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Agenda item 4. Accounting and reporting needs of microenterprises and small and medium-sized enterprises and the role of accounting and reporting in facilitating the formalization of businesses in the informal sector

Presented by

Stefano Santucci
Professor of International Financial Reporting Standards
University of Pavia

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Agenda Item n. 4
Accounting and reporting needs of MSMEs and the role of accounting and reporting in facilitating the formalization of businesses in the informal sector

Stefano Santucci
Professor of International Financial Reporting Standards
University of Pavia
Accounting & Reporting role in MSMEs formalization process

Accounting and reporting is a fundamental tool for the formalization of MSMEs in the informal economy because A&R is an information (technology) system that:

1. identifies the relevant transactions and other events related to the management of business activities;
2. systematically and orderly records them in monetary terms;
3. communicates relevant, reliable, and comparable information about the entity’s financial situation, economic performance, net cash flows, and SDGs to external users that make economic decisions about their relationship with the entity.

Steps 1-3 result in the preparation of General-Purpose Financial Statements (GPFS), a monetary and narrative model of representation of the Entity’s business activities.

GPFS is a crucial communication document for MSMEs willing to formalize their role in the economy because it is the start of a relevant dialogue with their primary stakeholders (Financial institutions, suppliers, customers, and tax authorities) and then with the others (i.e., Investors and Society), once formalized, to achieve growth.
Need for a harmonized, modular and growth-friendly Accounting & Reporting System for MSMEs

The formalization process needs proper accounting and reporting tools consistent with the entity’s life cycle stage and the operations' economic environment.

A system has to be created that is very simple at its bottom but allows the possibility to adopt more complex frameworks without excessive transition costs.

The proposed system has a “bottom-up,” modular, growth-friendly approach, similar to SMEGA Level 2-3 Guidance.

1ST Step: Cash-based Financial Statements (FS) with limited disclosure:

Allowed by legislators or regulators at the fundamental bottom of the system for Micro-entities willing to get formalized, with straightforward A&R requirements limited to organizations under a material size to be determined on a Country-by-Country basis

Conditions:

1. Revenue and expense timing and recognition coincide with cashflows;

2. No significant item of assets, other than cash, on the asset side, and no significant item other than Equity, is on the Liability and Equity side of the Balance Sheet so that its preparation is not material
Need for a harmonized, modular and growth-friendly Accounting & Reporting System for MSMEs

2\textsuperscript{nd} Step: Simplified Accrual-based FS based on Historical Cost measurements

Once formalized and regularly operating in the formal economy, the \textbf{dialogue with primary users} (financial institutions, suppliers and customers, tax authorities, in the first place) \textbf{needs to adopt accrual-based accounting}.

The focus is the fair presentation of BS and Income Statement (optional: Present Cashflows Statement/Disclose relevant SDG metrics taken from UNCTAD GCI)

The new A&R requirements are to be introduced (by legislators or regulators)
- voluntarily if conditions 1-2 of the previous slide are no longer satisfied
- over a certain threshold of total assets, turnover, number of employees

This stage is the one represented in the SMEGA Level 3 Guidance.

3\textsuperscript{rd} Step: Full Accrual-based FS with optional measurement criteria (IFRS For SMEs or similar A&R framework to be adopted)

This stage is consistent with higher quality information goals of SMEs open to further growth (IPOs, Joint-ventures, Internationalization).

There are disclosure exemptions if compared to Full IFRS-compliant GPFS (due to the cost-benefit reasons), but the similarities in the A&R requirements allow the transition to Full IFRS GPFS that is not burdensome.
The contribution of Internet-based information technology platforms to MSMEs Accounting and Reporting

Cloud-Based Accounting Software, Digital Invoicing, Receipt Management:
Online Platforms allow MSMEs to maintain financial records in real-time from any location, often using simple devices such as mobile phones. These systems often come with user-friendly dashboards, financial statement generation, and other essential tools tailored for non-accountants.

Integrating e-commerce platforms, bank accounts, and point-of-sale systems with accounting software reduces manual data entry, minimizing errors and saving time. These platforms allow businesses to send, receive, and store digital invoices and receipts, streamlining record-keeping and providing FS automated preparation.

Scalability:
As the business grows, these platforms often allow easy scaling of services, adding new features or storage as needed, thus accompanying the growth of the MSMEs.

Integrated Tax Calculations:
Some platforms offer built-in tax calculation tools that consider specific regional tax regulations, making it easier for businesses to compute tax liabilities and avoid under or overpayments.
Data Analytics and Reporting (with AI integration):
Built-in data analytics tools can generate insights into financial health, cash flows, and other vital information, such as business plans, aiding in informed decision-making and relation with stakeholders.

Training and Support:
Many IT platforms come with a wealth of online tutorials, webinars, and 24/7 chat support to assist businesses in using the software effectively.

Integration with Other Business Tools:
Many platforms can integrate with CRM, payment gateways, and inventory management systems, providing a comprehensive business solution.
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Thank you for your attention

stefano.santucci@unipv.it