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TRADE AND DEVELOPMENT BOARD
COMMISSION ON INVESTMENT, TECHNOLOGY AND
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**Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting**
Eighteenth session
Geneva, 10 – 12 September 2001

**AGREED CONCLUSIONS ON ACCOUNTING BY SMALL AND
MEDIUM-SIZED ENTERPRISES ***

I. Accounting by small and medium-sized enterprises

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) recalls that during its seventeenth session it agreed that improved accounting information would permit small and medium-sized enterprises to be better managed and to access finance more easily, and would permit a more accurate calculation of their taxes. With that in mind ISAR also agreed that SMEs needed 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 (IAS);
- (e) Be easily reconcilable for taxation purposes;
- (f) Recognize the environment in which SMEs operate.

* As agreed by ISAR at its closing plenary meeting on 12 September 2001.

2. It also agreed that it was up to each country to define the term “small and medium-sized enterprise” in accordance with its national economic environment, as well as to define the different categories of SMEs in a manner appropriate to its needs, and that any proposed accounting framework put forth would be voluntary and would constitute optional guidance for member States.

3. At its eighteenth session, ISAR expressed appreciation for the excellent work of the ad hoc consultative group of experts, and at the conclusion of its deliberations based on the report of the ad hoc consultative group, it reconfirmed the urgent need for guidance on an accounting framework for SMEs which took into consideration the fact that one uniform set of accounting rules would not suit the needs of large, medium-sized and small enterprises. Any framework should cover all entities likely to prepare annual financial reports, in order to cover different definitions of SMEs. Furthermore, the objective of such a framework would be to allow enterprises to proceed logically from one level to another as they developed. Such a framework could have at least three levels or categories. The most sophisticated level would comprise a tier of entities that need to comply with all International Accounting Standards (Level I), which include listed enterprises and enterprises in which there is significant public interest. Below this level the second tier (Level II) would be larger SMEs, for which the full IAS might be beyond their needs since they are less likely to have transactions foreseen in the more complex standards and the costs could outweigh the benefits. It is preferable that these enterprises use a condensed set of standards, based on IASs, including recognition and measurement criteria, but with reduced disclosure requirements. The final Level III would be for smaller entities which have limited availability of and access to accounting expertise and so would be required to provide simplified accounts that comply broadly with the essential principles of accruals accounting. The accounting approach for Level III would aim at producing useful information for management, fiscal and other national authorities and other interested parties.

4. ISAR reaffirms that the actual definitions of each of the three tiers and even the eventual number of tiers must rest with the national regulators who might choose to adopt the proposed system.

5. It notes that the accounting framework for Level I enterprises is increasingly being set by the International Accounting Standards Board (IASB). The ad hoc consultative group elaborated its proposal for Levels II following an approach in which a separate standard for smaller entities would be produced as a subset of condensed standards. ISAR notes that the IASB has on its work programme a potential project on accounting by SMEs and in emerging markets. ISAR concurred with the consultative group’s thinking that an abridged set of rules for smaller businesses could be particularly useful in developing countries. First, it could serve as a

stepping stone on the way to full IAS compliance. Second, it could form the starting point for the development of a “technician” level of accounting expertise, specifically for SMEs. The services of such an expert would be cheaper and better adapted to the needs of small enterprises.

6. At its eighteenth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) reviewed the report of the ad hoc consultative group of experts on accounting by SMEs (TD/B/COM.2/ISAR/12), and it agrees with the general approach to accounting by SMEs suggested by the consultative group. Based on its deliberations, ISAR also agrees that the report needs further refinement, and it requests the ad hoc consultative group to continue its work. In particular the ad hoc group should take into account the recommendations for revisions for which there is consensus. It is considered desirable: to further elaborate the guidance for Level III entities so that interim voluntary technical aid is developed and disseminated as soon as possible; to further explain for Level II the rationale for the selection of the standards in the “minimum set of standards” and the rationale for excluding standards not in the “minimum set”; to further indicate the extent of disclosures and to finalize the draft pro-forma example of condensed standards for Level II; and to demonstrate the consistency between the international conceptual framework and the proposed approach for accounting by SMEs.

7. ISAR also recommends that the ad hoc consultative group should disseminate its revised report for comments to all members and observers of ISAR and submit the final draft to the ISAR’s nineteenth session.

8. ISAR also agrees to initiate discussions on partnerships with professional bodies to consider how accounting technicians could be trained in the new approach.

9. In the meantime, ISAR would like to bring to the attention of International Accounting Standards Board and other relevant international bodies such as the International Monetary Fund, the Bank for International Settlements, and the World Bank the fact that accounting by SMEs is an urgent issue for economic and social development for developed and developing countries alike.

10. ISAR requests the IASB to take up this issue as a priority and on a timely basis. ISAR further indicates to the IASB that it has requested the ad hoc consultative group to continue its work and that ISAR is ready to cooperate with the IASB.

11. It further agrees that the results of the consultations be presented to the nineteenth session and that the main agenda items for consideration would be accounting by SMEs and corporate governance.

II. Further work to follow up on the fifteenth session

Environmental accounting and reporting

12. The work on environmental performance indicators is important in order to link environmental performance and financial performance. ISAR agrees to cooperate more closely with other initiatives, including with the Global Reporting Initiative (GRI).

13. The environmental accounting and reporting project should be a two-stage process. The outputs that have been disseminated to over 25 countries and training activities should be followed up. More training is needed to enhance the capacity of accountants to deal with environmental issues in developing countries and countries with economies in transition.

14. There is a need to train experts to evaluate and measure environmental performance and to recognize positive and negative externalities, including training on the application of ISAR guidelines and other sustainability standards.

III. Further work to follow up on the sixteenth session

15. 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 qualification.

IV. Future work

16. ISAR encourages the secretariat to work with the members of the Group during the intersessional periods to identify future topics for discussion.