



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.2/ISAR/L.3
10 July 2000

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD

Commission on Investment, Technology
and Related Financial Matters

**Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting**

Seventeenth session

Geneva, 3-5 July 2000

Agenda item 3

PROMOTING TRANSPARENCY AND FINANCIAL DISCLOSURE:
ACCOUNTING BY SMALL AND MEDIUM-SIZED ENTERPRISES

Agreed conclusions *

Accounting by small and medium-sized enterprises

1. Small and medium-sized enterprises (SMEs) are important to economic growth and contribute significantly to economic development in both developed and developing countries. However:

- The existing international and some national accounting and reporting requirements have been intended primarily to meet the accounting and reporting needs of large, listed companies;
- Many SMEs do not keep proper financial records and accounts;
- Many SMEs are not aware or not convinced of the usefulness of accounting and financial reporting requirements for control and decision-making purposes;
- Many SMEs lack skilled accounting personnel and infrastructure to implement existing accounting rules and regulations;

* As agreed upon at the closing plenary meeting, held on 5 July 2000.

- There is weak accounting infrastructure, inadequate information systems and an insufficient number of fully qualified accountants in some countries;
- In some countries the only rules that affect SMEs are tax-based rules;
- Many SMEs have difficulties in accessing affordable accounting services of the kind they need;
- The majority of SMEs do not require sophisticated accounting, tax and audit advice, but low-cost and understandable accounting and management guidance;
- Governments need more reliable economic data on SMEs both for managing the economy and for equitable taxation.

2. Even if useful, simplified accounting and reporting systems were widely available for SMEs and even if SMEs were to have skilled personnel to implement these systems, many SMEs would still be reluctant to keep adequate accounts because they would fear that transparent reporting would expose them to excessive taxation. In certain countries, taxation regimes can be perceived as burdensome and tend to hamper the growth of SMEs. On the other hand, accounting may help SMEs to compute their taxes properly.

3. Improved accounting information would permit SME owners to manage their firms better, would allow them to access finance more easily, and would assist them in properly calculating their taxes.

4. With that in mind, the seventeenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) agrees that to alleviate the above problems, SMEs need a financial accounting and reporting framework which would:

- (a) Be simple, understandable and user-friendly;
- (b) Produce useful management information;
- (c) Be as standardized as possible;
- (d) Be flexible enough to accommodate the growth of business and increase the potential of some SMEs as they expand to use International Accounting Standards;
- (e) Be easily reconcilable for taxation purposes;
- (f) Recognize the environment in which SMEs operate.

5. It also agrees that it is up to each country to define different categories of SMEs in a manner appropriate to its needs and that any model accounting framework put forth would be voluntary.

6. Having in mind both the accounting problems of SMEs and the desired characteristics of an accounting and reporting system for SMEs, ISAR recommends that ad hoc expert consultations be held which should consider the following:

- The categorization of the target group to which the SME accounting and reporting framework to be suggested would apply;
- The identification of an accounting and reporting framework consistent with the above characteristics and suitable for the different types of SMEs;
- The identification of possible difficulties in implementation;
- How the education needs of SMEs could be most appropriately met.

7. To that end, it calls upon experts to extend their cooperation to the consultative group.

8. It further agrees that the results of the consultations be presented to its eighteenth session and that the main agenda item for consideration again be accounting by SMEs.

Further work to follow up the fifteenth session

9. Having considered the work done on environmental performance indicators as mandated at its fifteenth session, ISAR recommends that the UNCTAD secretariat complete the development of the users' and preparers' manuals on environmental performance indicators. The final output should be reviewed by industry and business associations, financial analysts, banks, insurance companies, accounting entities and other relevant bodies and then distributed in both developing and developed countries.

10. ISAR also recommends that the UNCTAD secretariat continue to work on environmental and financial accounting and disclosure to promote sustainability reporting.

Further work to follow up the sixteenth session

11. Taking into account the positive and recognized contribution that the guideline on national requirements for the qualification of professional accountants that ISAR adopted at its sixteenth session is making towards the goal of raising the level of professional qualifications, ISAR recommends that the UNCTAD secretariat continue to cooperate with international, regional and national organizations and professional bodies to strengthen accounting education and professional qualifications.

Recommendations for better networking and communication between ISAR experts and the UNCTAD secretariat

12. ISAR recommends that UNCTAD increase communication among experts and between sessions, and request that it consider, *inter alia*, improved access in as many official languages as possible to its website, newsletters and e-mail in order to accomplish this.