

From: Chris Russell-Rockliff [mailto:rfs@acenet.co.za]
Sent: 14 June 2007 12:42
Subject: IFRS for SME's

Good day,

I attended a discussion forum at the Sandton Convention Centre, Johannesburg, on the 31 May 2007, and wish to make a comment about the need for a Cash Flow Statement [CFS].

I am a professional accountant and a large percentage of the services I provide comprise either the assisting with, or completion of, annual financial statements. All of my clients would qualify as SME's, so I believe that I am qualified to comment on the CFS insofar as it is perceived by the owners of SME's.

Firstly, I am in not recommending the omission of the CFS, rather, I am suggesting an alternative method of disclosure. An example of my recommended layout, with demo data, has been attached for your perusal.

My reasons for the suggested alternative are :-

1. I have yet to come across a lay person who can understand the present disclosure.
2. If the owner of a business cannot understand it, then he will fail to appreciate its use to him.
3. I believe that my suggested layout "tells the same story" with regard to the movements of a businesses cash resources, as the present format does, but with the added advantage of simply being able to tell a layman client that the first half is a summary of what has happened to his businesses cash, and the second half is the detail of those cash movements.
4. Furthermore, I simply say that where a figure is in brackets [ie a negative], it represents an outflow, or loss of cash, and the opposite applies to the other figures.

I can safely declare that all my clients are more than happy to receive the CFS in my format, and after showing them the alternative disclosure per GAAP/IFRS, whilst they accept that it will be a statutory requirement, they would most likely simply ignore the CFS. That raises the obvious question - Why should we, as accounting professionals, force a format of disclosure on our clients that they find useless, when [in my opinion anyway] there is a more readily understandable disclosure?

I trust that you will give this matter some serious consideration.

Many thanks

Chris Russell-Rockliff
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Demo Company CC

Registration Number ABCD/123456/zz

CASH FLOW STATEMENT
for the year ended 28 February 2007

2006

2005

	Notes	(30,074.32)	27,958.11
<u>Opening bank balance/(overdraft)</u>		(30,074.32)	27,958.11
<u>(A) Cash retained from operating activities</u>		10,843.94	(207,749.38)
Cash generated by operations	1	187,187.16	(278,900.20)
Investment Income		17.38	10.46
Utilised to increase working capital	2	(176,360.60)	84,089.86
Tax Paid	3	0.00	(12,949.50)
<u>(B) Cash utilised in investing activities</u>		(40,700.00)	(102,312.00)
Acquisition of fixed assets	4	(40,700.00)	(102,312.00)
<u>(C) Cash effects of financing activities</u>		(25,183.06)	252,028.95
Increase in members funds	5	(57,724.90)	144,296.38
Increase in long term loans	6	45,280.42	116,529.85
Financing Costs		(12,738.58)	(8,797.28)
<u>Closing balance/(overdraft)</u>		(85,113.44)	(30,074.32)

NOTES TO THE CASH FLOW STATEMENT**(1) Cash generated by operations**

Operating deficit before interest	187,187.16	(278,900.20)
Adjustment for depreciation	159,273.33	(312,296.69)
	27,913.83	33,396.49

(2) Utilised to increase working capital

Changes in Accounts payable	(176,360.60)	84,089.86
Changes in Prepayments	(152,017.42)	166,394.83
Changes in Accounts receivable	(5,335.75)	(22,915.69)
	(19,007.43)	(59,389.28)

(3) Tax Paid

Balance at the beginning of the year	0.00	(12,949.50)
Amount Charged to Income Statement	0.00	0.00
Balance at the end of the year	0.00	0.00

(4) Acquisition of Fixed Assets

Motor Vehicle	(40,700.00)	(102,312.00)
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(5) Increase in members funds

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(6) Increase in Long Term Funds

Installment Sale Agreement	45,280.42	116,529.85
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