading the system. ($\chi 2$ (11, N=100) =87.200, $p<.0005$) (Table 5.12; Figure 5.14).

Chi-square goodness of fit is another test are used in testing hypotheses between two or more different variables (Mvitondi, 2012: 4).

Table 5.10: Accounting Software Upgrades (Q 12)

Description	Frequency	Percent
At least once a month	10	9
At least once every 6 months	44	42
At least once a year	37	35
Less than once a year	4	4
Never	12	10
Total	107	100

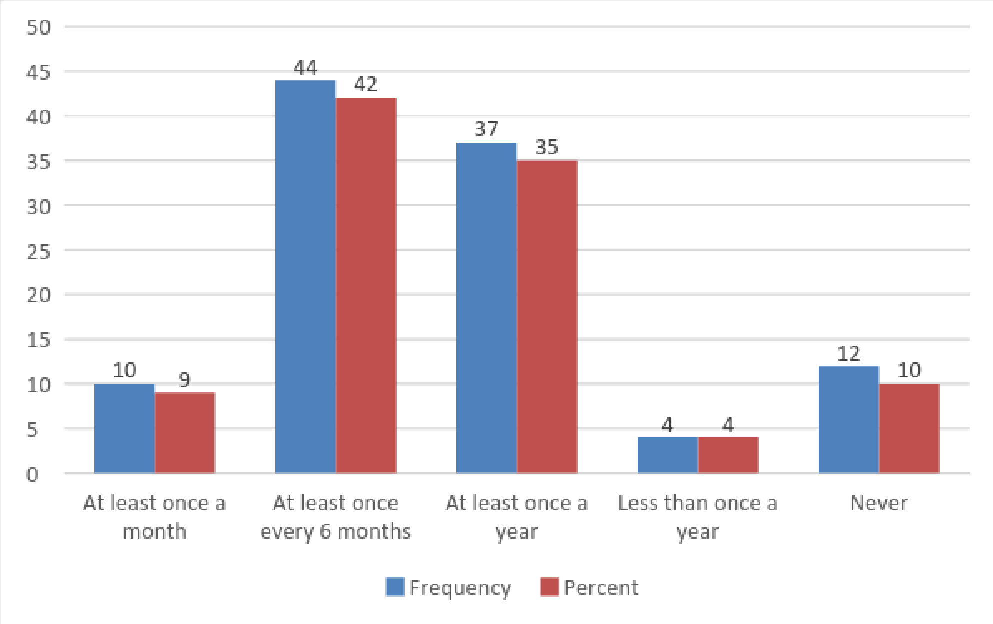


Figure 5.14: Accounting Software Upgrades (Q 12)

5.6.2 Modification of the accounting software system (Q13)

The findings show 48 respondents (45 percent) who indicated that their business undertakes system upgrading at least every six months; which was the highest percentage. Whereas 25 respondents (23 percent) were unsure when last the system was modified, 19 respondents (18 percent) indicated a system upgrade once a year, with 13 respondents (12 percent) who specified that this was done within a month (Table 5.11 and Figure 5.15).

This shows that almost a quarter of the respondents do not have an accounting system in place because they outsource their accounting services to accounting firms. As a result, most SME owners do not have an understanding of financial management and practice poor financial management (Jindrichovska, 2013: 79).

Table 5.11: System modification of Accounting (Q 13)

When last was the software system modified?	Frequency	Percent
in the last month	13	12
in the last 6 month	48	45
in the last year	19	18
more than a year ago	2	2
not sure	25	23
Total	107	100

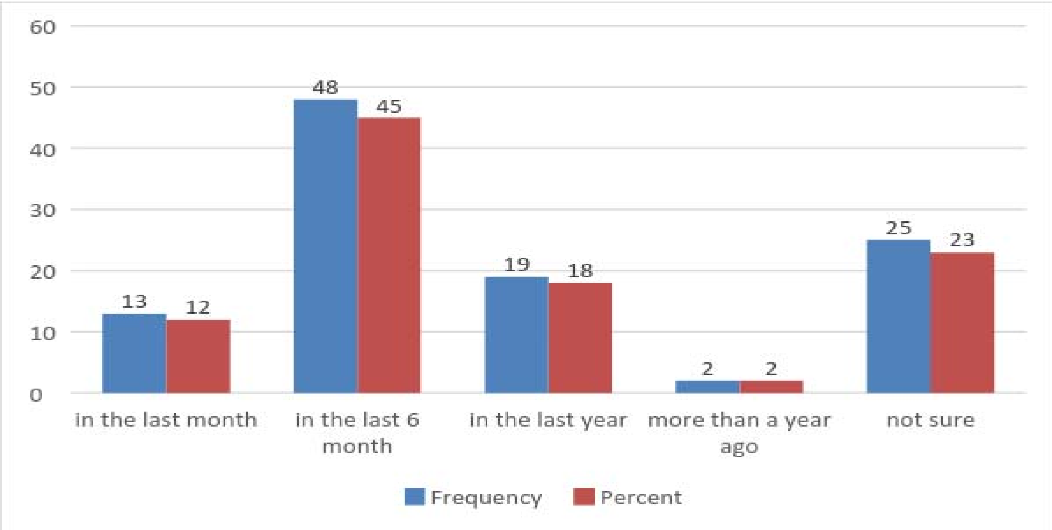


Figure 5.15: System modification of Accounting (Q 13)

5.6.3 Staff Training (Q14)

More than a quarter 29 (27 percent) of the respondents implement staff training at least every six months and 46 (43 percent) respondents specified that this happens at least every year, with 20 (19 percent) of the respondents indicating staff training takes place once a year or less/not. The lowest number of 12 (11 percent) respondents never went for staff training. (Table 5.12 and Figure 5.16)

This may be due to most of the businesses depending on their Accountants to develop and present their financial reports with analysis (Jindrichoska, 2013: 80).

Table 5.12: Staff Training (Q 14)

14. Indicate the frequency with which financial staff undergo training?	Frequency	Percent	Valid Percent	Cumulative Percent
At least every 6 months	29	27.0	27.0	27.0
At least every year	46	43.0	43.0	70.0
Less often than once a year	20	19.0	19.0	89.0
Never	12	11.0	11.0	100.0
Total	107	100.0	100.0	

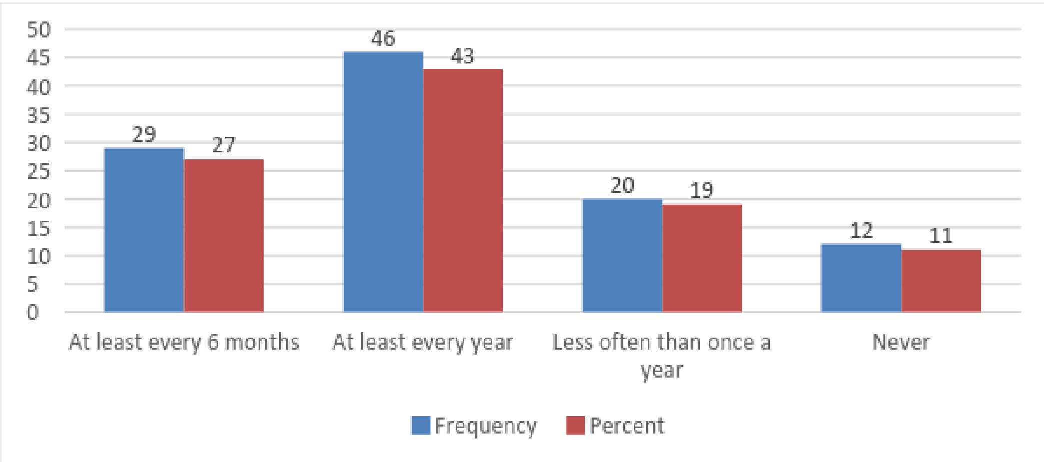


Figure 5.16: Staff Training (Q 14)

5.6.4 Duration of training (Q15)

The findings shows that 86 (80 percent) of the respondents stated that they went for training for less than a month within the finance department. Whereas 18 (17 percent) of respondent training during took one to six months, only 3 (3 percent) underwent training for more than six months. (Table 5.13 and Figure 5.17)

Financial reporting and analysis, together with the interpretation of financial statements, in order to understand the financial performance and position of a business, needs more than six months. Therefore, SMEs should invest in human capital, understanding that the accomplishment of the business in general depends on achievement of the goals and objectives (Islam *et al.* 2011: 289). As a result, employees and management (human capital) implement those goals and objectives, not the business.

Table 5.13: Duration of Staff Training (Q 15)

13. How long does it take to do staff training?	Frequency	Percent	Valid Percent	Cumulative Percent
Less than a month	86	80.0	80.0	80.0
1 to 6 months	18	17.0	17.0	97.0
More than 6 months	3	3.0	3.0	100.0
Total	107	100.0	100.0	

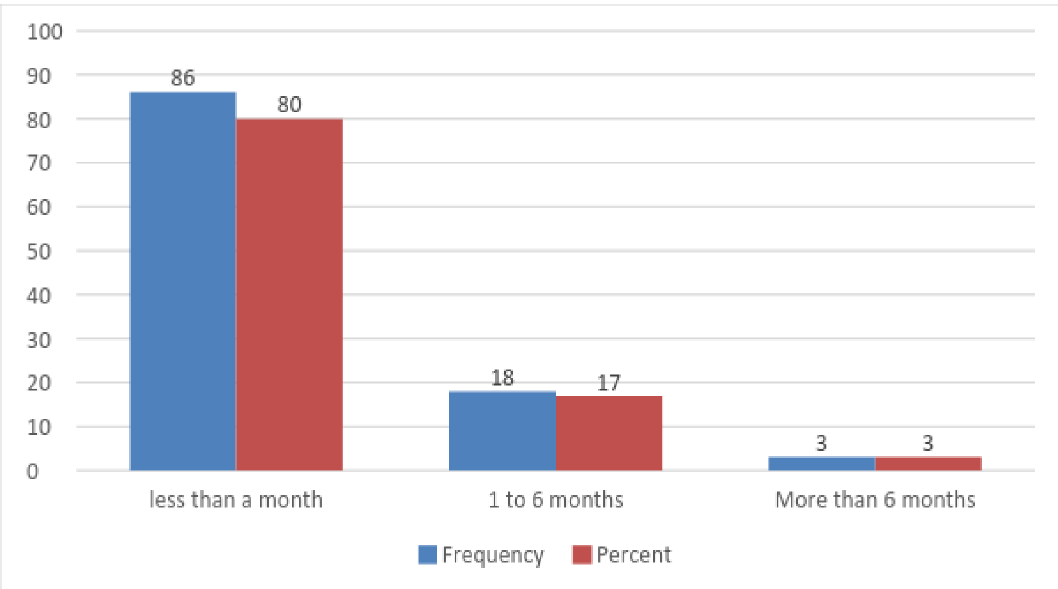


Figure 5.17: Duration of Staff Training (Q 15)

5.6.5 Segregation of duties (Q16)

The findings (Figure 5.18) show that the majority of the respondents 56 agree and 50 strongly agree that the segregation of duties, during the process of preparing the financial reports, plays an important role. Only one disagreed due to the owner being in charge of everything. Results from a Wilcoxon signed ranks test show that there is significant agreement that segregation of duties have a positive impact on financial reporting (Z (N=100) = -8.869, p<.0005) (Appendix 3).

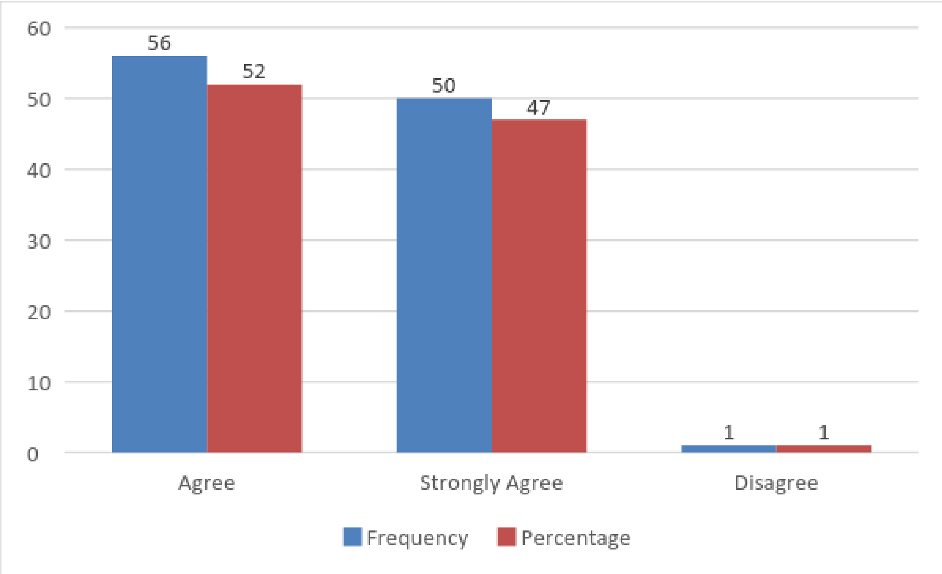


Figure 5.18: Segregation of Duties (Q 16)

5.6.6 Usage of segregation of duties (Q17)

The results illustrate that 96 percent of the respondents agreed that segregation of duties was implemented and performed, while only 4 percent said no. (Table 5.14 and Figure 5.19)

This shows that the majority of SMEs sub-divide duties in order that staff is overloaded with work, which results in poor performance. Cooper (2012: 19) outlines that segregation of duties is very important when implemented correctly, and that it leads to significant progress being made in achieving the objective of the business.

Table 5.14 Segregation of duties (Q 17)

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	103	96.0	96.0	96.0
No	4	4.0	4.0	100.0
Total	107	100.0	100.0	

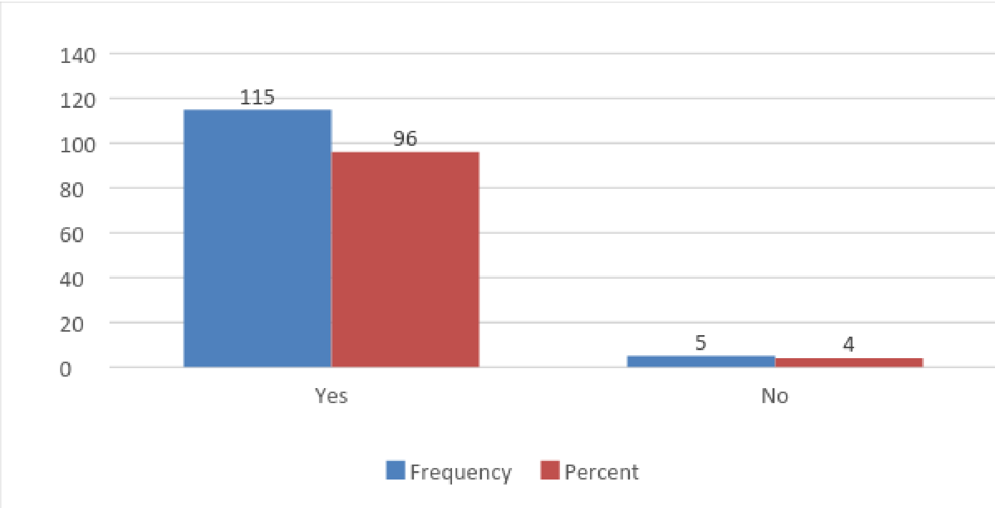


Figure 5.19: Segregation of duties (Q 17)

5.6.7 Financial Reports management (Q18)

The findings of the study indicate that 55 (51 percent) of the respondents indicated that the entrepreneur/manager is accountable for managing financial reports and 34 (31 percent) indicated the accountant only. The supervisors and accounts clerk were only by 7 (7 percent) respectively, while 'other' obtained the minimum of 4 (4 percent) of the respondents (Table 5.15 and Figure 5.20).

Therefore this result indicates that the understanding and knowledge of financial management plays a major role in determining the future success of the business. According to Jindrichovska (2013: 80) SMEs liquidate not because of a lack of resources but due to a lack of understanding and usability of financial management.

Table 5.15: Accountable for managing Financial Reports (Q 18)

	Frequency	Percent	Valid Percent	Cumulative Percent
Entrepreneur/ Manager	55	51.0	51.0	51.0
Accountant only	34	31.0	7.0	58.0
Supervisor	7	7.0	31.0	89.0
Accounts Clerk	7	7.0	7.0	96.0
Other	4	4.0	4.0	100.0
Total	107	100.0	100.0	

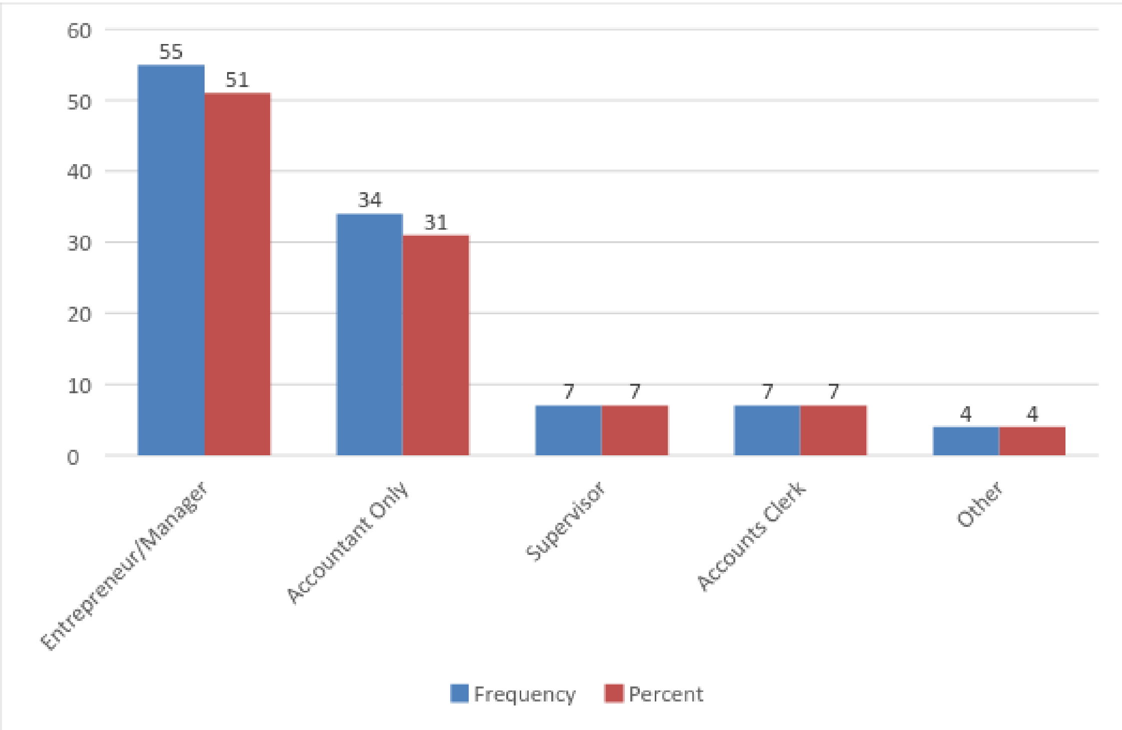


Figure 5.20: Accountable for managing Financial Reports (Q 18)

5.6.8 Processes and methods of financial reporting *(Q20)*

The results shows that 63 percent of respondents indicated that the owners/ manager selects the processes and methods on how to present financial reporting and 26 percent indicated that this is the responsibility of accountants. Whereas 8 percent indicated 'others' are responsible for selection, only 3 percent indicated that the responsibility lies with financial or accounts clerks. (Table 5.16 and Figure 5.21)

The owners being indicated as the responsible parties are the higher rate, which could be due to the owner knowing the nature of the business, making it easier for them to select which process and method should be used. However, they may still fail in how to manage and grow their businesses (Jindrichovska, 2013: 80)

Table5.16: Selectors of processes and methods for Financial Reporting (Q20)

	Frequency	Percent	Valid Percent	Cumulative Percent
The owner/Manager	67	63.0	63.0	63.0
Accountant	28	26.0	26.0	89.0
Other	9	8.0	8.0	92.0
Workers/ Account clerk	3	3.0	3.0	100.0
Total	107	100.0	100.0	

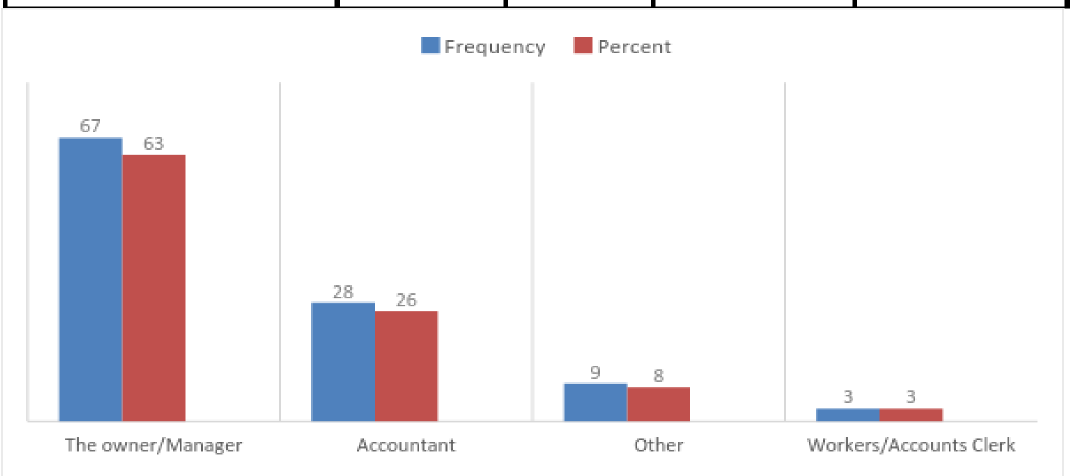


Figure 5.21: Selectors of processes and methods for Financial Reporting (Q20)

5.7 Section 4: Relationship between financial reporting and financial stability of the business entity. (Q21)

In this last section, the questions were included to determine the factors that influence both financial reporting and financial stability. Wilcoxon signed ranks test was used in testing these two hypotheses.

5.7.1 Weak Cooperation among staff (Q 21.1)

The findings for this statement show that a majority of 57 respondents (53 percent) agree and 29 respondents (27 percent) strongly agree that weak cooperation among staff affects the financial reporting process and financial stability of the business. While 15 respondents were neutral, six disagreed with the statement.(Figure 5.22.1). Wiese (2014: 66) states that networking is the most important informal support within the business.

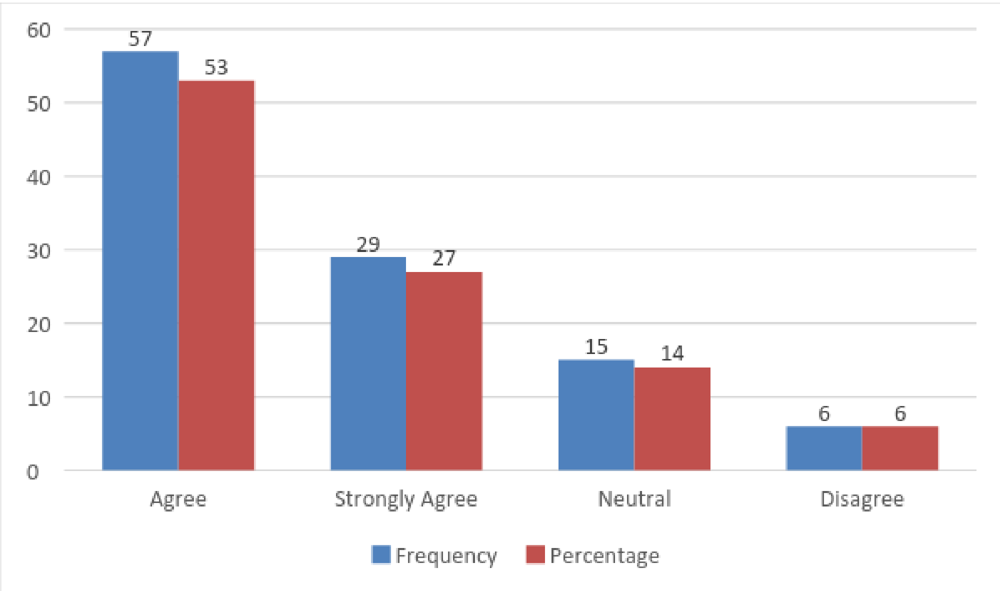


Figure 5.22.1: Weak Cooperation among staff (Q 21.1)

5.7.2 Lack of knowledge and Information (Q 21.2)

Knowledge and information of accounting software systems are essential factors in the business' success. The findings show (Figure 5.22.2) that 57 respondents and 29 respectively agree and strongly agree with the statement that the lack of knowledge and information about accounting software systems has a negative impact on the financial stability of the business. Only 15 respondents indicated that they were neutral, while six respondents disagreed.

Modimagale and Kroeze (2011) explain that the information, knowledge and their intelligent presentation are important elements to keep the business operational in this new economy.

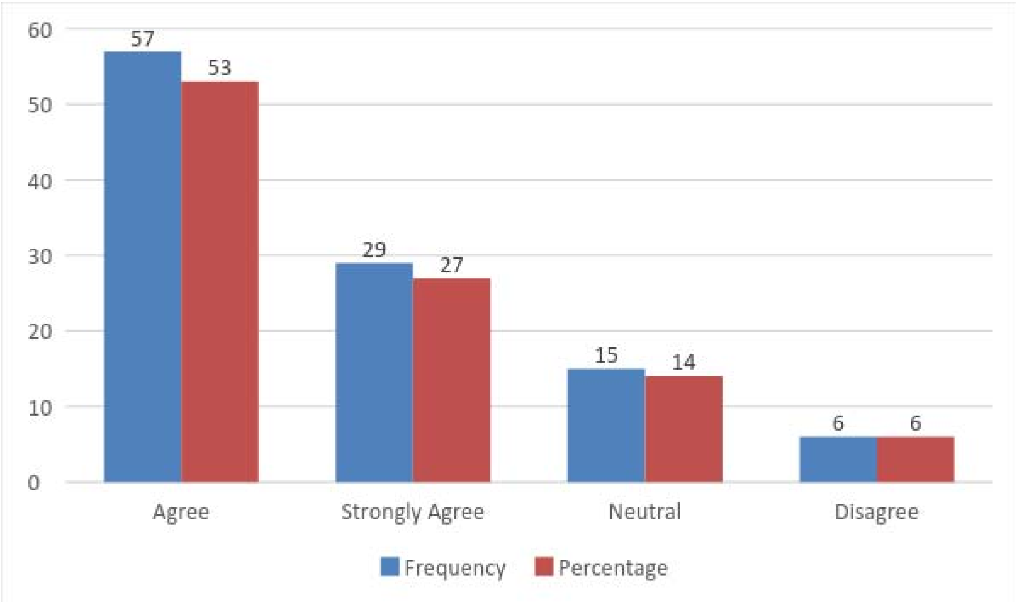


Figure 5.22.2: Lack of knowledge and Information (Q 21.2)

5.7.3 Lack of financial control processes (Q 21.3)

The majority of 59 (55 percent) respondents agree and 47 (44 percent) respondents strongly agree that the inadequate control of financial processes have a negative impact on the financial stability of an entity.(Figure 5.22.3) These findings show the strong related relationship between the two variable factors of financial reporting and financial stability. Wilcoxon signed ranks test was used in determining this result. Jindrichovska (2013: 86) outlines that the amendment of financial reporting has an effect on financial management, which leads to change in financial stability evaluation.

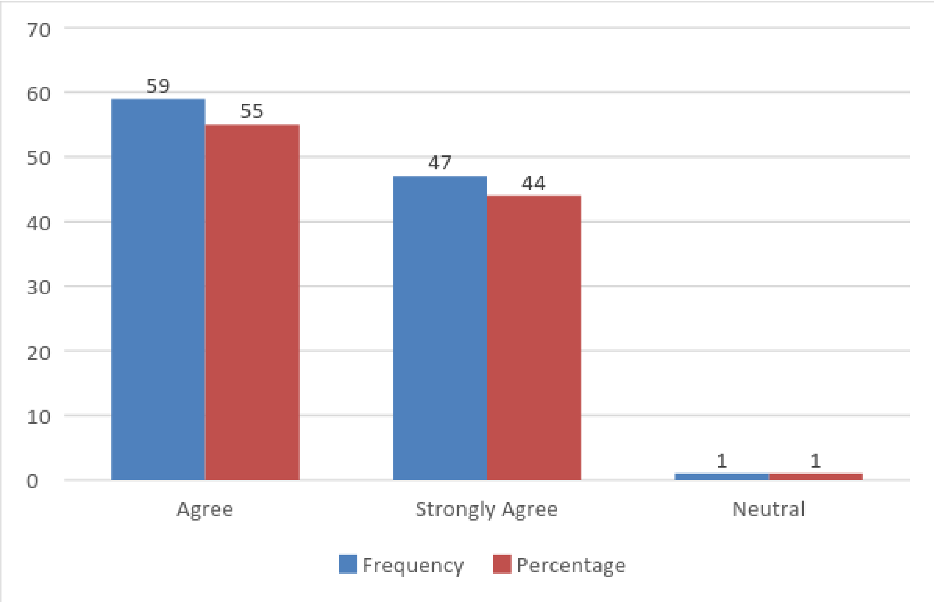


Figure 5.22.3: Lack of financial control processes (Q 21.3)

5.7.4 IFRS for SMEs (Q 21.4)

The findings shows that 70 percent of the respondents agree and 28 percent strongly agree with the new IFRS for SME principles and that disclosure of items has a significant impact on the business' financial stability, while only 2 percent disagree. (Figure 5.22.4) The introduction of the new IFRS for SMEs changes financial management and affects the businesses as a whole, as the accounting section of business implements the new ways of presenting line terms in Financial Reporting.

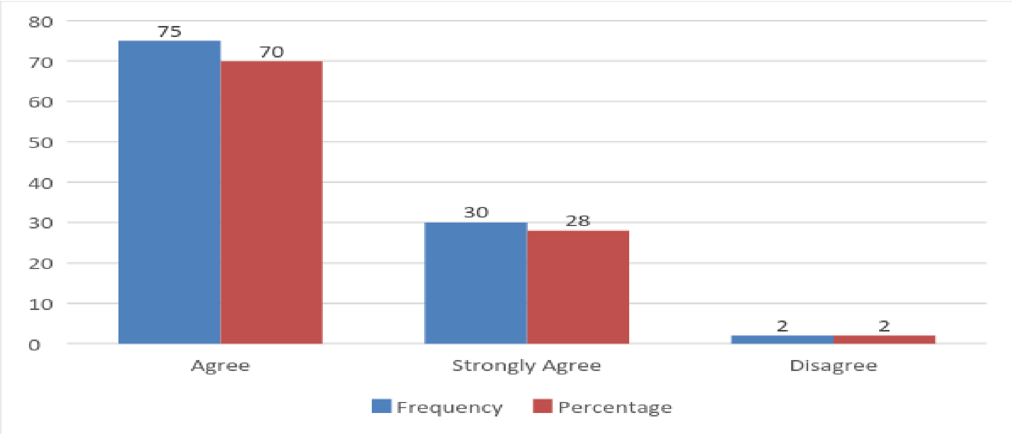


Figure 5.22.4: IFRS for SMEs (Q 21.4)

5.7.5 Awareness of financial accounting (Q 21.5)

The statement on awareness of financial accounting (Figure 5.21.5) shows the majority (55) of respondents (51 percent) strongly agreeing, with 51 of the respondents (48 percent) indicating that they agree and only1 (1 percent) was neutral. Therefore; this shows that the knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.

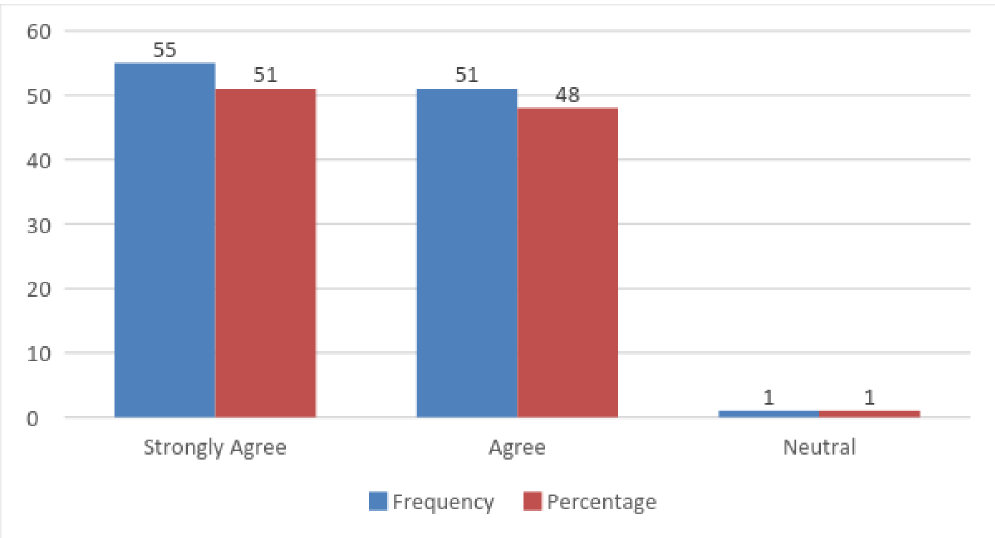


Figure 5.21.5: Awareness of financial accounting (Q 21.5)

5.7.6 Summary Conclusion

The results from a Wilcoxon signed ranks test illustrate that the following factors affect both financial reporting and financial stability, which shows both variable connection and the relationship. The findings are analysed as follows. (Appendix 3):

- Weak cooperation among staff (Z(N=100) = -8.497, p<.0005) has a negative impact on financial stability through financial reporting, with a mean of 4.42 (Q21.1)
- Lack of 21st century information (Z (N=99) = -7.618, p<.0005) also it has a negative impact on financial stability, with a mean of 4.01 (Q21.2)
- IFRS for SMEs principles and disclosure have an important impact on business financial stability (Z(N=100) = -8.874, p<.0005); with a mean score of 4.24 (Q21.4)
- Knowledge and understanding of the financial reporting has a significant impact on financial stability (Z (N=100) = -8.918, p<.0005); with a mean score of 4.50 (Q21.5).

5.4 CONCLUSION

The data analysis of this study shows that financial reporting does contribute towards financial stability of the business. However, on the one hand, financial reporting cannot keep the business sustainable, yet on the other hand, it can provide financial information about the business. Furthermore, selected financial management fundaments influence the financial stability of the business.

The findings were presented in the form of figures, tables and pie charts. These indicated that factors, which influence financial stability, show that a lack of understanding, inexperienced staff and poor control of research are the factors that can affect the sustainability of the business.

The findings on the processes and methods of financial reporting were also presented. The contribution of financial reporting to the financial stability of the business entity was also tested and presented, with results showing an optimistic connection between financial reporting and financial stability of the business. The results on the relationship between financial reporting and financial stability show significant agreement. The demographic profiles of the respondents were also presented. Research is needed regarding the number of SMEs being liquidated, as government sectors provide funding and the private sector makes funding available for those developing business. The next chapter will present the interpretation and conclusions of this study.

CHAPTER SIX
INTERPRETATION OF THE FINDINGS

6.1 INTRODUCTION

The previous chapter presented the data collected in a survey, using a questionnaire as the tool for gathering the information. Descriptive statistics, by way of tables and figures, were used to present the findings.

It was found that most of the respondents were from a finance department in the trading sector. In addition, most of the respondents were found to have experience in the field of accounting but with only a national diploma/matriculation as highest qualification. All this was covered in Part A of the questionnaire, in the demographic and business information.

The study's findings established that most of the respondents do not value the importance of undergoing staff training (Q14). Additionally, the majority of the respondents have knowledge of financial reports but they lack an understanding of the processes and procedures for IFRS for SMEs (Q21.5). Furthermore, the findings show that entrepreneurs were accountable for managing reports, yet owners are the ones who select the processes and methods of the financial reporting. As a result, there are a substantial number of respondents who do not value the importance of undergoing staff training or upgrading information continuously.

The aim of this chapter is to interpret and discuss the empirical findings, as established in the previous chapter. This covers the interpretation of the essential review of the four supporting objectives of the study in Part A and Part B. The layout of this section is further structured in accordance with the four sections of the study.

6.2 OBJECTIVE OF THE STUDY REVIEW

The main purpose of the study was to identify and examine the contribution of financial reporting on the financial stability of selected SMEs in Durban. The intention of the study was to establish to what extent SMEs benefit in financial performance within the business' financial stability. In order to determine the main objective of the study, the following supporting objectives were developed, with relevant questions. These supporting objectives were divided in to four sections as follows (Table 5.1):

- Section one: To identify the factors that influences the financial stability of SMEs (Q9.1 – Q9.5)
- Section two: To identify factors affecting credibility of financial reports for SMEs (Q10.1 – Q10.3)
- Section Three: To determine the processes and methods of financial reporting for SMEs (Q11 – Q20).
- Section Four: To establish the contribution of financial reporting on the financial stability of SMEs (Q21.1 – Q21.4).

These supporting objectives were used, in order to establish and identify those factors that influence financial stability of SMEs and the role financial reports play in achieving financial stability, while also determining the understand-ability and usability of financial reports, and the level of compliance with the financial reporting process.

The findings show that it is mostly the accounts clerks who deal with the financial reports of the business, especially in the trading sector. However, the majority of SMEs use ITS accounting software in processing data for financial reporting.

It is therefore, important that staff is trained and well equipped in the use of a specific financial/accounting system. In this study, the findings show that the majority of businesses undergo staff training once a year. This shows that there is a limitation of skills regarding the new methods and procedures of presenting financial reports, on the financial stability within that period.

Table 6.1: Questionnaire (Q) Layout

Part A	Demographic and Business Information
	Q1: Type of organisation/business Q2: Gender Q3: Race Q4: Age group Q5: Qualification Q6: Department Q7: Job title Q8: Work Experience
Part B	**Supporting Objectives**
SECTION ONE	Q9.1 : Lack of understanding of financial reporting
To identify the factors that influences the financial stability of SMEs.	Q9.2: Inexperience
	Q9.3: Lack of integration among staff
	Q9.4: Investors
	Q9.5: Slow growth in the economy
SECTION TWO	Q10.1 Administration control
To identify factors affecting the credibility of financial reports for SMEs.	Q10.2 Lack of financial data
	Q10.3 Accuracy of information
SECTION THREE	Q11 : Accounting Software system
To determine the processes and methods of financial reporting for SMEs.	Q12: Organisation upgrade in accounting software.
	Q13: Modification of the accounting software system
	Q14: Training
	Q15 Duration of training
	Q16: segregation of duties
	Q17: Usage of segregation of duties
	Q18: Financial reports management
	Q20 : Processes and methods of financial reporting
SECTION FOUR	21.1 : Weak cooperation within staff
To establish the contribution of financial reporting on the financial stability of SMEs	21.2.: Lack of knowledge and information.
	21.3 : lack of financial control processes
	21.4 : IFRS for SMEs

6.3 Part A: DEMOGRAPHIC AND BUSINESS INFORMATION (Q1 – Q8)

The demographic information of the study focuses on the basic information of the respondents, such as the gender (Q2), race (Q3), and age (Q4). The level of education (Q5) was to determine the standard of education, and to establish in which department respondents worked (Q6) as well as their work profile (Q7). These questions were asked in terms of obtaining the relevant information for the study. Respondents were also requested to indicate the length of time they had worked for the business (Q8).

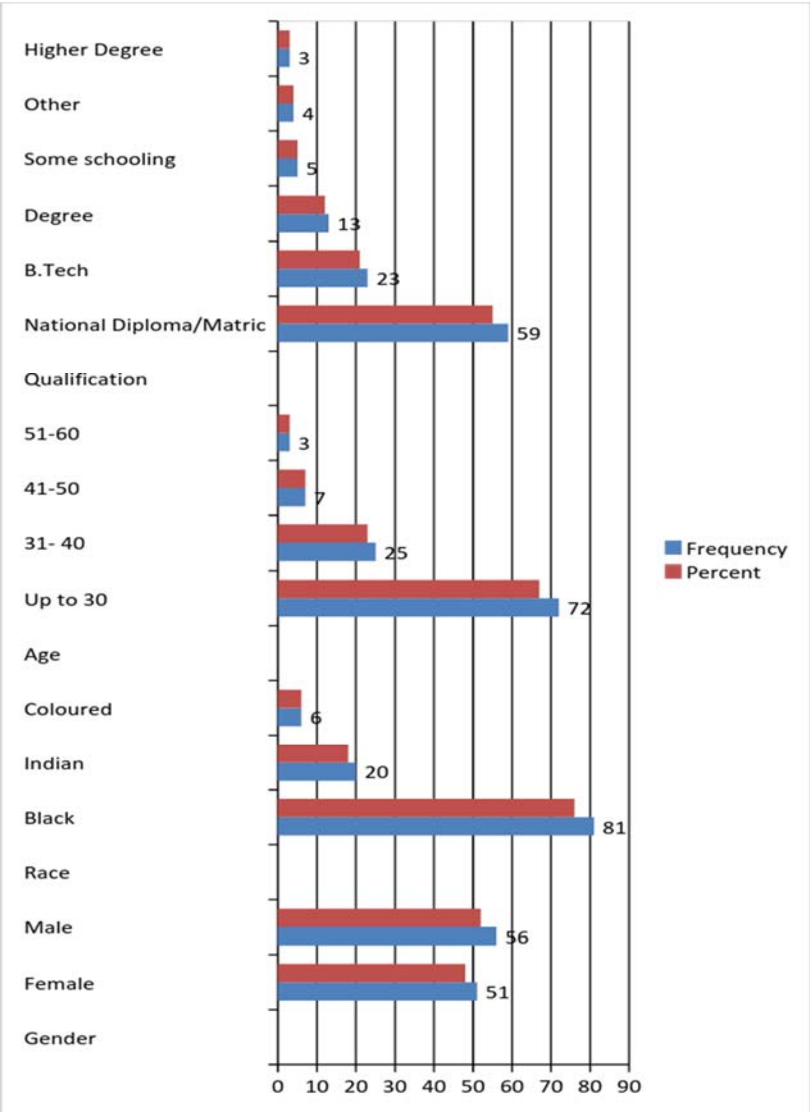


Figure 6.1 Demographic Rate (Q2 –Q5)

In a sample of 100, the study indicates that most of the respondents were Black, male, and account clerks, in the age group under 30 years. This is supported by Devery (2006: 233) who states that, as per Statistics South Africa, the largest population in the provinces is that of Black African. The author also maintains that the majority of workers in informal sectors are Black Africans (Devery, 2006: 233). The majority of the respondents had less than five years' experience in the accounting field of the trading sector, with a national diploma or matriculation as highest qualification.

The study further indicates that females participated less than males, possibly because they hold either higher or lower positions than males in the financial division in the trading sector. This is supported by Simrie, Herrington, Kew and Turtob (2011: 27), who state that the active gender in the entrepreneurial sector is female, which they contribute to the economic growth of the countries, particularly within developing nations. As a result, females end up holding higher positions or running the business (Scarborough, 2011:34).

Recommendation

It is recommended that the gender equity forum role should be implemented in the SME sector, in order to balance the gender within the business.

6.4 Part B:THE SUPPORTING OBJECTIVES OF THE STUDY (Q9.1-Q21.4)

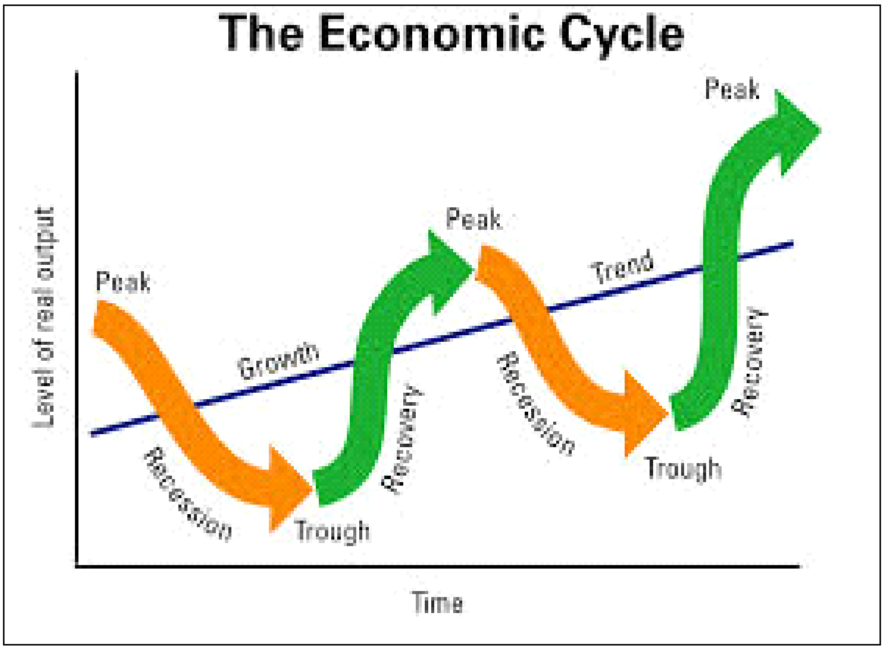
6.4.1 Factors that influence the financial stability of SMEs (Q9.1 – Q9.5)

In determining the factors that affect the business' financial stability, the findings for this objective show that financial reporting does contribute up-to a certain level, however, the operational control and procedures play a major role in the financial stability of the business, ensuring that the business is sustainable. A poor understanding of financial reporting (Q9.1) and lack of experience (Q9.2) would result in the misunderstanding of the application of the accounting equation principle and also result in businesses operating at a loss, which will affect business stability negatively.

Rhodes (2012:1) maintains that inexperienced employees require practical application of accounting more than theory, especially in usage of computers. The development of strategies, by increasing the number of investors, such as shareholders, government funding and creditors (Q9.3), however, has a positive influence on the financial stability of the business. The study also shows that, in the uncontrollable event of the economic cycle, such as a recession phase and a trough phase, after an economic growth period, (Q7), Morh and Fourie (2004: 578) hold that more businesses are negatively affected, in terms of financial performance in the market.

It was found that the majority of respondents operated in the trading sector. The selling and distribution of goods and services ability and experience contribute towards a career in the trading sector. The findings show that most of the businesses undergo training at least once a year. This would therefore, limit new knowledge, understanding of basic accounting, analysis skills and new accounting developmental programmes for finance staff (Kavanagh and Drennan, 2008: 279).

Another factor that would affect the financial stability of the business is the relationship between the management and workers, which has an impact on the business' operational performance. This causes a communication breakdown within the business environment. Joffe (2014: 1) states that, since 2008, most of the businesses throughout the country maintain financial stability as an ongoing issue. Nevertheless, the findings show that investors contribute towards the financial stability of the business. The problem arises when the business needs to protect those investments, such as capital and resources, due to a lack of strategies on the training of staff, to assist in developing methods and processes for increasing and developing the investments within the business.



Graph 6.1: Economic Cycle (Morh and Fourie, 2004: 578)

Recommendation

Most of the respondents are stakeholders, and it is recommended that they should ensure that they not only understand the nature of the business but also understand financial reporting, and that courses in these areas should be offered. It is further recommended that SMEs develop innovative strategies to invent new investors in the business and provide additional staff training, with regards methods to protect the financial stability of the business.

6.4.2 Factors affecting the credibility of financial reports for SMEs (Q10)

It was found that the reliability of information presented, in the form of financial reports are valid (Q10.3). It was also established that financial reporting is used by investors to make economic decisions regarding whether or not to invest in the business.

Dick and Missoner (2010:2) maintain that financial statements are the main source of financial data, used by external users in order to understand the financial background of the business. Furthermore, findings show that poor administration of resources (Q10.1), a lack of accurate information (Q10.3) and financial data (Q10.2), affect the credibility of financial reporting negatively. As a result, financial stability reporting that is developed from financial reporting is incorrect.

Recommendation

This emphasises the importance of good administration and that financial data must be evaluated for accuracy in financial reporting, in order to increase the level of accuracy in financial reporting.

6.4.3 To determine the processes and methods of financial reporting for SMEs (Q11-Q20)

Rhodes (2012:1) maintains that technology is mostly used by business as a tool in the industry. Therefore, for computerised financial reporting, the impact is on accuracy of financial data (Rhodes 2012:2).

It was found that a large number (19 percent) of businesses represented by respondents use the Pastel Accounting system (Q11), while upgrades (Q12) and modification of the system took place every six months (Q13). According to Rhodes (2012:1), it was found that for a large number (70 percent) of accounting job advertisements, the major requirement was computer literacy. The findings also show that a large number (70 percent) of the businesses train staff at least once a month (Q14). In addition, it was established that most owners manage the business' financial reporting (Q18) (Table 5.2).

It was further established that most (90 percent) of the businesses applied SOD, in terms of the business' operational controls. Moreover, with over half of business (60 percent) the processes and methods to be used in presenting the financial reports are selected by the owner or manager of the business

Recommendation

It would appear that computerisation of accounting systems has started making an impact in financial reporting within the SMEs from the trading sector. It is recommended that computerisation should be increased. However, owners should have an understanding of computerised financial reporting as a backup option, even though they hire qualified accountants in the financial operating of the business. Training also has a significant impact on how to analyse financial data and with the interpretation of financial reports that could be done by trained staff to assist those owners who outsource accounting services.

6.4.4 To establish the contribution of financial reporting to the financial stability of SMEs (Q21.1 – Q21.4)

The findings show that respondents agreed that a lack of knowledge and information plays a central part in financial reporting and in the financial stability reports of the business (Q21.2). This includes the lack of controlling the financial data process (Q21.3) and the lack of understanding financial accounting standards and frameworks (Q21.4).

Barth and Landsman (2010:400) state that, in order to stop the issue of business' being financially unstable, issues around accounting standards, accounting information and the roles with regulation, it is up to management to ensure that the necessary is implemented and performed. This then gives an indication that both financial reporting and financial stability work cooperatively in the business.

The inadequate control of the business and the lack of rules, without supervision of the relevant procedures by the finance department and the business as the whole, would cause a negative influence on the financial reports and financial stability.

Recommendation
It is recommended the top management ensures that the information regarding financial reporting is correct and is updated. They should also put strategies in place that will keep the financial stability of the business improving. In doing so, the implementation of staff training is required that will specifically add value in productivity, as well as in the financial system. This will ensure that the financial data is correct and available on time as required in the financial period. Training and workshops, based in accounting frameworks, will provide recent methods on how to collect and manage risk of data. These allow the older staff to understand and improve their knowledge, while also closing the existing gap between old and new systems of financial presentation.

6.5 BIVARIATE ANALYSIS
Cross tabulations was done in order to establish a significant relationship between the questions. The Likert scale questions applied to make the findings more significant, each categorical question, the Chi-Square Test was used.

6.5.1 Cross Tabulation (Q1 and Q20)
There is a significant relationship between the type of business (Q1) and who selects the processes and methods of financial reporting (Q20). Most of (83 percent) the respondents in manufacturing indicate that the owner/managers select the processes. This shows that the owner/managers in the manufacturing sector knows their products, therefore they understood the costing behind the production and accounting system that will be suitable for the product. This was closely followed by Industry (70.8 percent), Trading (62.1 percent) and Accounting firms (41.7 percent). This indicates that Accountants still play an important role in SMEs' financial reporting processes.

The minority of respondents were from the manufacturing (4.2 percent) workers or accounts clerks and trading sectors (3.4 percent) and included clerks with higher qualifications and skills that enable them to choose and identify the accounting system that would be appropriate for the business (Table 6.2.).

Table 6.2 Cross tabulation (Q1: Q20)

			20 Who selects the processes and method for financial reporting in your company?				
	Details		The owner/Manager	Accountant	Workers/ Accounts clerk	Other	Total
Business	Manufacturing	Count	20	3	1	0	24
		% within Business	83.3%	12.5%	4.2%	.0%	100.0%
	Trading	Count	18	7	1	3	29
		% within Business	62.1%	24.1%	3.4%	10.3%	100.0%
	Industry	Count	17	5	0	2	24
		% within Business	70.8%	20.8%	.0%	8.3%	100.0%
	Accounting Firm	Count	5	5	0	2	12
		% within Business	41.7%	41.7%	.0%	16.7%	100.0%
	Independent Accountant	Count	1	2	0	0	3
		% within Business	33.3%	66.7%	.0%	.0%	100.0%
	Independent Charted Accountant CA	Count	0	4	0	0	4
		% within Business	.0%	100.0%	.0%	.0%	100.0%
	Other	Count	2	0	1	1	4
		% within Business	50.0%	.0%	25.0%	25.0%	100.0%
Total		Count	63	26	3	8	100
		% within Business	63.0%	26.0%	3.0%	8.0%	100.0%

6.5.2 Cross Tabulation (Q3 and Q21.1)

There is a significant difference in the way that the different race groups responded to this question. Specifically, Blacks (4.26) and Indians (4.44) show more agreement than Coloureds (3.33) that weak cooperation among financial staff can negatively affect the financial stability of a company. The cultural difference can, however, cause differences in the working environment and also the belief of each person (Table 5.3).

Table 6.3 Cross Tabulation (Q3: Q21.1)

	N	Mean	Std. Deviation
Black	76	4.26	.597
Indian	18	4.44	.511
Coloured	6	3.33	1.211
Total	100	4.24	.668

6.5.3 Cross Tabulation (Q4 and Q10)

The testing shows that there is a significant difference in the way respondents from different age groups answered this question. The interpretation is: 41- 50 year olds scored (3.57). Then the < 30 (4.36) and 31 – 40 (4.61). This shows that the mature group of < 40 years take time in analysing and checking the correctness of any financial transaction and it further indicates that experience contributes towards the job. With respondents from the younger age groups, many score higher simply because of the lack of experience and practical training (Table 5.4).

Table 6.4 Cross Tabulation (Q4: Q10.1)

	N	Mean	Std. Deviation
Up to 30	67	4.36	.711
31 - 40	23	4.61	.499
41 - 50	7	3.57	1.134
51 -60	3	4.33	.577
Total	100	4.36	.732

6.5.4 Cross Tabulation (Q5 and Q9.1 – Q9.5)

There is a significant difference in the education level of participants who responded to this question, regarding the level of understanding the factors that influence financial stability. Those respondents who hold a B.Tech scored higher (4.43), more than those who hold a degree (3.58). Respondents with a B.Tech were followed by respondents with some schooling (4.40) and those with a Higher Degree (4.33). The minimum (4.20) was for respondents with a National Diploma.

Most of the staff in the finance section within the SMEs are very comfortable with their qualification, with no desire to further their education. This could be due to their age or by choice, and it is also possible that they don't have experiential training in that field (Table 5.5).

Table 6.5 Cross Tabulation (Q5: Q9.1 – Q9.5)

	N	Mean	Std. Deviation
Some schooling	5	4.40	.548
National Diploma/Matric	54	4.20	.711
B. Tech	21	4.43	.507
Degree	12	3.58	.669
Higher degree	3	4.33	1.155
Other	4	3.75	1.258
Total	99	4.17	.729

6.5.5 Cross Tabulation (Q6 and Q21.1 – Q21.5)

There is significant agreement in the way different departments responded to these questions. The accounts department (4.22) and other (4.30) show more significant agreement than the creditors department (3.25). The accounts department are the ones who deal directly with the bookkeeping and records of financial transactions, it is therefore important for this department to understand the contribution of financial reporting towards financial stability, in order to keep accurate information (Table 5.6).

Table 6.6 Cross Tabulation (Q6: Q21.1 – Q21.5)

	N	Mean	Std. Deviation
Accounts	18	4.22	.647
Debtors	7	4.43	.787
Creditors	8	3.25	.707
Finance	57	3.95	.854
Other	10	4.30	.483
Total	101	4.01	.810

6.5.6 Cross Tabulation (Q7: Q10.1 – Q10.3)

The results show that responses from participants will vary due to different job titles. The Independent Accountant (5) and financial accounting (4.82) show more significant agreement with the statements. This is followed closely by the owner/ entrepreneur (4.67). Manager/director shows less agreement (4.33), which indicates that they are indirectly involved in the processing of data or capturing financial transactions; their only interest is to evaluate the year-end financial reports. On the other hand, independent and financial accountants are directly involved in the processes of financial reporting and it is important for them to understand the Accounting standards, staff commitment and workflow of the paperwork with financial transactions, in order to obtain accurate data (Table 5.7).

Table 6.7 Cross Tabulation (Q7: Q10.1 – Q10.3)

	N	Mean	Std. Deviation
Owner / Entrepreneur	12	4.67	.492
Manager/ Director	6	4.33	.516
Financial Accountant	11	4.82	.405
Account Clerk	47	4.53	.546
Independent Accountant	5	5.00	.000
Other	19	4.21	.631
Total	100	4.53	.559

6.6 CONCLUSION

This chapter analysed and interpreted the research findings. It covers the demographic and business details of the respondents. The findings of the supporting objectives were analysed and where appropriate, recommendations for solutions were made. The study indicated from the analyses that Black males mostly hold positions in the trading sectors of SMEs, as accounts clerks. It was also found that the majority of the respondents do not have more than five years' experience within business, with the working class age established to be less than 30 years.

The following final chapter presents the recommendations and conclusions, based on the objectives of the study, as well as suggestions for future research.

CHAPTER SEVEN

SUMMARY, RECOMMENDATIONS AND CONCLUSION

7.1 INTRODUCTION

The previous chapter presented the interpretation of data analyses of this study. In this current chapter, the theory and empirical summary of the study are coved. The achievements of the study, based on the objectives of the research, are also submitted. In addition, recommendations are made from the interpretation of the findings and proposed future research areas are discussed.

7.2 THE THEORY OF THE STUDY

It was established that the theoretical study examined the contribution of the financial reporting to the financial stability of the SMEs in Durban. The data were collected using a quantitative approach and a questionnaire survey was applied. Email delivery was used as a method in distributing the questionnaire but most of the questionnaires were self-administered by the researcher to respondents in their workplaces. From 120 questionnaires distributed, only 107 were returned.

It was found that financial reporting does contribute indirectly towards the financial stability of the identified SMEs. However, financial reporting only provides financial information and as a result, the management of entrepreneurial operations need to understand the information context in financial reporting, in order for them to make solid decisions about future events that will affect the business' financial stability.

7.3 SUMMARY OF EMPIRICAL STUDY

The main objective of the study was to examine the contribution of financial reporting to the financial stability of selected SMEs in Durban. In order to determine the main objective, four supporting objectives were identified. The purpose of these objectives was to be able to identify the factors that influence the financial stability and factors affecting the credibility of financial reporting of SMEs. It was necessary to establish to what extent financial reporting contributes to the financial stability of the SMEs. It was established that most of the respondents agreed that financial reporting plays a significant role in the financial stability of the business.

The findings of the study were gathered from 100 respondents. The results found a positive agreement of the new financial reporting of the IFRS for SMEs' principles, in disclosure of items. With regards to the financial stability of the business, the research outcomes show that these factors have a negative impact on the lack of 21st century knowledge and information based on accounting software. The factors that influence the financial stability of the business were tested, along with factors affecting the credibility of financial reporting, while the processes and methods of financial reporting were also identified.

7.4 ACHIEVEMENT OF THE STUDY

The objectives of the study were achieved.

7.4.1 Factors that influence financial stability

The most important factors which will affect the business' financial stability negatively, as answered by the respondents include:

- Lack of in-depth understanding;
- Lack of experience;
- Poor communication; and
- Recession of economic growth;

The businesses can improve the financial management fundamentals and financial stability by:

- Staff training;

- Education;
- Knowledge;
- Skills and competencies;
- Innovations and awareness;
- Team work;
- Sound relationship with customers;
- Finances access;
- Economic growth.

7.4.2 Factors affecting the credibility of a financial report

The financial statements are designed to provide financial information to owners or to the users of the financial reporting of the business. That is the main objective of financial reporting. The problems encountered during presentation of the financial reporting were also noted. It was found that the accuracy of the information and the lack of financial data have an impact on financial reporting reliability. These problems affect the credibility of financial reporting, due to some of the respondents not understanding accounting terms, which then leads to wrong economic decisions pertaining to the business' future, as financial reporting provides financial information.

The number of respondents, who agreed positively, based on the factors that affect the wealth of financial reporting, exceeded the number of the respondents that did not agree or who were neutral.

The other most important factors which affect reliability of the financial fundaments, as answered by the respondents, include:

- Poor controls;
- Lack of information; and
- In-accuracy of data.

7.4.3 Processes and methods of financial reporting

Suggestions are made on how to run the business and keep it in operation in the marketplace. The following factors, which assure business financial reporting, as answered by the respondents, include:

- Software upgrade;
- Training;
- Segregation of duties;
- Stable work force;
- Being accountable and responsible.

Business System

It was found that most businesses apply ITS accounting software, followed by Pastel Accounting and a minority percentage of respondents use Turbo cash and Adminisoft accounting software.

Change in software

Results show many businesses upgrade their system at least once every 6 months and others upgraded less than once a year.

Training

It was found that most business undertake staff training at least every year and in some cases, every six months. In addition, a minority of the businesses represented by the respondents never undergo staff training. The majority of businesses represented in the study undergo staff training for less than a month and alternatively the training period is more than six months.

Segregation of duties

More than expected results show a positive response, with the average number of respondents agreeing that segregation of duties plays an important role during data processes. The majority had agreed that they do exercise SOD.

Managing the financial reporting processes and methods

The results show that the owners/managers and accountant are more in charge in taking decisions regarding financial reporting flow.

7.4.4 Contribution of financial reporting to the financial stability of the business entity

The relationship between financial reporting and financial stability was identified and tested. It was established that the lack of knowledge and a lack of financial control have an effect on both variables of financial reporting and financial stability. The results show a positive contribution.

Section 4: Relationship between financial reporting and financial stability of the business

This section outlined the factors that affect both financial reporting and financial stability, with the result that the financial management fundamentals affect the financial reports of the business. The respondents answered by stating their agreement, the following factors were identified:

- Weak cooperation;
- Poor production;
- New changes; and
- Inadequate control.

7.5 RECOMMENDATIONS

The following recommendations are proposed:

7.5.1 Factors that influence financial stability

These must be taken into account in order to maintain the sustainability of the business:

- Short accounting courses must be held for those enterprises that do not have an accounting background, in order for them to have an in-depth understanding of IFRS for SMEs, when presented to them by an Accountant or accounting firm.
- As much as the SME sector provides employment, new labour is in demand and new skills are required. Therefore, universities and businesses must try to work out processes to decrease the number of post-graduates. This can be done by providing not only in-service training but permanent positions on completion of training. In this way, it is possible to limit the number of staff being trained but without it affecting productivity.
- Teamwork plays a certain part in a portion of productivity. Therefore, more workshops or seminars, where everyone will report on progress regarding jobs and business performance, would keep the work focused and employees more willing.
- Not only the understanding of financial reporting is required but most importantly capital. External users of financial information play an important role in financial stability. This shows that SMEs should attempt to have more than one source of income, by increasing their investors, as opposed to borrowing money.

7.5.2 Factors affecting credibility of a financial report

Businesses must put more control in the following:

- Resource control administration
- Data control
- Qualified and experienced personnel must be in-charge of accounts

7.5.3 Processes and methods of financial reporting

Entrepreneurs must first understand accounting software before implementation of bookkeeping. Affordable accounting software must be developed in order to accommodate new business in the market.

7.5.4 Training and workshops

Businesses must undertake to motivate staff by providing supporting workshops and training to improve both self-esteem and the knowledge base of their jobs.

7.6 RECOMMENDATIONS FOR FUTURE RESEARCH

The following recommendations are proposed for future study. These studies will outline what contributes most to SMEs liquidating within 10 years of existence, as well as which factors affect financial stability of the business and how it can be protected. The relationship between financial reporting and financial stability should be expanded on, and the factors identified that influence the credibility of financial reporting.

An understanding of accounting principles and conceptual frameworks is problematic in the SME sector. However, most businesses still outsource their accounting services.

Therefore, the following research study topics are submitted:

- A similar study should be conducted among SMEs in Kwa-Zulu Natal South Africa, not only Durban.
- Specify the factors examined that affect financial stability.
- Examining the similarities of accounting software systems used by SMEs in Durban.
- Investigating the gap between academic accounting and practical accounting.

7.7 CONCLUSION

The SMEs business in Durban increase drastically monthly and competition is very high. Hence, the government has programmes and provides funding for this SMEs sector.

It is, however, important to give information and training regarding financial reporting and accountability to enterprises at an early stage of the business. Owners should, before engaging in business research the advantages and disadvantages of the business, investment, and level of competition, targeted customers and other elements involved in starting a business. In addition, accountants and accounting firms should be involved, in order to pre calculate the capital of the business.

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APPENDIX 1

Letter of information and consent

Dear Participant

Title of research – An examination of Financial Reports Standards contribution towards the Financial Stability of selected Small and Medium Enterprises (SMEs) in Durban.

Please take a few minute of your time to answer this questionnaire for the research purpose. I am currently undertaking a research project in Masters of Technology: Business Administration at Durban University of Technology. This study proposes to examine the manner in which financial reports contribute towards financial stability of selected SMEs. To what extent and efficiency do financial statements reports contribute towards financial stability? In order to determine the level of compliance of SMEs, with the financial reporting process.

Would you agree to complete a questionnaire and/or be interviewed for the study? The questionnaire will take approximately 30 Minutes. Participation is voluntary and you are free to withdraw from the study at any time without giving reasons and without prejudice or any adverse consequences. The information you give will only be used for research purposes and will be aggregated with other responses and only the overall or average information will be used. Your identify and individual answers will be kept confidential. Should you wish to discuss this further please feel free to contact me or my supervisor: Dr Marie De Beer; phone number 031 373 6746 or email maried@dut.ac.za or the IREC Administrator, Lavisha Deonarian: 031 373 2900 or on her email LavishaD@dut.ac.za.

Your assistance will be much appreciated,

Yours faithfully
Miss Nonhlanhla Mbatha
Phone number: 072 1163 523

Please complete the following as confirmation of your willingness to participate in this research project:

I, _________________________have adequately discussed the study with the researcher, understand that I may withdraw from it without giving reasons, and also voluntarily agree to participate by completing the relevant questionnaire / or being interviewed.

Signature…………………………………………………. Date ……………………………………………

APPENDIX 2

Survey questionnaire

Part A

Please tick in the appropriate box

1 Type of Organisation/ Business (**<u>Select ONE option only</u>**)

Manufacturing	
Trading	
Industry	
Accounting Firm	
Independent Accountant	
Independent Charted Accountant CA	
Other-Please specify:	

2 Gender

Female	
Male	

3 Race

Black	
Indian	
Colored	
White	
Other-Please specify:	

4 Age group

Up to 30	
31 - 40	
41 - 50	
51 - 60	
Older than 60	

5 Please indicate your highest qualification (<u>Select ONE option only</u>)

No formal education	
Some schooling	
National Diploma/Matric	
B. Tech	
Degree	
Higher degree	
Other-Please specify:	

6 Please state your department of work (<u>Select ONE option only</u>)

Accounts	
Debtors	
Creditors	
Finance	
Other- Please specify:	

7 Please state your Job title: (<u>Select ONE option only</u>)

Owner / Entrepreneur	
Manager/ Director	
Financial Accountant	
Account Clerk	
Independent Accountant	
Other- Please specify:	

8 How many years have you been working for your present company?

Less than a year	
From 1 to less than 3 years	
From 3 to less than 5 years	
From 5 to less than 10 years	
10 years or more	

Appendix 2 (4-8)

Part B

Section 1 Factors that influence financial stability

9 Indicate your agreement with the following statements.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
9.1 Lack of in-depth understanding of financial reporting has a significant negative impact on the financial stability of a business entity.					
9.2 An inexperienced employee dealing with financial reports has a negative impact on the financial stability of a business entity.					
9.3 Lack of integration among staff members has a negative impact on the financial stability of a business entity.					
9.4 Creditors, shareholders and investors who invest in the business by supplying resources and capital, have a positive impact on the financial stability of a business entity					
9.5 A slow growth in the economy has a negative effect on the financial stability of a business entity.					

Section 2 Factors affecting the credibility of a financial report.

10 Indicate your agreement with the following statements.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
10.1 Poor administration of resources has a negative impact on the financial reporting					
10.2 Lack of precise financial data has a negative impact on financial reports					
10.3 The accuracy of accounts information impacts the validity of financial statements					

Section 3 Processes and methods of financial reporting

11 What accounting software system is your organisation currently using? (Select the ONE option that is predominantly used)

ITS		Tas Basics	
JD Edwards		Gnu Cash	
SAP		NCH Express Invoice	
Pastel Accounting		xTuple Post Books	
Sage ACCAPAC's		VT Cash Book	
Turbo Cash		Invoice Expert XE	
Adminisoft Accounts		Other-Please specify:	

12 How often does your organisation upgrade its accounting software?

At least once a month	
At least once every 6 months	
At least once a year	
Less than once a year	
Never	

13 When last was the software system modified?

In the last month	
In the last 6 months	
In the last year	
More than a year ago	
Not sure	

14 Indicate the frequency with which financial staff undergo training

At least every 6 months	
At least every year	
Less often than once a year	
Never	

15 How long does it take to do staff training?

Less than a month	
1 to 6 months	
More than 6 months	

16 Indicate your agreement with the following statement

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
During the process of data collection and capturing, segregation of duties plays an important part in financial reports.					

17 Does your organisation have segregation of duties?

Yes	
No	

18 Who is mainly accountable for managing financial reports in your company?

(<u>Select ONE option only</u>)

Entrepreneur/ Manager	
Supervisor	
Accountant only	
Accounts Clerk	
Other-Please specify:	

19 How many people are involved in the financial decision making in your company?

One	
Two	
Three	
Other-Please specify:	

20 Who selects the processes and method for financial reporting in your company?

The owner/Manager	
Accountant	
Workers/ Accounts clerk	
Other-Please specify:	

Section 4 Contribution of financial reporting to the financial stability of the business entity.

21 Indicate your agreement that the following factors contribute toward the financial stability of a company.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
21.1 Weak cooperation among the financial staff can negatively affect the financial stability of a company					
21.2 The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity					
21.3 Inadequate control of financial processes has a negative impact on the financial stability of a business entity.					
21.4 The new International Financial Reporting Standards (IFRS) for SMEs principles and discloser of items has significant impact on business financial stability.					
21.5 Knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.					

Thanks you for you time

Appendix 3

Wilcoxon Signed Rank Test

Section 1: Factors that influence financial stability

	N	Mean	Std. Deviation
9.1 Lack of in-depth understanding of financial reporting has a significant negative impact on the financial stability of a business entity.	100	4.22	.860
9.2 An inexperienced employee dealing with financial reports has a negative impact on the financial stability of a business entity.	100	4.35	.702
9.3 Lack of integration among staff members has a negative impact on the financial stability of a business entity.	99	4.17	.729
9.4 Creditors, shareholders and investors who invest in the business by supplying resources and capital, have a positive impact on the financial stability of a business entity	100	4.41	.818
9.5 A slow growth in the economy has a negative effect on the financial stability of a business entity.	100	4.23	.827

Appendix 3 (2-10)

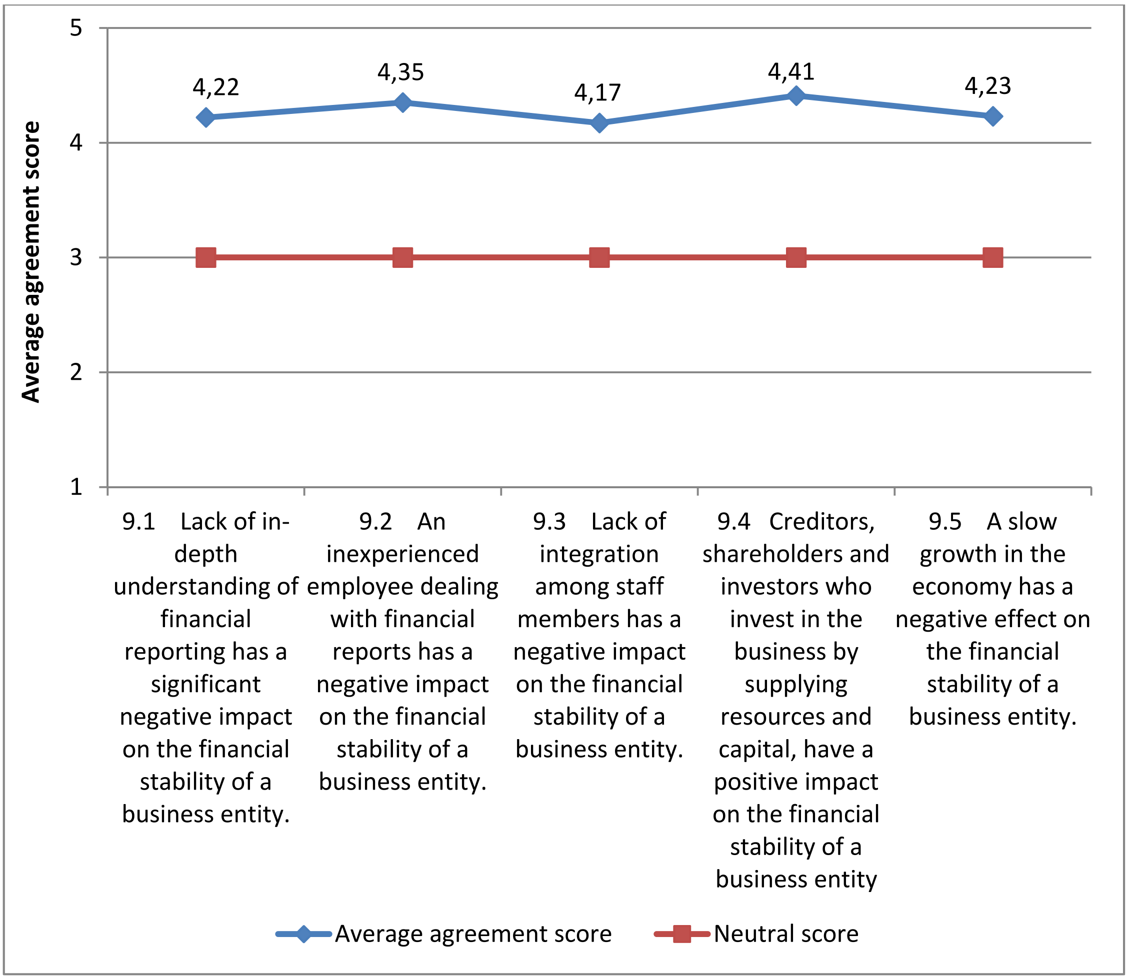
Test Statistics[c]

	threes - 9.1 Lack of in-depth understanding of financial reporting has a significant negative impact on the financial stability of a business entity.	9.2 An inexperienced employee dealing with financial reports has a negative impact on the financial stability of a business entity. - threes	threes - 9.3 Lack of integration among staff members has a negative impact on the financial stability of a business entity.	9.4 Creditors, shareholders and investors who invest in the business by supplying resources and capital, have a positive impact on the financial stability of a business entity - threes	threes - 9.5 A slow growth in the economy has a negative effect on the financial stability of a business entity.
Z	-7.693[a]	-8.491[b]	-8.182[a]	-8.276[b]	-7.833[a]
Asymp. Sig. (2-tailed)	.000	.000	.000	.000	.000

a. Based on positive ranks.

b. Based on negative ranks.

c. Wilcoxon Signed Ranks Test



Section 2: Factors affecting the credibility of a financial report

	N	Mean	Std. Deviation
10.1 Poor administration of resources has a negative impact on the financial reporting	100	4.36	.732
10.2 Lack of precise financial data has a negative impact on financial reports	100	4.42	.572
10.3 The accuracy of accounts information impacts the validity of financial statements	100	4.53	.559

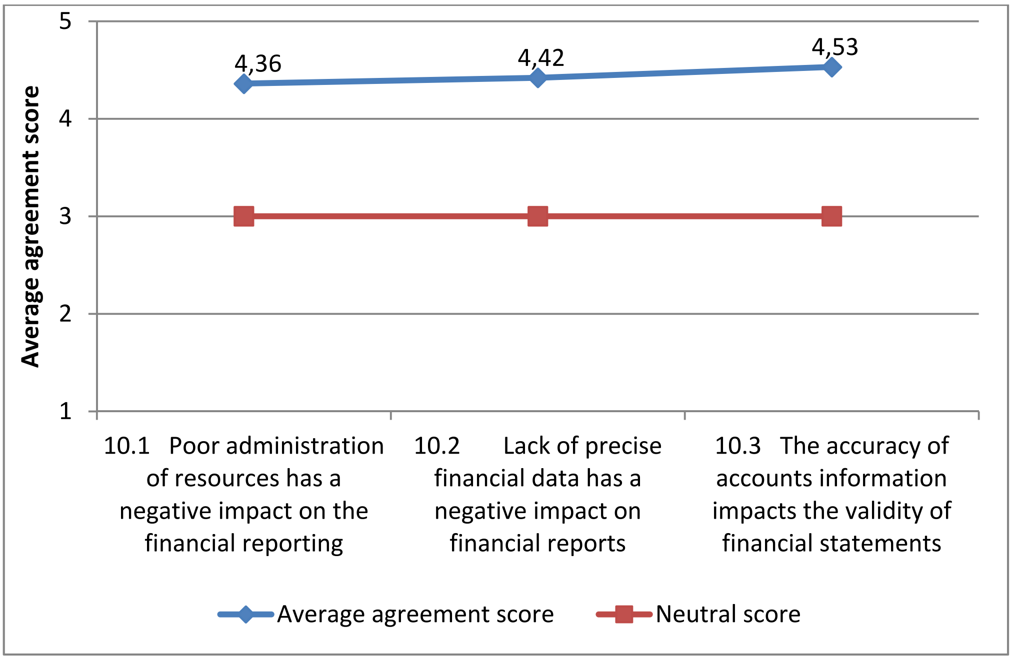
Test Statistics[c]

	threes - 10.1 Poor administration of resources has a negative impact on the financial reporting	10.2 Lack of precise financial data has a negative impact on financial reports - threes	threes - 10.3 The accuracy of accounts information impacts the validity of financial statements
Z	-8.319[a]	-8.825[b]	-8.848[a]
Asymp. Sig. (2-tailed)	.000	.000	.000

a. Based on positive ranks.

b. Based on negative ranks.

c. Wilcoxon Signed Ranks Test



Section 3: Processes and methods of financial reporting

11 What accounting software system is your organisation currently using?			
	Observed N	Expected N	Residual
ITS	29	8.3	18.7
JD Edwards	14	8.3	3.7
SAP	15	8.3	5.7
Pastel accounting	20	8.3	10.7
Sage ACCAPAC'S	4	8.3	-4.3
Turbo cash	1	8.3	-7.3
Adminisoft Accounts	1	8.3	-7.3
Tas Basics	3	8.3	-5.3
xTuple Post Books	8	8.3	-1.3
VT Cash Book	6	8.3	-2.3
Invoice Expert XE	3	8.3	-5.3
Other	3	8.3	-5.3
Total	107		

Test Statistics	
	Q11 What accounting software system is your organisation currently using?
Chi-Square	87.200[a]
df	11
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 8.3.

Q12 How often does your organisation upgrade its accounting software?			
	Observed N	Expected N	Residual
At least once a month	10	20.0	-11.0
At least once every 6 months	44	20.0	22.0
At least once a year	37	20.0	15.0
Less than once a year	4	20.0	-16.0
Never	12	20.0	-10.0
Total	107		

13 When last was the software system modified?			
	Observed N	Expected N	Residual
In the last month	13	20.0	-8.0
In the last 6 months	48	20.0	25.0
In the last year	19	20.0	-2.0
More than a year ago	2	20.0	-18.0
Not sure	25	20.0	3.0
Total	107		

Test Statistics		
	12 How often does your organisation upgrade its accounting software?	13 When last was the software system modified?
Chi-Square	59.300[a]	51.300[a]
df	4	4
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 20.0.

Q14 Indicate the frequency with which financial staff undergo training			
	Observed N	Expected N	Residual
At least every 6 months	29	25.0	2.0
At least every year	46	25.0	18.0
Less often than once a year	20	25.0	-6.0
Never	12	25.0	-14.0
Total	107		

Q15 How long does it take to do staff training?			
	Observed N	Expected N	Residual
Less than a month	86	33.3	46.7
1 to 6 months	18	33.3	-16.3
More than 6 months	3	33.3	-30.3
Total	100		

Test Statistics

	Q14 Indicate the frequency with which financial staff undergo training	15 How long does it take to do staff training?
Chi-Square	22.400[a]	100.940[b]
df	3	2
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3.

Segregation of duties

	N	Mean	Std. Deviation
Q16 During the process of data collection and capturing, segregation of duties plays an important part in financial reports.	100	4.45	.557

Test Statistics[b]

	Q 16 During the process of data collection and capturing, segregation of duties plays an important part in financial reports.
Z	-8.869[a]
Asymp. Sig. (2-tailed)	.000

a. Based on positive ranks.

b. Wilcoxon Signed Ranks Test

Q17 Does your organisation have segregation of duties?

	Observed N	Expected N	Residual
Yes	96	50.0	46.0
No	4	50.0	-46.0
Total	100		

Test Statistics	
	Q17 Does your organisation have segregation of duties?
Chi-Square	84.640[a]
df	1
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

Q18 Who is mainly accountable for managing financial reports in your company?

	Observed N	Expected N	Residual
Entrepreneur/ Manager	55	20.0	31.0
Supervisor	7	20.0	-13.0
Accountant only	34	20.0	11.0
Accounts Clerk	7	20.0	-13.0
Other	4	20.0	-16.0
Total	107		

Test Statistics	
	Q18 Who is mainly accountable for managing financial reports in your company?
Chi-Square	83.800[a]
df	4
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 20.0.

Q20 Who selects the processes and method for financial reporting in your company?

	Observed N	Expected N	Residual
The owner/Manager	63	25.0	38.0
Accountant	26	25.0	1.0
Workers/ Accounts clerk	3	25.0	-22.0
Other	8	25.0	-17.0
Total	100		

20 Who selects the processes and method for financial reporting in your company?			
	Observed N	Expected N	Residual
The owner/Manager	63	25.0	38.0
Accountant	26	25.0	1.0
Workers/ Accounts clerk	3	25.0	-22.0
Other	8	25.0	-17.0
Total	100		

Test Statistics	
	Q20 Who selects the processes and method for financial reporting in your company?
Chi-Square	88.720[a]
df	3
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

Section 4 Contribution of financial reporting on the financial stability of SMEs

	N	Mean	Std. Deviation
21.1 Weak cooperation among the financial staff can negatively affect the financial stability of a company	100	4.24	.668
21.2 The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity	100	4.01	.810
21.3 Inadequate control of financial processes has a negative impact on the financial stability of a business entity.	100	4.43	.517
21.4 The new International Financial Reporting Standards (IFRS) for SMEs principles and discloser of items has significant impact on business financial stability.	100	4.24	.553
21.5 Knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.	100	4.50	.522

Test Statistics[c]

	threes - 21.1 Weak cooperation among the financial staff can negatively affect the financial stability of a company	21.2 The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity - threes	threes - 21.3 Inadequate control of financial processes has a negative impact on the financial stability of a business entity.	threes - 21.4 The new International Financial Reporting Standards (IFRS) for SME's principles and discloser of items has significant impact on business financial stability.	threes - 21.5 Knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.
Z	-8.497[a]	-7.618[b]	-8.928[a]	-8.874[a]	-8.918[a]
Asymp. Sig. (2-tailed)	.000	.000	.000	.000	.000

a. Based on positive ranks.

b. Based on negative ranks.

c. Wilcoxon Signed Ranks Test

Appendix 4

Bivariate analysis – Chi -Square Tests

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	33.325[a]	18	.015	.[b]		
Likelihood Ratio	32.011	18	.022	.[b]		
Fisher's Exact Test	29.080			.009		
Linear-by-Linear Association	6.952[c]	1	.008	.009	.007	.001
N of Valid Cases	100					

a. 21 cells (75.0%) have expected count less than 5. The minimum expected count is .09.
b. Cannot be computed because there is insufficient memory.
c. The standardized statistic is 2.637.

Test Statistics[a,b]

Q 10	10.1 Poor administration of resources has a negative impact on the financial reporting	10.2 Lack of precise financial data has a negative impact on financial reports	10.3 The accuracy of accounts information impacts the validity of financial statements
Chi-Square	9.558	7.223	1.238
df	3	3	3
Asymp. Sig.	.023	.065	.744

a. Kruskal Wallis Test
b. Grouping Variable: Age

Test Statistics[a,b]

Q 9	9.1 Lack of in-depth understanding of financial reporting has a significant negative impact on the financial stability of a business entity.	9.2 An inexperienced employee dealing with financial reports has a negative impact on the financial stability of a business entity.	9.3 Lack of integration among staff members has a negative impact on the financial stability of a business entity.	9.4 Creditors, shareholders and investors who invest in the business by supplying resources and capital, have a positive impact on the financial stability of a business entity	9.5 A slow growth in the economy has a negative effect on the financial stability of a business entity.
Chi-Square	3.428	8.999	12.073	3.719	5.701
df	5	5	5	5	5
Asymp. Sig.	.634	.109	.034	.591	.336

a. Kruskal Wallis Test

b. Grouping Variable: Qualification

(Appendix 4) (3-3)

Test Statistics[a,b]

Q21	21.1 Weak cooperation among the financial staff can negatively affect the financial stability of a company	21.2 The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity	21.3 Inadequate control of financial processes has a negative impact on the financial stability of a business entity.	21.4 The new International Financial Reporting Standards (IFRS) for SMEs principles and discloser of items has significant impact on business financial stability.	21.5 Knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.
Chi-Square	2.605	11.911	2.372	3.737	4.209
df	4	4	4	4	4
Asymp. Sig.	.626	.018	.668	.443	.379

a. Kruskal Wallis Test

b. Grouping Variable: Department

Test Statistics[c]

	threes - 21.1 Weak cooperation among the financial staff can negatively affect the financial stability of a company	21.2 The lack of 21st century knowledge and information about accounting software systems has a negative impact on the financial stability of a business entity - threes	threes - 21.3 Inadequate control of financial processes has a negative impact on the financial stability of a business entity.	threes - 21.4 The new International Financial Reporting Standards (IFRS) for SME's principles and discloser of items has significant impact on business financial stability.	threes - 21.5 Knowledge and understanding of the financial accounting standards and accounting framework contribute to the understanding of the financial stability of a company.
Z	-8.497[a]	-7.618[b]	-8.928[a]	-8.874[a]	-8.918[a]
Asymp. Sig. (2-tailed)	.000	.000	.000	.000	.000

a. Based on positive ranks.

b. Based on negative ranks.

c. Wilcoxon Signed Ranks Test