



Federation of European Accountants  
Fédération des Experts comptables Européens

# How to prepare for changes in SME accounting?

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*Chair, FEE Financial Reporting Policy Group*

*Standing for trust and integrity*



## How to prepare for changes in SME accounting?

- **What is driving the debate?**
  - ↪ **Simplification**
    - Micro-entities
  - ↪ **Outdated EU Accounting Directives**
    - EC Consultation 2009
  - ↪ **IFRS for SMEs issued by IASB**
    - EC Consultation 2010
    - EFRAG Advice on Compatibility

## How to prepare for changes in SME accounting?

➤ **Critical questions for discussion**

- ↪ **What are SME accounts used for? What are users' needs?**
- ↪ **Do we need further harmonisation of accounting within the EU?**
- ↪ **What are the barriers to further harmonisation?**
- ↪ **Is IFRS for SMEs suitable for European SMEs?**
- ↪ **What are the barriers to adoption of IFRS for SMEs in Europe?**

## IFRS for SMEs\*

16 April 2010 - Venice

A solution or just another wave . .



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\*connectedthinking

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### Agenda

Introduction – the European Landscape

Users & user needs

Barriers

Adoption of IFRS for SMEs in Austria – Challenges

## Introduction

## The European Landscape

Analysis of the number of companies in the current categories of the 4th Directive:

Micro	5,369,738
Small	1,477,882
Medium	206,419
Large	96,562
Listed	7,608
<b>TOTAL</b> <small>Source: EC Consultation Paper – Modernisation of the EU Accounting Directives 25 February – 30 April 2009</small>	<b>7,158,209</b>

## Introduction

Large number of enterprises with requirements potentially different from those of listed entities

- A common set of accounting regulations for all member states of the European Union is desirable
- However, approx. 7 million companies are micro & small entities
- The users of financial information from these entities, as well as, their needs are very different to those of only 7 thousand listed entities

## Users &amp; user needs

Who are the users of IFRS for SMEs ?

Preface & Basis for Conclusions to the IFRS for SMEs lists a large number of possible users.

Realistically, users are:

- Providers of Finance (banks, leasing companies, etc)
- Creditors, primarily trade creditors
- (Customers)

## Users &amp; user needs

User needs

Simple, relevant and realistic accounting

Users of SME financial statements primarily need to be able to assess

- the ability of the entity to generate adequate cash to settle liabilities in full as and when these fall due
- any uncertainties attached to the ability to generate adequate cash resources

## Barriers

## Tax accounts

Corporate taxes in the EU are not harmonised !

- Own tax laws in every country
- Common Consolidated Tax Base System ?

Can one set of accounting regulations, i.e. IFRS, form the basis from which tax adjustments and calculations commence ?

- different accounting framework of IFRS and local company laws and tax laws
- „fair value“ not compatible with prudence principle and with accrual basis of taxation in tax law

## Barriers

## Profit distribution

Financial statements need to provide adequate, realistic and complete information allowing projections for:

- Cash flows to service debt
- Profits available for distribution - Cash flows to pay distributions

Profit distribution is a „residual purpose“ – owner-managed companies may use other means to draw profits out of their business

Adoption of IFRS for SMEs in Austria - Challenges

## Austrian perspective

Consultation process of the Ministry of Justice with Standard Setter Committee, Accountants and Auditors

IFRS for SMEs considered as an alternative to full IFRS for consolidated financial statements only– not for stand-alone entity accounts

Approx. 200 SMEs are currently required to prepare consolidated accounts (thereof 50 use full IFRS on a voluntary basis)

IFRS for SMEs – FEE Congress - Venice  
PricewaterhouseCoopers

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*“Small is beautiful.”*

Leopold Kohr, Austrian economist, jurist and political scientist

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Confederation of Danish Industry

Kristian  
Koktvedgaard



FEE/CNDCEC Congres  
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## The Danish "Building Blocks" Approach

Views from preparer's  
perspective



Kristian  
Koktvedgaard



FEE/CNDCEC Congres  
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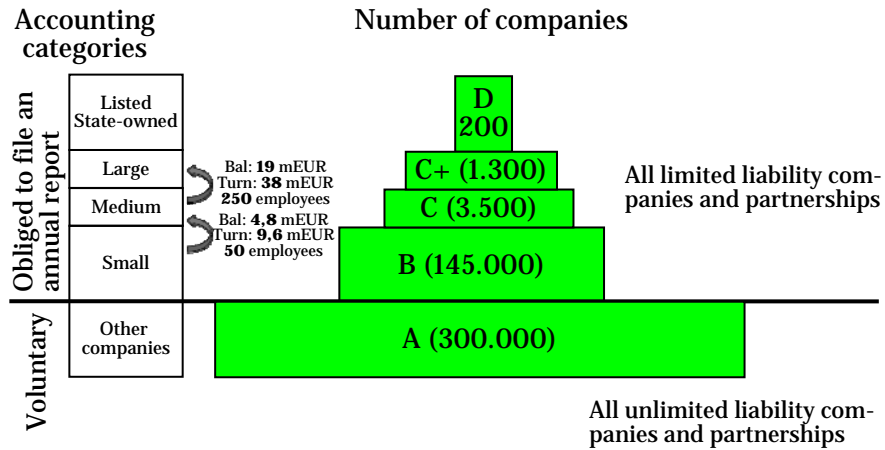


## The development of Danish accounting legislation

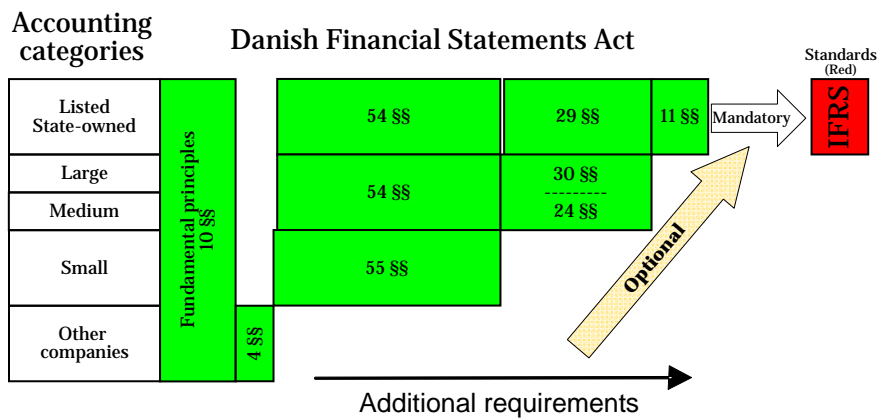
- The financial statements were separated from the tax treatment with the Financial Statements Act of 1981
- The Financial Statements Act from 1981 was structured according to the components of the financial statements, which caused problems for companies of different types and sizes due to exemptions etc. being scattered around.
- The Building Block approach was introduced by legislation in 2001 after 4 years of preparation, and the result was
  - A restructuring of the financial statements according to the size of the company
  - A shift from transaction-based to value based accounting
  - A shift from historical cost to fair value
  - The inclusion of a framework based on the IASB-framework of 2001



## "Building Blocks" Approach

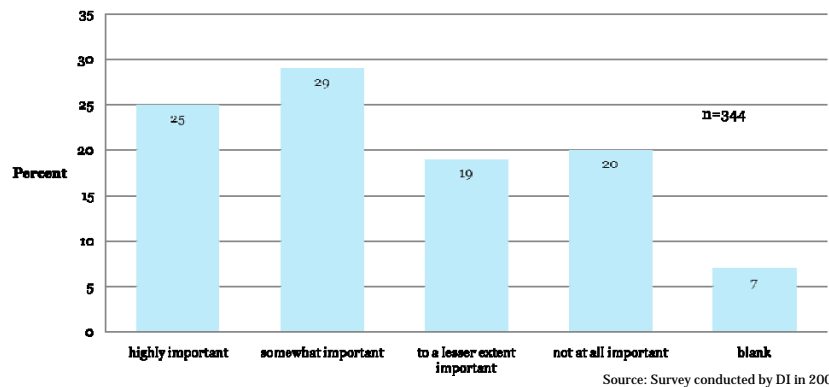


## "Building Blocks" Approach (2)



## Companies as users of financial statements

**When evaluating your suppliers or customers, to what extent do you find the existence of a set of financial statements important?**



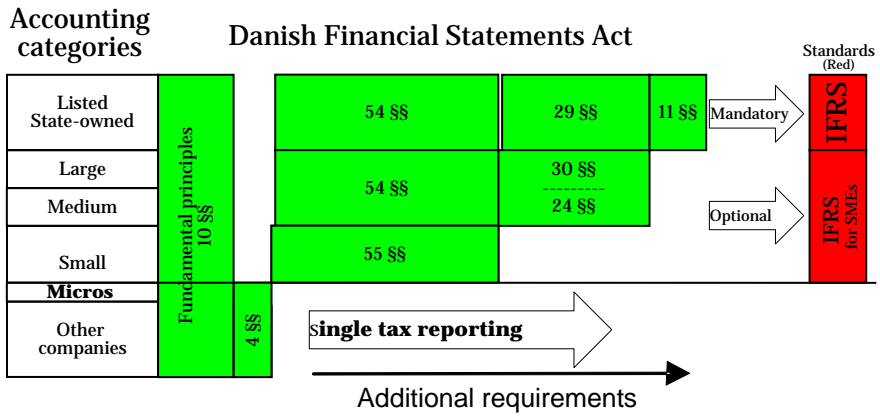
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## The future from a Danish perspective

- Danish GAAP will be updated in 2010/2011 - harmonisation with IFRS for larger entities
- Review of the 4th and 7th accounting directives
- IFRS for SME's - allowed for voluntary use?
  - DI finds that
    - the standard is suitable for widespread use within Europe - for all sizes,
    - Increased international comparability benefits users
    - Adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework
    - Preferably, the option to use the IFRS for SMEs should apply directly to all the relevant companies in the EU. A Member State Option is seen as second best

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# Future "Building Blocks" Approach



# Accounting for SMEs: the Spanish experiences

(from the perspective of an academic)

Professor Araceli Mora  
University of Valencia



**FEE CONGRESS**  
Venice- 15-16 April 2010

## Spanish Accounting Reform after European adoption of IFRS in 2005

national sovereignty

+

national harmony

2008: **New General Accounting Plan (PGC)** for all **individual accounts** (listed and non-listed).

With the following characteristics...

## Characteristics of this new PGC 2008

-Done by the Spanish Standard Setter (**ICAC**) using working groups with representatives from academia, auditors and prepares from big companies (no SMEs preparers-no SMEs users)

- Indications to the WGs from the ICAC:

- 1. Look at the IFRS
- 2. When there are options take the most conservative
- 3. Summarise
- 4. Paste

-A “copy” of the IASB conceptual framework had to be “compulsory”

so

**The accounting rules in PGC-2008 are “basically the same” that IFRS adopted in 2005 (IFRS principles based)**

without “options” (as for example the FV option for PPE) + a copy of IASB CF is compulsory

GREAT PRESSURE BY THE SMALLEST COMPANIES.....

## Issued at the same time PGC for SMEs but...

**PGC for SMEs (2008) is identical to the normal one**

-with some paragraphs deleted (goodwill, hedging, retirement benefits plans, share based payment and business combination);

-with a few differences as available for sale category at cost or non considering discontinued operations;

-with some exceptions for micro entities (all leasing as operating and non deferred taxation)

**Scope SMEs at least two of :**

1. Assets not over 2.850.000 €
2. Net turn over not over 5.700.000 €
3. Employees not over 50

## What has been the reaction of preparers and users of SMEs?

### Preparers:

- “Cost excess benefits perception”
- NON-COMPLIANCE (?)

### Users

#### **Banks:**

- They prefer “conservatism” than relevance to predict future cash flows
- They do not trust FS

#### **Tax Authorities:**

Difficulties and interferences

What is going to be the impact of IFRS for SMEs in Spain?...

## **What the academic research says about the main questions:**

- Are the needs of users of SMEs accounts the same?... **NO**
- Is harmonisation necessary for SMEs in Europe?... **Not necessary but convenient**
- Is the IFRS for SMEs applicable in Europe? **It could be...**
- Can be cultural matters considered a barrier for.....? **YES (motivation, endorsement...)**



## SME Accounting in Europe



**Stig Enevoldsen**

Former Chairman of EFRAG

Venice 16 April 2010



## IFRS for SME - IN EUROPE



## SME accounting in Europe

### **Politically controversial:**

- Many countries have link to taxable income
- Accounting is in most countries legislative issue and standard setters are not involved
- Significant need for change in Europe?
- IFRS for SMEs might take away power from politicians nationally and in Europe
- IFRSME might take away influence from standard setters

## EC Consultation on role of IFRSME

### **EU Commission Consultation on Role of IFRS for SMEs in EU Member States**

### **Relation with Accounting Directives**

## EFRAG's compatibility analysis

### **EFRAG's compatibility analysis of I-SME and the Directives:**

- Only assessing 'conflicts'

## EFRAG's compatibility analysis

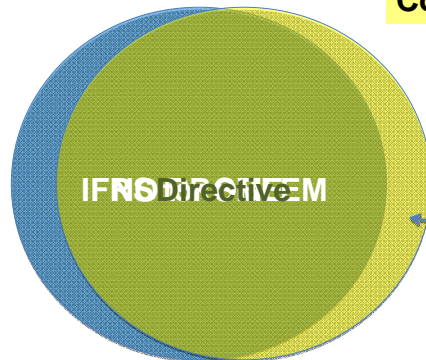
### **Conflicts identified in DRAFT advice:**

- Extraordinary items
- Financial instruments at fair value
- Associates at fair value
- Joint ventures at fair value
- Useful life of goodwill is ten years
- Recognition of negative goodwill
- Reversal of goodwill impairment losses

## IFRS for SMEs in Europe

IFRS for SMEs

Council Directives



Requirements of council directives **NOT** met  
= conflicts  
= Member States cannot require or allow IFRS for SMEs

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## IFRS for SMEs in EU

### Ways to solve the conflicts:

- Change EU Directives
- Explicitly allow IFRS for SMEs in EU as an option (member state or company option)
- Prohibit IFRS in EU
- Change/adapt IFRS for SMEs

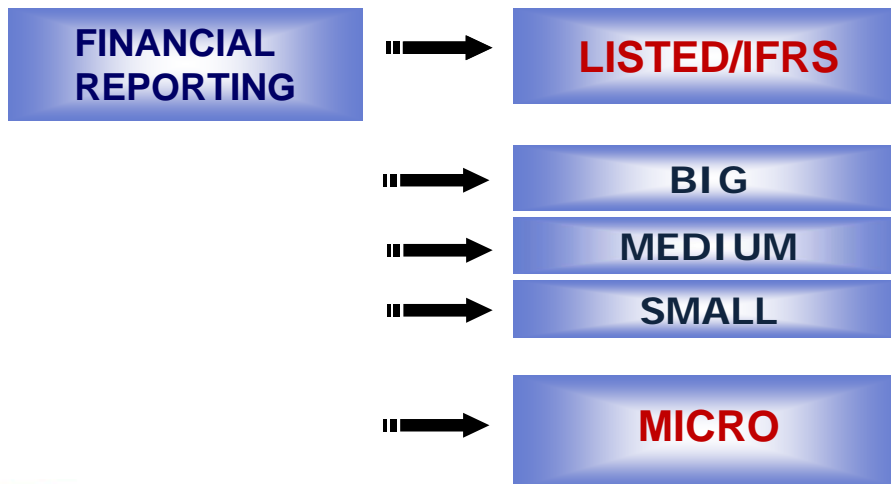
**What do we do with subsequent changes?  
Should we have an endorsement mechanism?  
What do we do with scope?**

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## FINANCIAL REPORTING



## EU Directives



**How should the directives be changed for**

1. Big?
2. Medium?
3. Small?
4. Micro?

**Should it be the same changes??**

**How many set of rules can we cope with?**

# EU Commission proposal on simplifications

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**Deloitte Publications**

- [IFRS Publications](#)
- [Non-IFRS Publications](#)
- [IFRSs in your Pocket 2009](#)
- [Model IFRS Statements and Disclosures/Compliance Checklists](#)
- [Deloitte Comment Letters](#)
- [Compare IFRSs-Local GAAP](#)

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Beyond the Standard.

**IASB Structure**

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- [Constitution](#)
- [IASB Chronology](#)

**Deloitte IFRSe-Learning**

**15 April 2010: Paul Pacter appointed to IASB Board**

The Trustees of the International Accounting Standards Committee (IASC) Foundation have announced the appointment of Paul Pacter as a Member of the International Accounting Standards Board (IASB). For the last six years Mr Pacter has served as Director of Small and Medium sized Entities (SMEs) for the IASB. He has also been webmaster of IAS Plus since its inception in December 2000. Mr Pacter has expressed his desire to limit his IASB term to two years, rather than the customary five year term that he was offered by the Trustees, and will therefore serve full-time from 1 July 2010 to 30 June 2012. As an IASB member, he will continue to chair the new SME Implementation Group on behalf of the IASB. Click for [Press Release](#) (PDF 152k).

**IASB Projects and Meetings**

- [Projects and Timetable](#)
- [Meeting Notes](#)
- [Effective Dates](#)
- [Next Meeting Agenda](#)
- [Future Meeting Dates](#)

**14 April 2010: IASB-FASB progress report on convergence**

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have published a quarterly progress report as of 31 March 2010 on their work to improve and achieve convergence of IFRSs and US GAAP. In November 2009, the two Boards issued a [Joint Statement](#)

**www.IASPLUS.com**

**Resources**

newsletter on [IAS Plus Insurance Project Page](#).

**13 April 2010: IFRS for SMEs may be used in Jordan**

In Jordan, the Companies Law requires all public shareholding companies, general partnerships, limited partnerships, limited liability companies, private shareholding companies, and foreign companies operating in Jordan to prepare annual audited financial statements in accordance with 'internationally recognized accounting and auditing principles.' Additionally, the Jordanian Securities Commission requires all public companies to follow full IFRSs. Consequently, all companies in Jordan (listed and unlisted) follow IFRSs. As the IFRS for SMEs is an IFRS, the IFRS for SMEs may be used by all companies other than those regulated by the Jordanian Securities Commission. No special adoption of the IFRS for SMEs is needed yet in Jordan.

**12 April 2010: IFRS for SMEs in Your Pocket – Global Edition**

Deloitte's IFRS Global Office has published the Global Edition of **IFRS for SMEs in Your Pocket**. This 45-page guide to the IFRS for SMEs is similar to Deloitte's very popular IFRSs in Your Pocket guide to full IFRSs. IFRS for SMEs in Your Pocket takes each section of the IFRS for SMEs, summarises its requirements, and highlights differences with full IFRS requirements. There is also a chronology of the development of the IFRS for SMEs and a discussion of how the IFRS for SMEs differs from full IFRSs. Click to download [IFRS for SMEs in Your Pocket Global Edition](#) (PDF 410k)

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12 April 2010: IEAC's Education Standards Board adopts new strategy



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## **EFRAG**

### **Main objectives:**

- **Proactive contribution to the IASB and IFRIC**
- **Advice to EU Commission incl endorsement advice**
- **Co-ordinate proactive EU activities**
- **Stimulate thought leadership**

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**Proactive**

**Endorsement status report**

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**News**

14-4-2010 | **Compatibility Analysis IFRS for SMEs and the Council Directives**

EFRAG would like to remind its constituents that comments in response to EFRAG's draft compatibility analysis are to be received by 19 April 2010.

13-4-2010 | EFRAG's AMENDED draft comment letter on IASB's ED Measurement of Liabilities in IAS 37

EFRAG has supplemented its draft comment letter on the IASB's ED Measurement of Liabilities in IAS 37, subsequent to the posting of the draft comment letter. Comments are invited until 7 May 2010. Constituents that have commented previously are invited to comment only on the additions.

**SME Compatibility Analysis**

13-4-2010 | EFRAG's draft comment letter on the IASB's ED Conceptual Framework for Financial Reporting: The Reporting Entity

EFRAG has issued its draft comment letter on the IASB's ED Conceptual Framework for Financial Reporting: The Reporting Entity. The letter can be downloaded here. Comments are invited on the letter by 25 June 2010.

8-4-2010 | EFRAG SB Meeting 26 March

The summary of the EFRAG SB meeting held on 26 March 2010 has been published and can be downloaded here.

30-3-2010 | EFRAG Update March 2010

**EFrag Focus**  
more focus >

**Projects: Invitation to Comment**

Compatibility Analysis IFRS for SMEs and the Council Directives | Draft Comment Letter  
Comments no later than : 19-4-2010

ED on Measurement of Liabilities in IAS 37 | Draft Comment Letter  
Comments no later than : 7-5-2010

IASB's ED Conceptual Framework for Financial Reporting: The Reporting Entity | Draft Comment Letter  
Comments no later than : 25-6-2010

**ItC SME Compatibility**

**Thank you for your attention**

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