



SME Roundtable

What should the IFRS for SMEs look like from a European Perspective?

- Field Tests in Germany -

Kati Beiersdorf / Thomas Budde

Brussels, 7 July 2008



Agenda

Part I

Participating Companies

Part II

Background in Germany & Major Findings

Part III

Specific Problems encountered

Conclusion



Field Tests in Germany: Participating Companies

- **15 Participants** (with very different motives to participate)
- **Module approach**
(balance sheet: 8; income statement: 7; cash flow statement: 6; notes: 5; questionnaire: 15)
- Joint projects **together with a total of 14 SMPs**

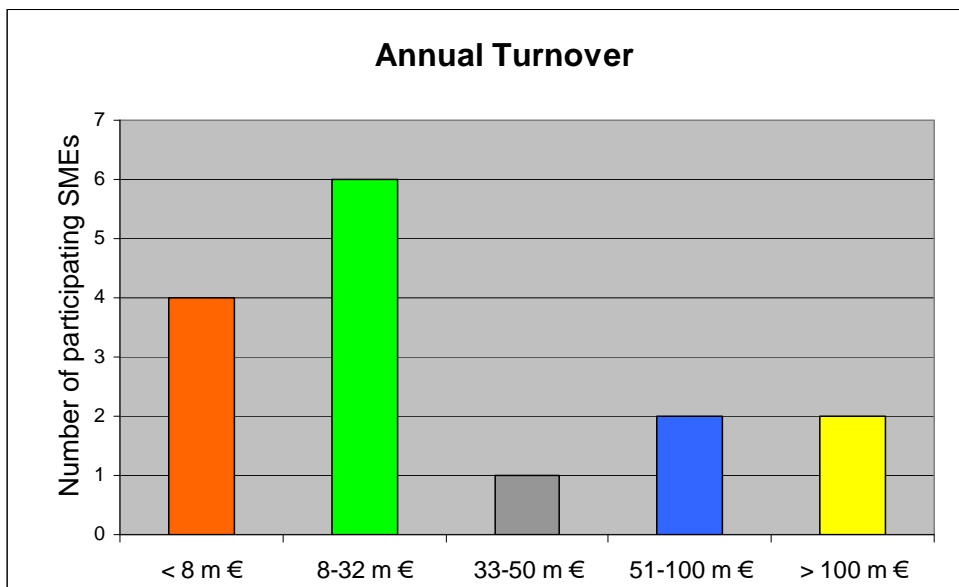


Figure 1 Annual turnover of the participating SMEs

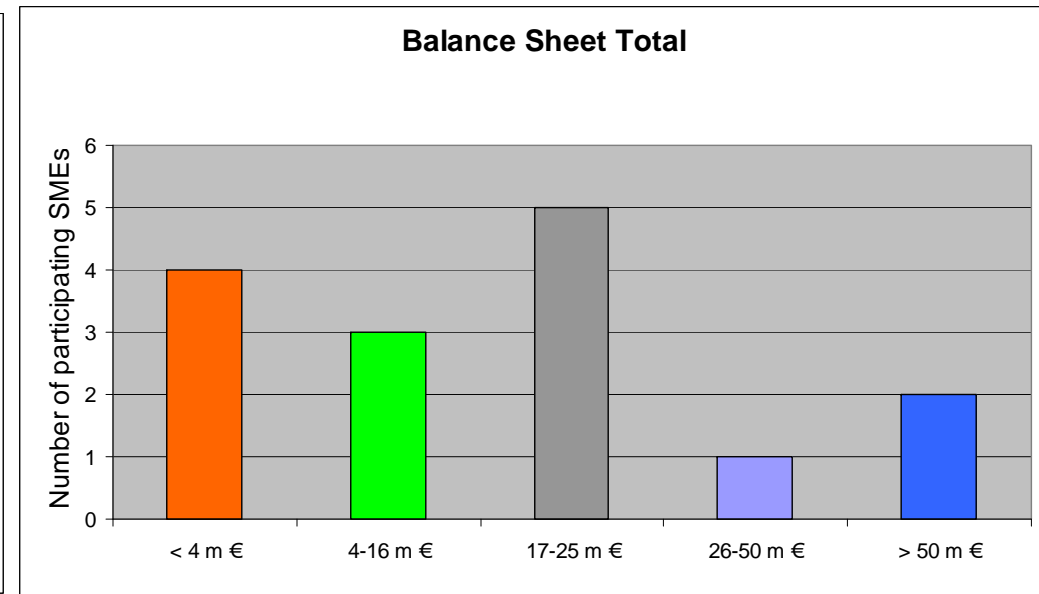


Figure 2 Balance sheet total of the participating SMEs

Field Tests in Germany: Participating Companies

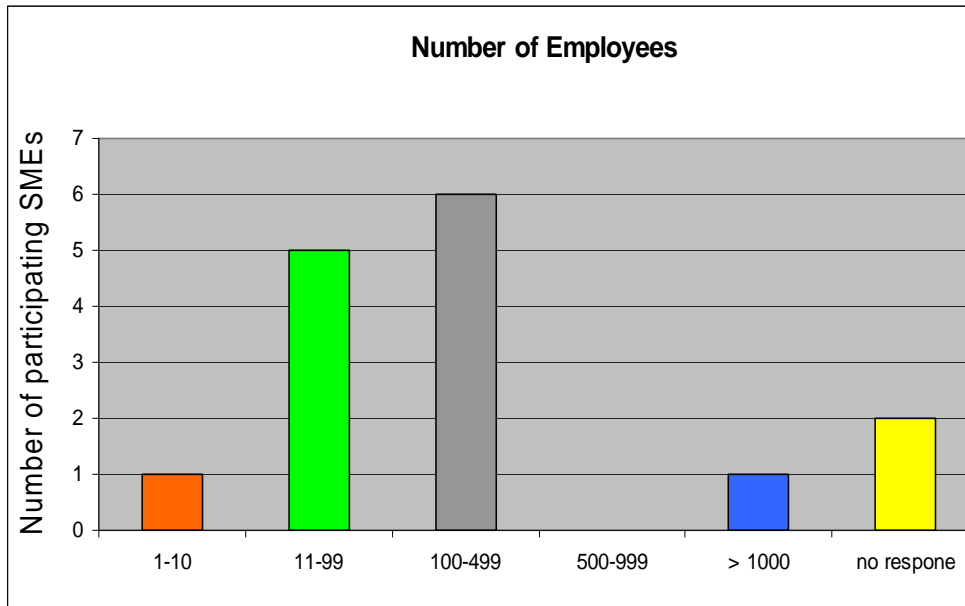


Figure 3 Number of employees in the participating SMEs

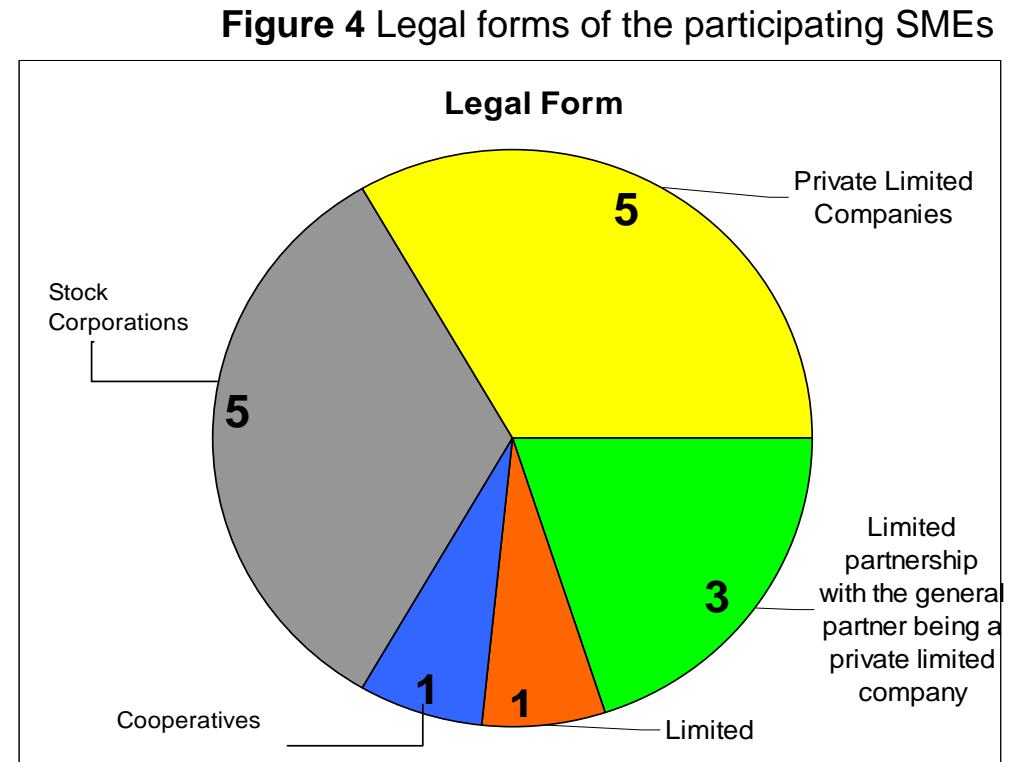


Figure 4 Legal forms of the participating SMEs



Field Tests in Germany: Background

IAS-Regulation: implementation in Germany	Consolidated Financial Statements	Separate Financial Statements
Listed Companies	IFRS required	National GAAP required (permitted: <u>additional</u> IFRS f/s for information purposes only)
Other Companies	IFRS optional	

- ⇒ Compared to rest of Europe: narrow implementation of IAS regulation
- ⇒ Separate financial statements = „multi purpose“ f/s
 - basis for profit distribution
 - basis for tax accounts
 - information purpose only secondary purpose
- ⇒ National GAAP currently under review (Draft-Modernisation Act, May 2008)
- ➔ **Few German SMEs apply IFRS, if they do: for consolidated f/s only**



Field Tests in Germany: Major Findings

→ **companies were hardly able to independently prepare financial statements in accordance with ED-IFRS for SMEs, due to:**

- Lack of knowledge of IFRS / IFRS for SMEs, lack of understanding of fundamentally different accounting concepts (until now no relevance of IFRS)
- Time and resource constraints with regard to field tests
- Complexity of IFRS for SMEs accounting requirements
- High number and nature of note disclosures

→ **companies' evaluation:**

- Support for general structure of ED-IFRS for SMEs; examples → well understandable and applicable; however: likely to encounter problems upon „real“ application
- Need for stand-alone document
- Divided on accounting options (larger companies: yes; smaller companies: no)
- Approach to future maintenance crucial
- Simpler language needed (e.g. section 11)



Specific Problems encountered: Financial Assets and Financial Liabilities

- Hard to understand and comprehend for SMEs
 - What is the scope of this section? (plain vanilla payables and receivables)
 - Fair Value Accounting
 - Fair value measurement seems to be prevalent (where in fact it is not)
 - Mark-to-model, if needed: SMEs usually ask their bank
 - Hedge Accounting hardly relevant
 - Where relevant: guidance on effectiveness testing needed
- *Simplify language and, if possible, the concept, & clarify that most financial instruments SMEs will encounter are measured at amortised cost*



Specific Problems encountered: Deferred Taxes

- The intention/object of this item is unclear
 - small /medium sized SME-Accounting Community is not familiar with deferred taxes (historically unusual in Germany)
 - Tax information requirements in f/s are focussed/reduced on cashflow implications from taxes of the fiscal year
- Family Owned Business Organization (VMEBF) in Germany requires to delete deferred tax accounting
- Draft-Modernisation Act, May 2008 disburdens small companies from deferred tax accounting (only recognition of tax liabilities)



Specific Problems encountered: Business Combinations and Goodwill

- SMEs only have few (if any) business combinations, however:
 - section is difficult to understand
 - complex requirements (e.g. allocation of cost)
 - disclosure of sensitive information required (e.g. cost of business combination)
- Subsequent measurement of goodwill
 - Impairment test (triggering event approach) too burdensome
 - preference for amortisation over short period of time
 - over the years impairment test less likely needed
 - banks do not consider goodwill



Specific Problems encountered: Disclosures

- Required disclosures generally perceived as too detailed and sometimes related to sensitive information (when considering the circumstances of SMEs)
 - burdensome for SMEs
 - such details are not needed → no benefit for banks
 - E.g. related party disclosures
 - no information value for disclosure of key management personnel compensation
 - E.g. financial assets and financial instruments
 - “defaults and breaches on loans payable”
- *Simplification by requiring less detailed, aggregated disclosures & by consideration of SME specific circumstances*



Conclusions

- ED-IFRS for SMEs not applicable without help from SMPs (to a certain degree same applies for national GAAP)
- support for general structure and concept of ED-IFRS for SMEs (e.g. explanations and examples)
- in detail the requirements are expected to be troublesome when applied (e.g. determination of costs)
- currently, German developments are focused on (from perspective of SMEs: no need to deal with IFRS for SMEs)
- IASB's decisions to simplify and European developments will be crucial for further discussion in Germany



Zimmerstr. 30
10969 Berlin

Tel. 0049 – (0) 30 20 64 12 0

Fax 0049 – (0) 30 20 64 12 15

www.drsc.de
info@drsc.de