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Accounting and Financial Reporting by Small and Medium-sized Enterprises: Trends and Prospects

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Note

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List of Acronyms

ACCA	Association of Chartered Certified Accountants
BFN	Bokföringsnämnden, the Swedish Accounting Standards Board
EFRAG	European Financial Reporting Advisory Group
GAAP	generally accepted accounting principle
GDP	gross domestic product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Enterprises
ISA	international standards on auditing
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
LIFO	"last in – first out" method
PAO	professional accountancy organization
PI	public interest
PPE	property, plant and equipment
SAICA	South African Institute of Chartered Accountants
SME	small and medium-sized enterprise
SMEGA	Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises
SMEIG	SME Implementation Group
SYSCOHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires Accounting System

Preface

The role of small and medium-sized enterprises (SMEs) in the economic development of countries/territories around the world cannot be overemphasized. Beyond meeting the demand for the day-to-day goods and services of the majority of the population of almost all countries/territories, SMEs make significant contributions to global trade and economic development. Moreover, SMEs provide employment to the greater share of the workforce of most countries/territories.

One of the major obstacles that SMEs face when they initially start or need to scale up operations is access to financing. Maintaining proper accounts and generating meaningful financial statements enhance their chances of obtaining financial resources. To attract foreign investment, SME reporting also needs to meet international requirements and standards such as those set by the International Accounting Standards Board (IASB). However, in response to the rapid globalization of the world economy and increasing interconnectedness of global financial markets, international accounting standards (IASs) are becoming too complex, voluminous and costly for many SMEs to apply in an effective manner.

UNCTAD’s Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been playing a pioneering global role in addressing the accounting and financial reporting needs of SMEs. ISAR was the first group of experts to provide SMEs with simple, user-friendly accounting and financial reporting guidelines. Most notably, ISAR has succeeded in changing an earlier widely maintained view that “one size fits all”. In tackling this issue, the ultimate objectives of ISAR – beyond the technical accounting details – have been to build a competitive SME sector, create employment opportunities, encourage entrepreneurship, increase productive capacity and trade, and achieve sustainable and inclusive economic growth.

I am very pleased to present to readers this publication that reviews recent trends and prospects in accounting and financial reporting by SMEs, including microenterprises. I am confident that policymakers, regulators, standard-setters and professional accountancy organizations will find this information useful for their policy debates and decision making in this important area.

Mukhisa Kituyi
Secretary-General of UNCTAD

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1. **Introduction**

States Members of the United Nations recognized decades ago the very critical role a dynamic private sector plays in achieving trade and economic development goals and the importance of good and internationally harmonized accounting data and corporate reporting in this regard. In October 1982, the Economic and Social Council of the United Nations established ISAR with a view to promoting reliable and comparable accounting and reporting by enterprises around the world. Over the years, ISAR has addressed a variety of accounting and reporting issues that have contributed to achieving high-quality and comparable corporate reporting based on internationally recognized standards and codes to facilitate sustainable and inclusive economic growth.

The increasing volume and complexity of IASs prompted ISAR to consider the special accounting and reporting needs of SMEs. ISAR's deliberations on this topic formally commenced at its seventeenth session in July 2000. After extensive consultations and deliberations on this issue, at the end of 2003 ISAR published two sets of *Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises* (SMEGA) – SMEGA level 2 and SMEGA level 3, respectively. They were published in all six languages of the United Nations. Furthermore, in 2009, ISAR published a revised and updated version of the SMEGA level 3. ISAR has been a pioneer in this field and its work has had a significant influence around the world, particularly in promoting a three-tiered approach to financial reporting published as *International Financial Reporting Standard for Small and Medium-sized Enterprises* (IFRS for SMEs) by IASB in 2009. In concluding its twenty-sixth session, ISAR requested the UNCTAD secretariat, inter alia, to continue compiling feedback on the practical implementation of the revised SMEGA level 3. ISAR further requested the UNCTAD secretariat to conduct studies on practical implementation by SMEs of IASB's IFRS for SMEs with a view to facilitating sharing of experiences gained in different regions of the world.

As a continuation of this work, this publication is intended to provide an overview and analysis of the current status and recent development trends on accounting and financial reporting of SMEs, including microenterprises. In particular, it discusses the importance of SMEs in the economy, the adoption rate of the IFRS for SMEs*,* the specific issues of microenterprises, oversight and enforcement challenges, audit requirements and capacity-building needs in this area. It also provides some policy recommendations on addressing practical implementation challenges. While this publication has been written, there have been a number of developments; some of these have been included; however, other information arising since 2013 has been omitted.

A desk-top research approach was used in collecting data based on a questionnaire sent to professional accountancy organizations (PAOs) in various jurisdictions. The questionnaire, explanations on the approach and detailed responses are presented in appendix A. Organizations from 42 countries/territories participated in the survey (appendix B). In addition to the questionnaire, a literature review (appendix D) was conducted covering issues such as SME reporting user needs, costs and benefits of the IFRS for SMEs, selected studies on the implementation of the IFRS for SMEs, access of SMEs to finance and specific needs of microenterprises.

This study has indicated that ISAR's work on accounting by SMEs and, more specifically, the three-tiered approach to addressing the accounting and financial reporting needs of enterprises has had a significant influence around the world and is now widely accepted. It also suggests that the IFRS for SMEs, as a common international framework and standard, is adopted by many jurisdictions. However, there is also a diversity of frameworks on accounting for SMEs, which poses challenges with regard to comparability and quality of such reports. The study also underlines the importance of capacity-building in this area as respondents to the survey noted that the lack of knowledge of international standards and practices was a common difficulty faced in achieving a proper implementation of the IFRS for SMEs, as well as the shortage of professional accountants and auditors working in this sector.

2. **Defining SMEs and their economic importance**

SMEs, despite their size, are important contributors to the national economies of countries around the world. In most countries, they represent the majority of enterprises, provide most of the employment and also make an important contribution in terms of income generation.

However, one of the difficulties in determining their exact participation in the economy is the issue of their definition, including a definition of microenterprise. Many countries do not have these definitions, and where these definitions exist, they are not uniform throughout jurisdictions. This means that it may not be possible to accurately compare the number of entities across countries in some of the categories (for example, SMEs and microenterprises) or even to determine precise statistics of this sector worldwide concerning employment, contribution to gross domestic product (GDP), income produced, and the like.

The diversity of definitions for SME in participating countries is reflected in the responses to question 1 of the questionnaire (appendix A). However, despite this diversity, it is evident that in most countries the number of entities in the SME and microenterprise categories is far greater than the number of listed companies, domestic companies with public accountability and foreign registrants (question 2).

In the European Union, according to the 2012 SME Performance Review of the European Commission, while the European Union faced challenging economic conditions in 2011/12, SMEs:

> ...retained their position as the backbone of the European economy, with some 20.7 million firms accounting for more than 98 per cent of all enterprises, of which the lion's share (92.2 per cent) are firms with fewer than ten employees. For 2012 it is estimated that SMEs accounted for 67 per cent of total employment and 58 per cent of gross value added (GVA). These figures point to a virtual standstill as compared to the preceding year, 2011. With more than 87 million person employed the EU's SMEs continue to be the backbone of the EU economy.[1]

In Brazil, the world's fifth largest country by population and tenth largest economy, with a GDP of $1.7 trillion, the most robust economy in Latin America, representing 35 per cent of the region's GDP,[2] SMEs represent 99 per cent of all companies in the country and are responsible for 66 per cent of jobs. A study in 2010 by the Association of Chartered Certified Accountants (ACCA) of the Association's top 20 markets globally indicates that SMEs, as locally defined, consistently make up the vast majority (85–99.9 per cent) of the business population. They also account for just under 50 per cent of private sector value added, and 77 per cent of private sector employment. If all other countries for which reasonably good data are available are added to this total, SMEs can be shown to account for 52 per cent of private sector value added and 67 per cent

[1] See http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf.
[2] See http://www.endeavor.org/network/countries/brazil/1.

of employment, which provides a reasonable approximation for the sector's global footprint.[3] Table 1 reflects differences in SME definitions and shows that, regardless of the different definitions used by countries/territories, their importance in the economy is irrefutable.

Table 1. SME definitions and economic contribution in selected ACCA markets (selected information)

Country/ territory	***SME threshold***	***% of enterprises***	***% of employment***	***Informal economy as % of GDP***
Australia	20 employees (services), 200 employees (manufacturing)	99.7	64	11
Canada	500 employees, $50 million turnover	99.8	70	13
China	Employment criteria vary from 200 employees in wholesale and retail trade to 2,000 in manufacturing and 3,000 in construction, transport and communications. The turnover threshold is typically RMB 300 million, (RMB 150 million in the hospitality sector). A balance sheet threshold of RMB 400 million applies in construction and manufacturing. Note that in China, non-independent businesses can also be classified as SMEs	99.7	88	14
Cyprus	250 employees, €50 million turnover, balance sheet total of €43 million	99.9	84	29
Ghana	100 employees, $100,000 in fixed assets	92	16	43
Hong Kong, China	100 employees in manufacturing, 50 employees in non-manufacturing	98	50	19
Ireland	250 employees, €50 million turnover, balance sheet total of €43 million	99.5	69	13
Kenya	100 employees, KSh 800 million turnover. No balance-sheet threshold exists for medium-sized businesses, although KSh 50 million in plant and machinery investment or KSh 20m million in equipment investment are thresholds for small business status	-	28	39
Malaysia	50 full-time employees, RM 5 million turnover (primary agriculture and services); 150 full-time employees, RM 25 million turnover (manufacturing)	99.2	56	33
Mauritius	200 employees, MUR 10 million investment in equipment (manufacturing firms only)	90	45	24
Nigeria	200 employees, ₦ 500 million balance sheet (excluding land and buildings)	87	75	63
Pakistan	250 employees, PRs 250 million turnover, PRs 50 million paid up capital (harmonized since 2005)	90	78	40

[3] See http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-afb-sbaga.pdf.

Poland	250 employees, €50 million turnover, balance sheet total of €43 million	99.8	69	29
Russian Federation	250 full-time equivalent employees, Rub 1 billion turnover (subject to five-year review), 25 per cent share ownership by foreign companies, public sector organizations or charities	94	49	52
Singapore	200 employees (non-manufacturing); S$15 million in fixed assets (manufacturing)	90	62	14
Trinidad and Tobago	50 employees, TT$5 million in assets, TT$10 million turnover	95	34	37
Ukraine	Current laws only acknowledge small business status. The threshold is 50 employees, Hrv 70 million turnover. Ukraine is, however, in transition to the European Union definition (250 employees, €50 million turnover, balance sheet total of €43 million).	85	24	58
United Arab Emirates	Thresholds vary among the Emirates, some of which have no official definition. Current Dubai threshold is 100 employees and Dh 100 million turnover. An official country-wide definition is currently being considered.	99	63	29
United Kingdom of Great Britain and Northern Ireland	250 employees, €50 million turnover, balance sheet total of €43 million	99.9	59	11
United States of America	Varies widely, although a 500-employee threshold is often used. Employment thresholds are mainly applied to manufacturing, retail and wholesale trade. Typically around 500 employees, but can range from 50 for gas dealers and 100 for wholesalers up to 1,500 for oil refineries and pipeline operators, telecommunications and aircraft manufacturers. For most service sectors, as well as agriculture and construction, turnover thresholds are used ranging from $750,000 for primary agriculture to $33.5m for construction and $34.5m for some medical services.	99.9	58	8
Total ACCA top 20		**-**	**77**	**13**
Source: ACCA (2010).				

3. **The role of accounting and reporting for SMEs**

As previously mentioned, SMEs represent the majority of businesses around the world and are considered important drivers of employment and economic growth, in particular in developing countries and emerging markets.

However, they encounter several challenges that hinder their development opportunities, such as poor managerial skills, unqualified labour and reduced access to finance due to information asymmetry (or, when finance is granted, they have to pay higher interest rates). Also, a big proportion of small and micro-businesses remains in the informal sector and lacks accounting records. As a consequence, SMEs have a high rate of disappearance in the early years.

In this regard, accounting and reporting can play a relevant role in supporting SMEs development by decreasing the information asymmetry problem. If lenders have transparent information they will be in a better position to assess the risk level of the borrower. In addition, accounting and reporting is a powerful tool for owners and/or managers of SMEs, provided they have the necessary skills to understand the information, to make adequate business decisions in terms of allocation of resources, determining the amount of financing required, and the like.

For instance, in Austria, a 2003 analysis by Kreditschutzverband found that the number one cause for bankruptcy was linked to internal mistakes. Consequently, increasing accounting literacy can raise SME credibility and improve relations with microfinancing institutions.

Access to finance is critical for SMEs to survive and grow. The International Finance Corporation has estimated a financing gap[4] of $2.1 trillion to $2.6 trillion for microenterprises and SMEs in developing countries. Mckinsey and the Internation Finance Corporation[5] highlight that to reduce this gap at least three key issues should be addressed: the creation of a more supportive enabling environment to promote finance for this type of businesses; the need for an improved financial infrastructure; and the kinds of efforts private sector institutions will have to make to meet these enterprises' needs in economically sustainable ways.

The financial infrastructure includes accounting and auditing standards, credit reporting systems, collateral and insolvency regimes, and a well-functioning payments and settlement system. When the financial infrastructure is improved, the lack of transparency and the legal uncertainties responsible for increasing the lenders' risk are reduced.

In this regard, Nanyondo et al. (2013)[6] found in Uganda that "there is a significant positive relationship between quality of financial statements and access to finance and a significant negative relationship between information asymmetry and access to finance. However, the perceived risk is not significantly associated with access to finance. The interaction between quality of financial statements and perceived risk is negative, meaning that high quality financial statements coupled with high risk will result in low access to finance". Allee and Yohn (2009)[7] in their study carried out in the United States found that firms with audited financial statements are less likely to be denied credit than those without and that firms with accrual-based financial statements benefit in the form of lower cost of capital.

Against this background, UNCTAD's questionnaire asked respondents from countries/territories that were implementing the IFRS for SMEs, whether, in their opinion,

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[4] See http://www.ifc.org/wps/wcm/connect/4d6e6400416896c09494b79e78015671/Closing+the+Credit+Gap+Report-FinalLatest.pdf?MOD=AJPERES.
[5] See http://mckinseyonsociety.com/downloads/reports/Economic-Development/Two_trillion_and_counting.pdf.
[6] Nanyondo M, Kamukama N, Nkundabanyanga S and Tauringana V, 2013, Quality of financial statements, information asymmetry, perceived risk and access to finance by Ugandan SMEs, paper presented at the third Aannual Conference of the African Association for Finance and Accounting, Munyonyo, Uganda, September.
[7] Allee KD and Yohn TL, 200, The demand for financial statements in an unregulated environment: An examination of the production and use of financial statements by privately held businesses. *The Accounting Review*, 84(1):1–25.

preparing financial statements according to the guideline had facilitated SMEs' access to finance (question 3). The results from this questionnaire indicate that most respondents (83 per cent) were of the opinion that preparing financial statements using the IFRS for SMEs indeed had facilitated SMEs' access to finance. However, some respondents were of the opinion that such requirements of the IFRS for SMEs guidelines as property valuation at costs (in question 4) negatively affected SMEs' access to finance. Respondents also reflected that access to finance is not only dependent on the accounting framework. It also depends on the SME credit history, the credit history of its shareholders/directors and other qualitative matters not captured within the accounting framework. But generally, it was agreed that the availability of a proper accounting framework and its required application would enable the providers of finance to better understand the business and its ability to repay its obligations.

4. Existing international accounting and reporting guidance and standards at a global level

4.1 ISAR's Accounting and Financial Reporting Guidelines for SMEs

Since its establishment in 1982, ISAR has been addressing a variety of accounting and reporting issues with a view to promoting reliable and comparable financial and non-financial reporting by enterprises around the world.

In the late 90s, UNCTAD member States at ISAR sessions started raising the issue of accounting and financial reporting needs of SMEs. It was becoming quite evident that IASs were becoming too complex and voluminous for SMEs to apply in an effective manner. The quest for simple, user-friendly accounting and financial reporting guidelines for SMEs started to gain momentum during ISAR's deliberations on emerging issues. The topic became a main agenda item at the eighteenth session of ISAR in July 2000. ISAR was a pioneer in addressing this challenging topic at a global level; particularly taking into consideration that over a decade ago a differential reporting system was not a commonly accepted notion.

To meet the financial reporting needs of SMEs, ISAR proposed that a three-tiered structure be adopted, as follows:[8]

- Level 1: This level applied to listed enterprises whose securities were publicly traded and those in which there was a significant public interest (PI). These enterprises would be required to apply the accounting and financial reporting standards (IASs and IFRSs) issued by IASB;
- Level 2: This level applied to significant business enterprises that did not issue public securities and in which there was no significant PI. ISAR developed a single set of requirements derived from the IASs issued by IASB, but embodying only requirements for the most regularly encountered transactions. This level still allowed the option to follow the full set of IASs and IFRSs issued by IASB;
- Level 3: This level applied to the smallest entities (microenterprises) that were often owner managed and had few employees. The approach proposed is a simple accruals-based accounting closely linked to cash transactions. National regulators could permit derogation for newly formed businesses or new entrants to the formal economy to use cash accounting for a limited time.

Specifying the boundaries between the three levels required knowledge of the specific

[8] See http://unctad.org/en/Docs/iteteb20036_en.pdf.

economy in which the enterprises operate. ISAR recommended that there should be a system with at least three levels. The way these levels were defined had to be determined by each member State that chose to apply this approach, taking into account the prevailing economic, legal and social circumstances, particularly the member State's enterprise structure.

At the end of 2003, ISAR published *Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises* in two sets – SMEGA level 2 and SMEGA level 3, in all six languages of the United Nations.

SMEGA level 2

The guidelines developed for level 2 SMEs were derived from the IASs applicable in 2002. The guidelines were based on a set of IASs that SMEs were likely to encounter. The text of the guidelines was composed of the "black letter" text of the IASs selected. Amplifications were made where it was felt to be appropriate. Standards that were relevant only to a specialized area, as well as complex standards, were excluded from the proposed guidelines. If SMEs in level 2 were to encounter transactions that could not be addressed within the proposed guidelines, they could refer to the full IASs for guidance. Compliance with SMEGA level 2 did not mean compliance with the IASs. A summary on the derivation of the guidelines from the IASs was given in appendix 3 of SMEGA level 2. The guidelines were made as simple as possible in view of the fact that their implementation was going to require extensive communication and education tasks in familiarizing preparers and users of accounts.

SMEGA level 3

As noted above, level 3 guidelines were developed to meet the needs of those enterprises that did not produce general-purpose financial statements nor financial statements designed to meet the needs of a wide range of users. The level 3 guidelines were developed using a "bottom-up" approach rather than being integrated into the "top-down" approach which characterizes the IFRS for SMEs. The "bottom-up" approach starts with a realistic consideration of the needs of users and preparers of the financial statements of smaller enterprises. SMEGA level 3 is set out in the 2009 publication (originally published in 2003 and revised in 2009) *SMEGA – Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises Level 3 Guidance.*[9] This guidance applies to the smallest entities that are often owner managed and have few employees. SMEGA level 3 proposes a simple accruals-based accounting, based on that set out in IASs, but closely linked to cash transactions.

In October 2009, at its twenty-sixth session, ISAR welcomed with appreciation the publication of IASB's *IFRS for SMEs*. It noted the positive impact of ISAR's work on IASB's project. The twenty-sixth session of ISAR agreed on the need to consider withdrawing SMEGA level 2 as a result of the publication of the IASB's publication. ISAR also requested the UNCTAD secretariat to continue compiling feedback on practical implementation of the revised SMEGA level 3. ISAR further requested the UNCTAD secretariat to conduct studies on the practical implementation of IASB's IFRS for SMEs, with a view to facilitating sharing of experiences gained in different regions of the world.

4.2 IASB's IFRS for SMEs and microenterprises

The IFRS as formulated by IASB was designed to meet the needs of equity investors in companies at public capital markets, and thus include disclosures appropriate for public

[9] See http://unctad.org/en/Docs/diaeed20092_en.pdf.

companies.

Aware that the users of SMEs do not have the same need for information as public companies, IASB developed the IFRS for SMEs, a stand-alone financial reporting standard, aimed at meeting the needs of users of SMEs' financial statements which are "more focused on assessing shorter-term cash flows, liquidity and solvency". A further objective in developing the IFRS for SMEs was to reduce the burden of complying with IFRSs by those SMEs that indicated that the costs of preparation of financial statements using IFRSs outweighed the benefits to them.

The IASB's deliberations to develop the IFRS for SMEs began in July 2003 as a project carried forward from the former International Accounting Standards Committee agenda. After a number of drafts and discussion papers on the topic, *IFRS for SMEs* was finally published in July 2009.

The IASB described SMEs as entities that:

- Do not have public accountability;
- Publish general-purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

Furthermore, an entity has public accountability if:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

The preface to *IFRS for SMEs* explains that many jurisdictions around the world have developed their own definitions of SMEs for a broad range of purposes, including prescribing financial reporting obligations. Often those national or regional definitions include quantified criteria based on revenue, assets, employees or other factors. Frequently, the term SME is used to mean or to include very small entities without regard to whether they publish general-purpose financial statements for external users.[10]

Decisions on which entities are required or permitted to use IASB's standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. However, a clear definition of the class of entity for which the IFRS for SMEs is intended – as set out in section 1 of the IFRS – is essential so that (a) IASB can decide on the accounting and disclosure requirements that are appropriate for that class of entity, and (b) the legislative and regulatory authorities, standard-setters and reporting entities and their auditors can be informed of the intended scope of applicability of the IFRS for SMEs. A clear definition is also essential so that entities that are not SMEs, and are therefore not eligible to use the IFRS for SMEs, do not assert that they are in compliance with it. Specifically, the ISAB states that listed companies and financial institutions should not use the standard.

Compared with full IFRSs (and many national generally accepted accounting principles

[10] See http://eifrs.iasb.org/eifrs/sme/en/IFRSforSMEs2009.pdf.

(GAAPs), the IFRSs for SMEs are less complex in a number of ways:

- Topics not relevant for SMEs are omitted;
- Where full IFRSs allow accounting policy choices, the IFRS for SMEs allow only the easier option;
- Many principles for recognizing and measuring assets, liabilities, income and expenses in full IFRSs are simplified;
- Significantly fewer disclosures are required;
- The standards have been written in clear, easily translatable language;
- To further reduce the burden for SMEs, revisions to the IFRS for SMEs are limited to once every three years.

When IASB published *IFRS for SMEs* in 2009, it said that it would undertake an initial comprehensive review of the standard to enable IASB to assess the first two years' experience in implementing it and to consider whether there was a need for any amendments. Companies had been using the IFRS for SMEs during 2010 and 2011. Therefore, the initial comprehensive review commenced in 2012 and is currently being conducted by IASB.

IASB also stated that, after the initial review, it expected to consider amendments to the IFRS for SMEs approximately once every three years. The SME Implementation Group (SMEIG),[11] an advisory body to IASB, is providing recommendations to throughout the comprehensive review of the IFRS for SMEs, including recommendations about possible amendments.

The mission of SMEIG is to support the international adoption of the IFRS for SMEs and monitor its implementation. SMEIG has two main responsibilities:

- Consider implementation questions raised by users of the IFRS for SMEs, decide which ones merit published implementation guidance, reach a consensus on what that guidance should be, develop proposed guidance in the form of questions and answers (Q&As) that would be made publicly available to interested parties on a timely basis, and request IASB to approve the Q&As for issue. The Q&As are intended to be non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions;
- Consider and make recommendations to IASB on the need to amend the IFRS: (a) for implementation issues that cannot be addressed by the Q&As; (b) for new and amended IFRSs that have been adopted since the IFRS for SMEs was issued or last amended.

5. **National accounting frameworks for different type of entities**

To provide a general context of the study, it examined what accounting frameworks were applied by selected countries/territories for listed companies, domestic companies with public accountability, foreign registrants, SMEs and microenterprises. The responses (question 5) indicated that for listed companies and foreign registrants, most countries/territories are using IFRSs as published by IASB. For domestic companies with public accountability and for SMEs, most countries/territories are using national GAAPs (that are to a large extent based or partially based on IFRS). IFRS for SMEs is the second most preferred framework for SMEs. The most

[11] IFRS, 2013, SME Implementation Group, see http://www.ifrs.org/IFRS-for-SMEs/SMEIG/Pages/Implementation-Group.aspx.

used framework for microenterprises is national GAAPs (to a large extent based or partially based on IFRS) followed by other reporting frameworks.

Some responding countries/territories in the survey provided more explanations on their reporting frameworks and requirements.

Box 1: Case study – Sweden

Sweden has adopted three levels of standards for companies whose securities are not publicly traded and that are not credit institutions, investment firms, or insurance companies. This is shown as follows:

K3 – large companies whose securities are not traded in a regulated market

These companies must follow a standard (BFNAR 2012-1) developed by the Bokföringsnämnden (the Swedish Accounting Standards Board, BFN) based on the IFRS for SMEs but with many amendments and exceptions due to Swedish law and 'Swedish practice' as well as to reflect Swedish tax law. A company is large if it meets two of the following criteria in two successive years:

- SKr 40 million (approximately €5 million) total assets
- SKr 80 million (approximately €10 million) revenue
- Average number of employees 50

Small companies must follow this standard if they do not follow the K2-standard.

K2 – small companies whose securities are not traded in a regulated market

The BFN has issued the following special accounting standards for K2 companies:

- BFNAR 2008-1
- BFNAR 2009-1

Small companies that choose not to follow this standard must follow the K3-standard.

K1 – companies with revenue below SEK 3 million (approximately €350,000)

These companies must present simplified annual financial statements. The BFN has issued the following special accounting standard for K1 companies:

- BFNAR 2006-1
- BFNAR 2010-1

Source: IFRS, 2013, IFRS application around the world. Jurisdictional profile: Sweden.[12]

Zambia uses a three-tier financial reporting framework. Entities are required to use one of the three frameworks depending on the type of the entity. Under the three-tier financial reporting framework, entities are categorized as in table 2.

[12] See http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/Sweden-IFRS-Profile.pdf.

Table 2. Three-tier financial reporting framework in Zambia		
No.	**Type of entity**	**Financial reporting framework**
1.	Listed companies, PI entities and government-owned enterprises	Full IFRS
2.	Economically significant companies – companies that are not public companies or quoted on the stock exchange with a turnover of K 20 billion and above	IFRS for SMEs or full IFRS if the company chooses to use it
3.	Micro and small entities – entities with turnover of less than K 20 billion*	Zambian financial reporting standard for micro and small entities
* If the entity actively trades financial instruments (including shares, derivatives and bonds) or if it is a real estate investment company, it must use the IFRS for SMEs or full IFRSs.		

The Democratic Republic of Congo also has more than two frameworks. The Report on the Observance of Standards and Codes of 2009[13] indicates that SMEs exceeding a certain size will apply the IFRS for SMEs; other SMEs will apply the Congolese General Chart of Accounts, which will be adapted to align it with the IFRS, taking into account the economic context of the country. "Very small entities" will apply the minimal cash accounting system provided in the Organisation pour l'Harmonisation en Afrique du Droit des Affaires Accounting System (SYSCOHADA).

5.1 Countries/territories that have adopted or are in the process of adoption of the IFRS for SMEs

To assess progress toward the goal of global accounting standards, the IFRS Foundation is developing profiles of the application of full IFRS and the IFRS for SMEs in individual countries/territories.[14] One hundred and thirty eight profiles are currently posted on IASB's website, including all of the G20 countries plus 118 others.[15]

The 138 countries/territories represent all parts of the globe, as follows:

	Number of jurisdictions	*Per cent of total*
Europe	43	31
Africa	19	14
Middle East	7	5
Asia and Oceania	32	23
Americas	37	27
Total	**138**	**100**

[13] See http://www.worldbank.org/ifa/rosc_aa_drc_eng.pdf (accessed 5 October 2015).
[14] See http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-SME-profiles.aspx (accessed 5 October 2015).
[15] See http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx, (accessed 5 October 2015).

Seventy of the 138 countries/territories require or permit the IFRS for SMEs. It is also currently under consideration in a further 15. The 70 countries/territories that require or permit the IFRS for SMEs are Anguilla, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Bhutan, Bosnia and Herzegovina, Botswana, Brazil, Cambodia, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Fiji, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Hong Kong (China), Iraq, Ireland, Israel, Jamaica, Jordan, Kenya, Lesotho, Maldives, Mauritius, Montserrat, Myanmar, Nicaragua, Nigeria, Panama, Peru, the Philippines, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Serbia, Sierra Leone, Singapore, South Africa, Sri Lanka, Swaziland, Switzerland, the former Yugoslav Republic of Macedonia, Trinidad and Tobago, Turkey, Uganda, the United Arab Emirates, the United Kingdom of Great Britain and Northern Ireland, the United Republic of Tanzania, Uruguay, the Bolivarian Republic of Venezuela, Yemen, Zambia and Zimbabwe.

For the 70 countries/territories that require or permit the IFRS for SMEs:

(a) Eight require the IFRS for SMEs for all SMEs that are not required to use full IFRS;
(b) Forty five give an SME a choice to use full IFRS instead of the FRS for SMEs;
(c) Sixteen give an SME a choice to use either full IFRS or local GAAP instead of the IFRS for SMEs;
(d) One requires an SME to use local GAAP if it does not choose the IFRS for SMEs.

In requiring or permitting the IFRS for SMEs, 61 of the 70 countries/territories made no modifications at all to its requirements. However, 9 made modifications as follows:

- Argentina and Brazil require use of the equity method to account for investments in subsidiaries in separate financial statements. The IASB has recently made a similar amendment to full IFRS (and this will be considered for the IFRS for SMEs in a future review of the standard);
- Hong Kong (China) modified section 29 income tax to conform to the requirements of IAS 12 income taxes. The IASB has decided whether to amend the IFRS for SMEs in this regard as part of the comprehensive review of the IFRS for SMEs currently underway;
- Saudi Arabia has indicated that modifications are under consideration that would be adopted before the planned effective date of the IFRS for SMEs in 2014, but it has not yet finalized those modifications;
- Ireland and the United Kingdom made some significant modifications, including adding in options allowed under full IFRS that are not allowed in the IFRS for SMEs;
- Bangladesh did not adopt section 31 hyperinflation for SMEs because hyperinflation is not an issue domestically;
- Bosnia and Herzegovina does not require the statements of cash flows or changes in equity in separate financial statements prepared using the IFRS for SMEs;
- Uruguay permits capitalization of borrowing costs. Uruguay also permits use of the revaluation model for property, plant and equipment, an option that IASB has decided to add to the IFRS for SMEs for all jurisdictions.

According to UNCTAD’s questionnaire, respondents of 31 out of 42 countries/territories (74 per cent) indicated that they had financial reporting standards that applied to SMEs (question 6). Of these, 16 countries/territories (38 per cent) had adopted the IFRS for SMEs as part of the national regulatory system.

Of the 26 countries/territories that have not adopted the IFRS for SMEs, only 25 answered the follow up question on whether or not they were planning to adopt the IFRS for SMEs in the near future. Ten countries/territories (37.5 per cent) indicated that they were planning to adopt the IFRS for SMEs in the near future.

One country, the United States, indicated that a non-public company can choose to adopt the IFRS for SMEs or another accounting framework depending on its needs.

Regarding the date of future adoption of the IFRS for SMEs, out of 10 countries/territories which answered this question, two indicated 2014, one indicated 2015 and seven indicated that it would be after 2015.

Question 7 gathered information about the institution in charge of setting financial statements that apply to SMEs and question 8 queried about the general characteristics of this body.

The responses show that different countries have different formal structures which are responsible for setting financial reporting standards for SMEs. In many instances, it is a function of the Government (the Ministry of Finance).

For more details, see questions 9 and 10 of appendix A.

5.2 Countries/territories that have decided not to adopt the standards and their reasons

The profiles published by IASB indicate that 68 countries/territories out of the 138 profiles published have not adopted the IFRS for SMEs.[16] It can be seen that where countries/territories are not considering adopting the IFRS for SMEs, the main reason for this is that they have a country/territory-specific national GAAP for SMEs. It can also be noted that in many of the jurisdictions the translations of the IFRS for SMEs are available, therefore language barriers are not an issue for non-adoption.

The European Union countries represent a large block of countries that have not adopted the IFRS for SMEs. In November 2009, the European Commission asked the European Financial Reporting Advisory Group (EFRAG) to provide it with advice detailing on exactly which points the IFRS for SMEs is incompatible with the European Union accounting directives (78/660/EC and 83/349/EEC).

On 28 May 2010, EFRAG finalized its advice and submitted it to the European Commission. EFRAG's advice consists of:

- A letter to the European Commission[17] specifying the requirements of the IFRS for SMEs that have been assessed to be incompatible with the European Union accounting directives. This letter also includes a description of the scope and limitations of the assessment;
- A feedback statement explaining EFRAG's reasons for not considering requirements identified by EFRAG's constituents to be incompatible with the European Union accounting directives;
- A working paper including EFRAG's assessment of all the requirements of the IFRS for SMEs.

[16] See http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx.
[17] See http://www.efrag.org/files/EFRAG%20public%20letters/IFRS%20for%20SMEs%20compatibility%20analysis/The%20Letter.pdf.

EFRAG emphasized that the conclusions of the analysis are to be understood in the context of the limitations described in the letter and that the working paper is an integral part of the analysis.

EFRAG has indicated that the IFRS for SMEs cannot be applied within the European Union as an alternative to national requirements when it is not in accordance with the European accounting directives. In the letter to the European Commission the following requirements of the IFRS for SMEs were considered incompatible with the European Union accounting directives:

(a) The prohibition to present or describe any items of income and expense as "extraordinary items" in the statement of comprehensive income (or in the income statement, if presented) or in the notes;
(b) The requirement to measure financial instruments within the scope of section 12 of the IFRS for SMEs (non-basic financial instruments) at fair value;
(c) The requirement to presume the useful life of goodwill to be 10 years if an entity is unable to make a reliable estimate of the useful life;
(d) The requirement to recognize immediately in profit or loss any negative goodwill;
(e) The requirement to present the amount receivable from equity instruments issued before the entity receives the cash or other resources, as an offset to equity and not as an asset;
(f) The prohibition to reverse an impairment loss recognized for goodwill.

Nevertheless, according to the new Accounting Directive issued in 26 June 2013,[18] the requirement to measure financial instruments at fair value is no longer considered incompatible. In addition, the new Accounting Directive simplifies the preparation of financial statements and reduces the amount of information required for small companies in the notes to financial statements.[19] According to this Directive, small companies only have to prepare a balance sheet, a profit and loss account and notes. The European Commission considers that the new requirements are more proportionate to companies' size and to the information needs of their users.

The new Accounting Directive requires each country/territory to distinguish small companies[20] from larger ones. Small companies will be those with less than 50 employees, a turnover of not more than €8 million and/or a balance sheet total of not more than €4 million. Countries are allowed to alternatively use thresholds for turnover and balance sheet total up to €12 million and €6 million, respectively. More than 90 per cent of European Union companies will be in the small category for accounting purposes.

During the process of development of the new Directive the Commission decided not to adopt the IFRS for SMEs at European Union level because it considers that the standard did not meet the objective of reducing the administrative burden. However, European Union countries are allowed to permit or require the IFRS for SMEs as their accounting standard for all or some of their unlisted companies as long as the Directive is fully implemented and the standard, which is partially in conflict with the Accounting Directive, is modified to comply with any accounting requirement of the Directive that departs from the IFRS for SMEs.

With regard to whether the IFRS for SMEs had been adopted as part of the national regulatory system, UNCTAD's questionnaire showed respondents from 26 countries/territories (out of 42), that is 62 per cent, answered that their country/territory had not.

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[18] See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF.
[19] See http://www.iasplus.com/en/news/2013/06/eu-accounting-transparency-directives.
[20] See http://europa.eu/rapid/press-release_MEMO-13-540_en.htm.

An examination of the mean scores for each of the suggested reasons for not adopting the IFRS for SMEs indicates that lack of knowledge of international standards and practices (mean = 2.14) was perceived as the most important of the suggested reasons, even though it has a low mean. All other suggested reasons (shortage of professional accountants working in this sector, shortage of professional auditors working in this sector, and language barriers) had means of below 2.00, indicating that for the majority of the respondents they were not important for deciding to not adopt the IFRS for SMEs. The response of the United States indicated that the adoption of the IFRS for SMEs by non-public companies is a decision left to the owners and management of the entity. However, barriers to adoption in the United States include a lack of familiarity with IFRS and certain technical aspects of the IFRS for SMEs, such as the prohibition against the "last in – first out" method (LIFO) for inventory accounting – which is problematic for United States non-public companies and would need to be addressed.

A common theme running through the reasons for not adopting the IFRS for SMEs is – as for IASB country profiles mentioned above – the existence of a country/territory-specific accounting framework for the country/territory's SMEs and the reference to the fact that the accounting framework is unique to suit those specific requirements.

Other reasons include: using the IFRS for SMEs does have cost implications; there is a lack of demand for the IFRS for SMEs; and that more simplifications are required.

Countries/territories which indicated that they were not planning to adopt the IFRS for SMEs were also asked which accounting standards are they using for SMEs and what are the differences between the national accounting standards for SMEs and the IFRS for SMEs. Detailed responses are presented in the appendix A (questions 11 and 12) as well as in box 2 (the example of the Swiss GAAP FER Foundation).

Box 2. The differences between Swiss GAAP FER and the IFRS for SMEs

Coverage/scope

Swiss GAAP FER covers also non-profit organizations and pension institutions, whereas the IFRS for SMEs implies that a company is profit oriented. Nevertheless, the application of the IFRS for SMEs is not explicitly forbidden for non-profit organizations. There are some topics that are not explicitly dealt with by Swiss GAAP FER but are by the IFRS for SMEs, such as complex financial activities, concessions, subsidies, share based payments, discontinued operations, joint ventures and hyperinflation.

Structure

The minimum structuring requirements in Swiss GAAP FER go less far than those in the IFRS for SMEs. According to the IFRS for SMEs the balance sheet also comprises the positions investment property, biological assets, equity companies, current income tax assets and liabilities, and deferred income tax assets and liabilities.

Disclosures

According to the IFRS for SMEs, the planned sales of assets as well as the discontinued operations have to be disclosed, whereas Swiss GAAP FER contains similar regulations only for publicly traded companies.

Under Swiss GAAP FER, the disclosure of non-operating and extraordinary expenses is possible, whereas under the IFRS for SMEs the disclosure of extraordinary items is explicitly forbidden and the disclosure of non-operating expenses is not envisaged.

The presentation of the control principle is more detailed in the IFRS for SMEs than in Swiss GAAP FER.

While Swiss GAAP FER requires segment information regarding sales according to business segments and geographical markets, the IFRS for SMEs doesn't require such information. In the future this differentiation will be omitted as a new Swiss GAAP FER standard regarding supplements for publicly traded companies (FER standard No. 31 "Ergänzende Fachempfehlung für kotierte Unternehmen") will prospectively be implemented in January 2015.

Consolidation principles

Whereas, according to Swiss GAAP FER, associated companies have to be consolidated according to the equity method and joint ventures either according to the equity method or proportionally, there are different options to consolidate associated companies and joint ventures according to the IFRS for SMEs (at cost less value adjustments, equity method or fair value).

The IFRS for SMEs contains more detailed regulations regarding business combinations.

Goodwill

According to Swiss GAAP FER, goodwill has to be capitalized and depreciated over five years or it is recognized directly in equity and the hypothetical capitalization is disclosed in the notes, whereas according to the IFRS for SMEs goodwill has to be capitalized and depreciated over its useful life (or 10 years if the useful life cannot be determined).

Financial instruments

Regulations regarding financial instruments are much more detailed according to the IFRS for SMEs.

Property, plant and equipment

The IFRS for SMEs contains a separate standard for investment property but Swiss GAAP FER does not. However, the FER standard regarding property, plant and equipment allows using the IAS 40 approach for the valuation of investment property. Regarding the valuation of property, plant and equipment, Swiss GAAP FER envisages a revaluation option, but the IFRS for SMEs does not.

Capitalization of research costs

According to Swiss GAAP FER, research costs have to be recognized in the profit and loss statement and self-created development costs can be capitalized under special circumstances, whereas according to the IFRS for SMEs all research and development costs have to be recognized in the profit and loss statement except if there is the possibility of capitalizing them as part of an asset.

Provisions

The statement of changes in provisions shows the changes of the current and the previous year according to Swiss GAAP FER, whereas according to the IFRS for SMEs it shows only the changes of the current year.

The IFRS for SMEs contains more detailed requirements regarding the accounting of restructuring provisions.

Revenue

The section revenue is regulated in more detail and contains more examples in the IFRS for SMEs.

Government grants

These are explicitly regulated in the IFRS for SMEs but not in Swiss GAAP FER.

Impairment

Impairment is widely regulated in similar fashion in both standards but the determination of the cash-generating unit is slightly different.

Employee benefits

In Swiss GAAP FER, the section employee benefits is adapted to the Swiss provisions, whereas the regulations in the IFRS for SMEs are difficult to apply in Switzerland as they are very general.

Functional currency

The IFRS for SMEs contains a definition of the functional currency, whereas Swiss GAAP FER does not.

Deferred tax assets

According to the IFRS for SMEs, deferred tax assets have to be recognized for tax loss carryforwards if the realization of the tax loss carryforwards is probable, whereas according to Swiss GAAP FER their recognition is optional.

When asked whether, in their opinion, the needs of users have been fulfilled through the use of the IFRS for SMEs, 10 (83 per cent) respondents gave a positive answer (question 13). It must be noted that this questionnaire targeted preparers of SMEs' financial statements, whereas users of financial statements may have a different viewpoint. Those who did not agree provided the following reasons (question 14): lack of knowledge about the standards; lack of training; lack of an adequate assessment; the owners of SMEs don't require this sort of information, but prefer management accounts.

More information on adoption of the IFRS for SMEs is given in questions 15, 16, 17 and 18. These findings provide evidence on the need for capacity-building. This is further discussed in section 7 of this report.

6. **Audit requirements**

One of the challenging issues in the area of SMEs reporting is audit and assurance of SMEs financial statements. In this regard, the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) (a key international standard setter of audit standards) have stated their commitment to addressing the needs of SMEs and small and medium-sized practices (many of which perform audits of SMEs) by enhancing their capacity to provide high-quality services. These two organizations have undertaken numerous initiatives to address issues pertaining to SME audits, with a focus on serving the PI and with attention given to the practical needs of SMEs.[21]

The IAASB defines a smaller entity as an entity which typically possesses qualitative characteristics such as:

(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics);

(b) One or more of the following:

(i) Straightforward or uncomplicated transactions;
(ii) Simple record-keeping;
(iii) Few lines of business and few products within business lines;
(iv) Few internal controls;
(v) Few levels of management with responsibility for a broad range of controls;
(vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, nor are they exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

IFAC identifies two key PI considerations regarding the applicability and relevance of international standards on auditing (ISAs) to the audits of SMEs. The first consideration is the importance of having an audit of financial statements associated with one consistent level of assurance, regardless of the size of the entity being audited or the size of the firm performing the audit. The second consideration is the assurance needs, on a benefits and costs basis, of SMEs and whether an audit, an assurance service other than an audit, or no assurance is required.

On the one hand, ISAs acknowledge that some requirements may not be relevant in the circumstances of a particular audit (for example, an audit of an SME). On the other hand, IFAC states that exemptions, by way of legislation or regulation, from audit, or indeed any form of assurance, have been proposed or implemented in a number of jurisdictions as a means of reducing the perceived regulatory burden on SMEs. Many of these exemptions have been directed toward small-sized entities rather than medium-sized entities. However, this may not always be in the best interests of the entity or the public. In many countries/territories small entities represent a considerable proportion – in some major economies over 90 per cent – of the total enterprises

[21] See http://www.ifac.org/sites/default/files/publications/files/Policy%20Position%20Paper%202_0.pdf (accessed 6 October 2015).

operating within the country/territory, and hence a loss of credibility in the financial reporting of these entities may have a significant impact on the economy of those countries/territories. Careful evaluation needs to be made of the benefits and costs of changing the requirement for an audit, in particular when exempting SMEs from any form of assurance.

Results from UNCTAD's questionnaire show that 22 out of 39 respondents (56 per cent) indicated that SMEs were required to have their financial statements audited (answer to question 19).

Two countries modified their answers as follows:

- No audit is required if the entity is not a PI entity (Lithuania);
- The United States responded that there is no statutory audit requirement for non-public company financial statements in the United States. The decision to have an audit of those financial statements is based on the individual circumstances of the reporting entity.

A breakdown of the standards used for auditing the financial statements of SMEs (based on a summary of the 21 responses to question 20) is shown in figure 1.

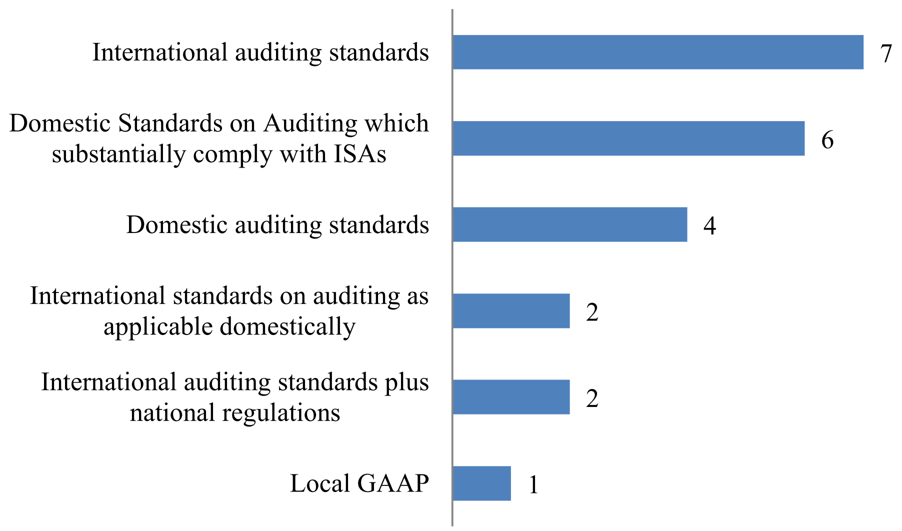

Figure 1. Standards used for auditing the financial statements of SMEs

Answers to question 21 show that 12 (50 per cent) respondents indicated they had noted specific challenges with regards to auditing standards for SMEs and 12 (50 per cent) respondents indicated they had not met any specific challenges with regards to auditing standards for SMEs.

Respondents to question 22 indicated those specific challenges more specifically, indicating that there is some support for the audit requirements of an SME to be proportionally less than the audit requirements for large entities.

An example of a country which has relaxed the audit requirement for SMEs is South Africa, which introduced regulations allowing smaller entities (depending on their PI score and who compiles the financial statements) to opt for a review engagement rather than an audit. See appendix C for the calculation of the PI score.

Depending on an entity's PI score and whether it meets the scope requirements of the IFRS for SMEs, the entity may apply the IFRS for SMEs and not full IFRS (certain exceptions apply). Each company is required to calculate a PI score annually. The PI score is also important in deciding whether a company must be audited or independently reviewed, who may perform the independent review and whether a company must appoint a social and ethics committee.

SMEs in South Africa, which would be required to be audited, are those where audits are required in terms of specific legislation (some examples are included in the terms of the Estate Agents Act, the Close Corporations Act and the Companies Act). SMEs, which are defined as companies and closed corporations, would be required to be audited if: their PI score is greater than 350 points; or their PI score is between 100 and 350 points but their financial statements were internally compiled; or they hold assets in a fiduciary capacity for a broad range of third parties and this amount exceeds R 5 million at any point during the financial year.

Table 3 shows specific requirements for SMEs in South Africa with regard to financial reporting, audit and independent review.

Table 3. South African financial reporting requirements, audit or independent review[22]

Profit companies		
Category of companies	**Financial reporting standard**	**Audit or independent review**
State owned companies.	IFRS, but in the case of any conflict with any requirement in terms of the Public Finance Management Act, the latter prevails	Audit
Public companies listed on an exchange	IFRS	Audit
Public companies not listed on an exchange	(a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	Audit
Profit companies, other than state owned or public companies, whose PI score for the particular financial year is	(a) IFRS OR (b) IFRS for SMEs, provided that	Audit

[22] Adapted from https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Companies%20Act/Summary%20of%20frs%20audit%20and%20review%20v1.pdf (accessed 7 October 2015).

at least 350 OR That hold assets in excess of R 5 million in a fiduciary capacity	the company meets the scoping requirements outlined in the IFRS for SMEs	
Profit companies, other than state-owned or public companies, whose PI score for the particular financial year is at least 100 but less than 350	(a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	(a) Internally compiled – audit. section 30(2A) "owner managed" exemption does NOT apply (b) Independently compiled – independent review. If section 30(2A) "owner managed" exemption can be applied, there is no review requirement
Profit companies, other than state-owned or public companies, whose PI score for the particular financial year is less than 100, and whose statements are independently compiled	(a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	Independent review – If section 30(2A) "owner managed" exemption can be applied, there is no review requirement
Profit companies, other than state-owned or public companies, whose PI score for the particular financial year is less than 100, and whose statements are internally compiled	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standards are prescribed	Independent review – If section 30(2A) "owner managed" exemption can be applied, there is no review requirement
Non-profit companies		
Category of companies	**Financial reporting standard**	**Audit or independent review**
Non-profit companies that hold assets in excess of R 5 million in a fiduciary capacity OR Are state of foreign controlled OR Perform a statutory or	IFRS, but in the case of any conflict with any requirements in terms of the Public Finance Management Act, the latter prevails	Audit

regulatory function		
Non-profit companies, other than those contemplated in the first row above, whose PI score for the particular financial year is at least 350	One of (a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	Audit
Non-profit companies, other than those contemplated in the first row above whose PI score for the particular financial year is at least 100, but less than 350	One of (a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	(a) Internally compiled audit (b) Independently compiled – independent review
Non-profit companies, other than those contemplated in the first row above, whose PI score for the particular financial year is at less than 100, and whose financial statements are independently compiled	One of (a) IFRS OR (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs	Independent review
Non-profit companies, other than those contemplated in the first row above, whose PI score for the particular financial year is less than 100, and whose financial statements are internally compiled	The financial reporting standard as determined by the company for as long as no financial reporting standards is prescribed	Independent review

This is a fairly new requirement in the South African accounting and auditing landscape and it has yet to be seen as to how many entities will opt for a review engagement instead of an audit.

Examples of other countries that have reduced the auditing requirement for smaller entities are:

Finland – Microentities are exempt from the audit requirement. According to the Finnish Auditing Act 459/2007 section 4, there is no obligation to appoint an auditor for a corporation where not more than one of the following conditions was met in both the completed year and the financial year immediately preceding it:

- The balance sheet total exceeds €100,000;
- Net sales or comparable revenue exceeds €200,000;
- The average number of employees exceeds three.

Zambia – As indicated previously, Zambia adopted a three-tier reporting framework in 2010. The reporting and auditing requirements for the three tiers are as follows:

- Publicly accountable entities: Listed companies, PI entities and government-owned enterprises must use full IFRSs and must be audited;
- Economically significant companies: Companies that are not in the first tier and have annual turnover equal to or exceeding K 20 billion (approximately $4 million) have a choice of using the IFRS for SMEs or full IFRSs, and they must be audited;
- Micro and small enterprises: Those with an annual turnover below K 20 billion (approximately $4 million) must use the Zambian Financial Reporting Standard for Micro and Small Entities, and an audit is not required.

European Union – According to the new Accounting Directive from 2013, small companies[23] in the European Union will not be obliged to have an audit. However, if a country considers it necessary to require assurance, the new Directive will allow for a more proportionate approach.

The examples discussed above indicate that in some countries/territories quantitative criteria are being used to decide whether or not an entity requires an audit.

7. Challenges of implementation of international requirements

UNCTAD's questionnaire shows that while a country/territory may have adopted the IFRS for SMEs, it may not have implemented them. Out of 16 countries/territories that adopted the IFRS for SMEs, only 13 (76 per cent) indicated that they were implementing the standard (question 23).

Information on what challenges countries/territories have faced during implementation is useful to share with other countries/territories that have yet to adopt or implement the IFRS for SMEs. Respondents were asked whether they had encountered any difficulties in the implementation process. The 12 responses were evenly split, with six respondents indicating that they had no difficulties in the implementation process and six indicating that they had had difficulties.

Respondents were also asked to rate the importance of the suggested difficulties, which were: lack of knowledge of international standards and practices; shortage of professional accountants working in this sector; shortage of professional auditors working in this sector; and language barriers. Respondents were asked to rate the difficulties using a scale of 1 (not at all important) to 5 (extremely important). Respondents were also asked to suggest any other difficulties (questions 24 and 25).

The three reasons that have some support for being difficulties faced during implementation of the IFRS for SMEs are: shortage of professional accountants working in this sector (mean = 3.86); shortage of professional auditors working in this sector (mean = 3.43); and

[23] See http://europa.eu/rapid/press-release_MEMO-13-540_en.htm.

lack of knowledge of the international standards and practices (mean = 3.42). Language barriers again had the least support (mean = 2.14).[24]

The other most important reasons brought up by the respondents include: the consolidation requirement in IFRS for SMEs is problematic due to a lack of accounting expertise in SMEs and does not add value to them; the use of comprehensive income; property, plant and equipment (PPE) residual values and component approach; straight lining of leases; and accounting for extended payment terms.

Other reasons suggested by respondents included: costs of implementation; information technology issues; people issues; identification of temporary differences for deferred tax; lack of training and up-to-date knowledge; and the change from national standards to international standards, and the IFRS for SMEs, still seems too complicated and costly for SMEs.

Translation issues do not appear to be a problem with regards to the implementation of the IFRS for SMEs. This is logical as, according to IASB,[25] completed translations are available in Albanian, Arabic, Armenian, Bosnian, Chinese (simplified), Croatian, Czech, Estonian, French, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish and Ukrainian. Translations under discussion with the IFRS Foundation are Afrikaans, Georgian, Kyrgyz and Turkmen.

One important aspect of implementation challenges is lack of institutional mechanisms in the area of SME reporting. Further information on implementation of the IFRS for SMEs can be found in questions 26, 27 and 28.

7.1 Technical challenges

IASB finalized its technical discussions under the comprehensive review of the IFRS for SMEs at its June 2013 meeting. At its meeting on 23 July 2013, IASB gave permission for the staff to begin the process of balloting the exposure draft. On 3 October 2013,[26] IASB published an exposure draft of proposed amendments to the IFRS for SMEs based on the initial comprehensive review. The deadline for comments was 3 March 2014.

In December 2014, IASB finalized its discussions on the changes to the IFRS for SMEs and requested its staff to commence the balloting process for those amendments. The amendments were issued in May/June 2015.[27]

After considering the feedback it received during the initial comprehensive review, IASB has, among other limited amendments to the IFRS for SMEs, made the following three amendments:

- Allow an option to use the revaluation model for property, plant and equipment in section 17 – property, plant and equipment;
- Align the main recognition and measurement requirements for deferred income tax with IAS 12 – income taxes;

[24] In this regard, for example, the Institute of Certified Public Accountants of Rwanda in its comment letter to IASB's SME project noted that it did not have a critical mass of accountants to drive the process and that most of their accountants were not fully conversant with the distinction between full IFRS and the IFRS for SMEs. Rwanda has currently only 210 registered accountants (both resident and non-resident).
[25] See http://www.ifrs.org/IFRS-for-SMEs/Documents/Fact-Sheet/SME-Fact-Sheet-July-2013.pdf.
[26] See http://www.ifrs.org/IFRS-for-SMEs/Pages/Review2012.aspx.
[27] See http://media.ifrs.org/2015/SME/March/IFRS-for-SMEs-Update-March-2015.html.

- Align the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 – exploration for and evaluation of mineral resources.

SMEs will be required to apply the new version, including the amendments, for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided that all of the changes are applied at the same time.

In this regard, respondents to UNCTAD's questionnaire were asked whether they agreed with this approach (question 29) and whether they expected any other improvements. Of the 28 respondents who answered this question, 27 (96 per cent) indicated that they supported the approach of IASB.

When asked what other improvements to the IFRS for SMEs were expected (question 30), respondents indicated that capitalization of interest should be allowed; that clarification was required of which provisions are liabilities for termination benefits; and that the revaluation of fixed assets, investment property and intangible assets should be allowed. One respondent indicated that improvements to the IFRS for SMEs were necessary to improve the financial information on the quality of SMEs. Another country recommended that the IFRS for SMEs should be adapted for microenterprises.

Although the United States supported the approach of IASB, the point was made that the adoption of the IFRS fro SMEs in the United States by non-public companies could be facilitated by addressing certain technical aspects of the standard that are problematic for United States companies, such as:

- Allowing the use of the LIFO method of inventory valuation if that method is used for tax purposes – that is, essentially allow if conformity is required by law or regulation;
- Clarifying the interpretation on whether a parent can issue parent-only financial statements and claim compliance with the IFRS for SMEs.

These recommendations tie in with the need of SMEs to access finance. Adopting policies that strengthen the balance sheet would be preferable for SMEs.

Ireland outlined the differences between FRS 102 and the IFRS for SMEs in its response to the IASB IFRS Application around the World survey. This shows that Ireland made the following modifications:

- An option was added to section 17 to revalue PPE and, similarly, to section 18 to revalue certain intangible assets;
- An option was added to section 18 to capitalize development costs when specified criteria are met;
- The presumption was changed in section 18 of a ten-year useful life for amortizable intangible assets, including goodwill, when a reliable estimate cannot be made to amortization over more than five years;
- An option was added in section to capitalize borrowing costs on qualifying assets;
- Merger accounting (pooling) is required for combinations of entities under common control;
- Non-cash distributions to owners do not have to be measured at fair value;
- An accrual accounting option for government grants was added;

- A timing difference approach is required to deferred income taxes, rather than a temporary difference approach;
- A historical cost model is permitted for all biological assets;
- Numerous other changes were made to permit accounting treatments that exist in FRSs at the transition date that align with European Union-adopted IFRS.[28]

The above indicates that where countries/territories are making changes to the IFRS for SMEs, these changes are substantial, which indicates a need for further work in this area.

7.2 Institutional challenges

To ensure that the adoption and implementation of financial reporting standards for SMEs is of a high-quality, it is necessary for a country/territory to put in place an oversight and enforcement structure.

UNCTAD's questionnaire respondents from countries/territories that have adopted the IFRS for SMEs were also asked whether or not there was an institution in charge of implementing the IFRS for SMEs (question 31) and to indicate its characteristics.

Seven of the 15 respondents (47 per cent) that answered this question indicated that there is an institution in charge of implementation. These answers indicated that different jurisdictions have approached monitoring the implementation of the IFRS for SMEs differently. The majority of the responses indicated that it was the responsibility of a PAO and that the institution would verify this through its normal monitoring processes.

Questions 32 and 33 requested information of the institution in charge of supervising the implementation of the IFRS for SMEs and its general characteristics, while question 34 asked for a short explanation as to how the institution verifies that the standards are adequately applied. Responses vary widely; in many cases the Government is in charge of conducting enforcement activities through onsite inspections and other methods. Answers to all these questions are shown in appendix A.

7.3 Capacity-building needs

With regards to capacity-building, respondents were asked to rate a suggested list of the main areas in financial reporting for SMEs and microenterprises that require further development. According to the findings, capacity development should focus more on training for the IFRS for SMEs, developing more professional accountants for this sector and formulating a legal framework for microenterprise reporting. The aspect on 'More oversight by regulators is needed' also had some support.

A list of recommendations provided by respondents with regards to financial reporting for SMEs and/or microenterprises highlights the need for more simplifications, the need to link reporting to the tax regime, and the need for specific frameworks for specialized entities or industries. One respondent mentioned the need for revaluations.

In this regard, the trade-off between more simplifications that may harm SMEs prospects for financing and the cost savings that might arise in using simplified accounting frameworks may be an issue that needs further investigation. However, respondents highlighted that continuous education and coordination are important. A knowledge gap was highlighted and, thus, the need

[28] Republic of Ireland response in the IFRS Application around the World sruvey, IASB, September 2013.

for training in the preparation of financial statements, as well as the poor perception of the usefulness of financial statements, are issues that need to be addressed.

Other recommendations were for audit exemptions for SMEs, and more education of accountants. One respondent recommended that SMEs and microenterprises should focus on financial management and not financial reporting. Here, accounting systems and software should be used by SMEs and microenterprises to reduce the costs of information. Having a separate guideline for microenterprises was seen as useful. One respondent indicated that the IFRS for SMEs is still too complicated for microenterprises.

In this regard, it is important to note that the IFRS Foundation holds regional train-the-trainers workshops, in cooperation with regional professional associations and the world's development agencies, such as the World Bank, to build capacity for the implementation of the IFRS for SMEs, particularly in developing and emerging economies.[29]

A study by García[30] presents a training programme of UNCTAD that has been developed to reduce the financing gap encountered by micro and small and medium-sized enterprises and that was pilot tested in Peru. The objective of the programme is to help these enterprises to produce better financial information in order to improve their access to financing.

Questions 35 and 36 provide some additional information on the capacity issues.

8. **Specific challenges for microenterprises**

As discussed above, in 2000 ISAR identified a number of obstacles that SMEs were facing in applying accounting standards that had been issued by various standard-setting bodies, both national and international. For microenterprises, ISAR developed its SMEGA 3 guidelines to meet the needs of those enterprises that do not produce general-purpose financial statements (and that are not designed to meet the needs of a wide range of users) (that is, microenterprises).

SMEGA 3 proposes that the smallest entities that are often owner managed and have few employees could use an approach of a simple accruals-based accounting, based on that set out in international standards, but closely linked to cash transactions. A simple accruals-based accounting would use the matching concept. The measurement principle in SMEGA level 3 is historical cost. Included in SMEGA level 3 are a number of simplified accounting policies that provide guidance as to how to compile the income statement and the balance sheet.[31] In 2013, IASB issued *A Guide for Micro-sized Entities Applying the IFRS for SMEs (2009).*[32] The guide is intended to help a microentity apply the requirements of the IFRS for SMEs when preparing its general-purpose financial statements. The document[33] has been developed with input from SMEIG. The guide includes only those requirements of the IFRS for SMEs that are likely to be necessary for a typical microentity without modifying any of the principles for recognizing and measuring assets, liabilities, income and expenses. In a few areas, it also contains further guidance and illustrative examples to help a microentity to apply the principles in the IFRS for SMEs.

The *Guide for Micro-sized Entities Applying the IFRS for SMEs* contains cross references

[29] See http://www.ifrs.org/IFRS-for-SMEs/Pages/SME-Workshops.aspx.
[30] García, JMP, 2011, Micro and small enterprise development programme and its evaluation tool. Master of science dissertation, University of Geneva.
[31] It is submitted that financial statements prepared under SMEGA level 3 will meet the requirements of entities in South America which have a PI score of below 100 and the Other Comprehensive Basis of Accounting in the United States.
[32] See http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/micro-entities.pdf.
[33] See http://www.ifrs.org/IFRS-for-SMEs/Pages/Guidancemicrosizedentities.aspx.

to the IFRS for SMEs for matters not covered by the guidance. Consequently, having applied the guidance, an entity's notes to the financial statements and auditor's report could refer to conformity with the IFRS for SMEs because this guidance does not modify the requirements of the IFRS for SMEs.

The guide is intended for use by a microentity that is within the scope of the IFRS for SMEs (that is, that does not have public accountability and that publishes general-purpose financial statements in accordance with the IFRS for SMEs). General-purpose financial statements are financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports that are tailored to meet their particular information needs. Microentities often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities. Financial statements produced solely for those purposes are not general-purpose financial statements.

The guide does not define a microentity in quantitative terms. A jurisdiction may choose to do so, or provide further indicators of typical characteristics to indicate when the guide should be used in that jurisdiction. According to the guide, a microentity is normally a very small entity with simple transactions that has the following typical characteristics:

(a) Few employees and often owner managed;
(b) Low or moderate levels of revenue and gross assets;
(c) Does not:
- (i) Have investments in subsidiaries, associates or joint ventures;
- (ii) Hold or issue complex financial instruments;
- (iii) Issue shares or share options to employees or other parties in exchange for goods or services.

A number of questions were posed in UNCTAD's questionnaire in respect of financial reporting for microenterprises.

Question 37 enquired about the country/territory's definition of microenterprises. The answers reflect a diversity of definitions with a number of countries/territories indicating that they do not have a standard definition of a microenterprise. A challenge may be to develop a definition of a microenterprise that does not have quantitative thresholds that could then be used across jurisdictions. For instance, the reference to a "few" employees in the guide is subject to different interpretations as to what is meant by a "few".

Uganda makes a distinction between a microenterprise, a small enterprise and a medium enterprise, as in table 4.[34]

[34] Ugandan Investment Authority, Small and medium enterprises business guide, available at http://www.iceida.is/media/pdf/SME_GUIDE_FINAL_COPY.pdf.

Table 4. Uganda definitions of a microenterprise, a small enterprise and a medium enterprise	
Enterprise size	**Definition**
Microenterprise	An enterprise employing maximum four people; annual sales/revenue turnover of maximum Ugandan shillings 12 million and total assets of maximum Ugandan shillings 12 million
Small enterprise	An enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan shillings 360 million and total assets of maximum Ugandan shillings 360 million
Medium enterprise	An enterprise employing more than 50 people; annual sales/revenue turnover of more than Ugandan shillings 360 million and total assets of more than Ugandan shillings 360 million

Question 38 made reference to national institutions in charge of setting standards and carrying out oversight functions for microenterprises, and question 39 requested information concerning a description of the institutions and their mandate.

Thirty-six respondents replied, of which 12 (28 per cent) indicated that they do have a specific institution in charge of setting standards and carrying out oversight functions for microenterprises. The answers to question 39 showed a range of different institutions such as PAOs, financial standards boards and ministries of finance, indicating that different jurisdictions manage the setting and oversight function in respect of microenterprises' financial reporting standards differently.

Question 40 examined whether the country/territory had a reporting framework especially dedicated to microenterprises and what this framework was (question 41). The answers indicate that most countries/territories (82.5 per cent) do not have a separate microentity framework. This indicates that the microenterprises are subject to the standards applicable to SMEs and that most likely the oversight body is also the same that monitors SMEs.

Eight respondents provide details on the accounting framework used for microenterprises: SMEGA level 3 (Colombia); a single entry bookkeeping (cash accounting) (the Czech Republic); the Democratic Republic of the Congo GAAP; a cash basis (Guatemala); the Financial Reporting Standard for Smaller Entities (Ireland); shortened and simplified financial statements and notes (Lithuania); national law (Paraguay); and the Zambian Financial Reporting Standards for Micro and Small Entities.

Question 42 enquired whether microentities were considered to be part of SMEs. Twenty-nine respondents out of 40 (72.5 per cent) considered microenterprises to be part of SMEs. Twenty-three respondents (57.5 per cent) (question 43) were aware of the existence of SMEGA level 3. Of these 23, only three indicated that SMEGA level 3 was applied or used in their country (question 44) (Colombia, the Democratic Republic of the Congo and Paraguay) and a fourth respondent, Nigeria, indicated that it will be used in the future.

Through follow-up with the Institute of Chartered Accountants of Nigeria, it was ascertained that from 1 January 2014, microentities in Nigeria are expected to use either the IFRS for SMEs or SMEGA level 3 issued by UNCTAD.[35]

A final question 45 outlined the approach IASB has taken to issue *A Guide for Micro-sized Entities Applying the IFRS for SMEs*. Respondents were asked if they agreed with this approach. Thirty-eight (93 per cent) out of 41 respondents agreed with IASB's approach.

Box 3. Case study – South Africa

South Africa has in many ways been proactive as far as financial reporting is concerned. It was among one of the first countries/territories to adopt IFRSs as issued by IASB, and in 2007 adopted the draft IFRS for SMEs as a standard for use by local companies to provide immediate relief for limited interest companies under the Corporate Laws Amendment Act. South Africa also developed an electronic microentity guide in 2012 by focusing only on those policies that would be most applicable to a small business.

The toolkit is a form of application guidance specifically designed to assist microentities comply with the IFRS for SMEs. The guide is designed to help sole proprietorships, partnerships, close corporations and companies with a PI score, as determined in the terms of the Companies Act, below 100 points (although it may also be useful for companies with a PI score of between 100 and 350 points) by focusing on the most applicable policies to their business.

The South African Institute of Chartered Accountants (SAICA)[36] recently undertook a questionnaire survey to ascertain the views of preparers and users of microentity financial reports as to the application of IFRSs and in particular the IFRS for SMEs and how the application as per the toolkit could be further eased for small and microenterprises. In addition, these frameworks could also be used by other types of entities including partnerships, sole proprietors, trusts and schools and, unless legislative requirements prescribe otherwise, these entities may also apply entity-specific accounting policies.

Selected findings are that:

- Respondents are using IFRSs and entity-specific accounting policies for less than 20 per cent of their microentity clients, while the IFRS for SMEs is used more widely. South Africa GAAP is not widely applied;
- Although the IFRS for SMEs is widely used, a tax basis is mostly used for sole traders, partnerships and trusts. IFRSs are used minimally in these types of entities;
- Overall, the respondents regard the financial statements of small and microentities as somewhat useful;
- Overall, the respondents prefer the historical cost model of accounting;
- Both the cash basis and the accrual basis of accounting are preferred as a basis of accounting;
- Around a third of the sample would be interested in using a best practice framework in a wide variety of entities, while another third would prefer some kind of template. It is

[35] See http://www.iasplus.com/en/jurisdictions/africa/nigeria (accessed 8 October 2015).
[36] See https://www.saica.co.za/News/MediaKit/Publications/ElectronicNewsletters/CAWorld28June2013/MicroEntityFinancialReporting/tabid/3162/language/en-ZA/Default.aspx.

apparent that the need does not differ a lot from entity to entity.

These findings could be useful to IASB, which has recently issued its *Guide for Micro-sized Entities* (IASB, 2013) using the same principles used by SAICA, that is, by only including in the guide those policies that would be most applicable to a small business.

According to the results of the questionnaire, most countries/territories do not have a microenterprise reporting framework. Neither the United States nor South Africa specify what framework an entity may use in certain cases. For example, South Africa allows an entity which has a PI score of below 100 to use a framework "as determined by the company" (see table 3). The United States allows entities to use an "other comprehensive basis of accounting".

An "other comprehensive basis of accounting"[37] can be a statutory basis of accounting (for example, a basis of accounting insurance companies use under the rules of a state insurance commission), an income-tax-basis financial statements, a cash-basis and modified-cash-basis financial statement, or financial statements prepared using definitive criteria having substantial support in accounting literature that the preparer applies to all material items appearing in the statements (such as the price level basis of accounting).

Although the matching concept is not a stand-alone underlying assumption in the Conceptual Framework, it is referred to in paragraph 4.50 where the Conceptual Framework refers to the recognition of expenses in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of revenue. The framework cautions that the application of the matching concept under this Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

The questionnaire findings include a diversity of approaches to microenterprises' financial reporting. The recent issue of *A Guide for Micro-sized Entities Applying the IFRS for SMEs* by IASB may see some further adoption by countries/territories, which will lead to more uniformity in the approaches to financial reporting in the microenterprise arena.

9. **Conclusions**

There are many accounting frameworks for SMEs (for example, the different national frameworks) and different countries/territories have approached the definition of an SME and microenterprise in different ways. Some countries/territories do not have a definition of an SME and others do not differentiate microenterprises from SMEs. The existence of a universal definition seems difficult due to the wide variation in the quantitative criteria used by countries/territories to define these types of entities. For instance, what is considered an SME in Europe would correspond to a large company in a developing country/territory. As a result, companies falling within this range in developing countries/territories would be more likely to face difficulties in using international requirements.

The IFRS for SMEs issued by IASB has been adopted by some jurisdictions. However, the trend seems slow when compared to the adoption of full IFRSs. Jurisdictions that do not intend to adopt the IFRS for SMEs emphasize cost considerations, lack of required knowledge and skills and the fact that they already have a suitable national GAAP in place. The IASB has recently finalized its discussions and deliberations on improvements to the IFRS for SMEs using

[37] See http://www.journalofaccountancy.com/Issues/2003/Oct/OcboaFinancialStatements.htm?action=print.

comments from its members and other reporting constituents. Although IASB has decided to make only limited amendments because the IFRS for SMEs is still a new standard, it has decided to allow an option to use the revaluation model for property, plant and equipment. This particular improvement can strengthen the balance sheet for the purpose of obtaining finance and may have a positive impact in further adoptions. Countries/territories that have partially adopted the IFRS for SMEs may find that these amendments are in line with their own national standard and could decide to fully adopt the standard. The final amendments were made in May 2015 as announced by IASB. Amendments will apply for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided that all of the changes are applied at the same time.

There are jurisdictions in which the IFRS for SMEs is an optional framework. In these cases, additional complications arise from an education perspective (that is, different frameworks will have to be taught and mastered) and a user perspective (different companies using different frameworks will be difficult to compare for investment decision making). Jurisdictions that continue to use national GAAP or in which the IFRS for SMEs is an optional framework need to provide transparent and accessible information on the differences between their national GAAP and the IFRS for SMEs.

Specific attention should be paid to consider developing differential frameworks applicable to SMEs and microenterprises. In this way standards will help to avoid creating an excessive burden on microenterprises in terms of their complexity and costs of implementation.

A need for further institutional building on accounting for SMEs has been also indicated by respondents, including clarity on responsibilities, coordination and availability of resources. Survey findings also highlighted that there is no one single approach to the institutional arrangements on accounting for SMEs, including setting, implementation, oversight and enforcement of SME standards. SME standard setters range from an accounting standards board (or equivalent) to a PAO. Likewise different jurisdictions had different bodies in charge of implementing the standards and in many cases government bodies, such as a ministry of finance, a securities and exchange commission, or a superintendence, are in charge of these activities.

Audit requirements of SMEs and microenterprises reports also vary between countries/territories. The survey indicated that there is some support for the SME audit requirements to be proportionally less than the audit requirements for large entities. In this regard, further consideration could be given by the IAASB to the possibility to further proportionately reduce the burden of complying with full ISAs where SMEs are required to be audited.

The survey also indicated that capacity-building is critical to address the challenges of achieving a required quality of SMEs accounting and reporting. This includes a need for more training and guidance with regard to the SME accounting standards, including on implementation of the IFRS for SMEs. In this regard, having fewer frameworks for the same range of enterprises could help to facilitate the education and training of accountants and auditors and benefit users (such as the providers of finance).

A number of good initiatives and practices have evolved in recent years. For example, the IFRS Foundation holds regional train-the-trainers workshops, in cooperation with regional professional associations and the world's development agencies, such as the World Bank, to build capacity for the implementation of the IFRS for SMEs, particularly in developing and emerging economies.[38] These workshops need to be more widely available. Other developments include the

[38] See http://www.ifrs.org/IFRS-for-SMEs/Pages/SME-Workshops.aspx.

International Finance Corporation's SME toolkit, which provides templates for balance sheet and income statement.[39] It is also important to develop training materials and courses on a simplified microenterprise accounting guideline for SMEGA level 3 issued by UNCTAD.

Replies to the questions 46, 47 and 48 from UNCTAD's questionnaire provide additional information on lessons learned and main issues on development and implementation of accounting for SMEs, as well as recommendations on how to address them.

Appendix A. Detailed presentation of the questionnaire used for this study

To provide input for this report, a link to an on-line questionnaire was sent to PAOs in various jurisdictions, requesting them to click on the link and record their responses. A Microsoft Word version of the questionnaire was also attached to the email so that respondents could see the nature of the questions. The jurisdictions were the Asian Federation of Accountants, the Confederation of Asian and Pacific Accountants, the Fédération des Experts Comptables Européens, the Inter-American Accounting Association (Asociación Interamericana de Contabilidad) and the Pan African Federation of Accountants.

The questions were structured in such a manner that respondents were not required to answer every question. For example, respondents who indicated that their country/territory had not adopted the IFRS for SMEs were not asked the follow up questions concerning implementation issues. (Thus the question order that follows is not applicable to all respondents.) Although there were 48 questions in the questionnaire, respondents could answer at most about 36, with the least number being about 27.

The structure of the questionnaire corresponds to the outline of the publication.

Defining SMEs and their economic importance

Question 1:	**How does your country define SMEs?**
Argentina	There is not a single definition.
Belgium	Medium-size entities are not defined for accounting or financial reporting purposes (art. 15 Companies Code). A small company is a company that does not exceed two of the following limits for two consecutive financial years (on a consolidated basis): • Net turnover of € 7,300,000; • Balance sheet total € 3,650,000; • Employees number of 50 (average annual workforce). If the above limits are met (or exceeded) in the way described above, companies are considered to be large.
Bolivia (Plurinational State of)	Not defined.
Chile	Below UF 100,000 or approximately $4,600,000.
Colombia	Qualitative and quantitative indices. More than 50 employees.

[39] See http://www.smetoolkit.org/smetoolkit/en/content/en/685/Balance-Sheet-Template.

Croatia	Small enterprises shall not exceed two of the following conditions: • Total assets of HRK 32,500,000 (or €4.4 million); • Revenues of HRK 65,000,000 (or €8.8 million); • Average number of 50 employees during the financial year. Medium-sized enterprises shall be those that exceed two of the conditions referred above but shall not exceed two of the following conditions: • Total assets of HRK 130,000,000 (or €17.5 million); • Revenues of HRK 260,000,000 (or €35 million); • Average number of 250 employees during the financial year.
Czech Republic	There is no specifically Czech definition of SME but the European Union definition is referred to (however, in practice it is currently of no practical importance as the law does not recognize it). Rules for obligatory audits are based on criteria lower than European Union rules (turnover above €3.1 million, balance sheet total over CZK 1.550 million, number of employees over 50 – if two out of three apply in two subsequent periods for limited liability companies or one out of three for joint stock companies.
Democratic Republic of the Congo	The SME must have: Share capital ≥ FCFA 10 million ($20,000) Turnover ≥ FCFA 250 million ($500,000) Staff ≥ 50 workers.
Ecuador	Less than $4 million in assets and up to $5 million in sales and have less than 200 employees.
Fiji	As per the IFRS for SME standard.
Finland	There is no official definition.
India	The Government of India has enacted the Micro, Small and Medium Enterprises Development Act, 2006, in terms of which the definition of micro, small and medium enterprises is as under: (a) enterprises engaged in the manufacture or production, processing or preservation of goods as specified: (i) a microenterprise is an enterprise where investment in plant and machinery does not exceed Rs 2.5 million; (ii) a small enterprise is an enterprise where the investment in plant and machinery is more than Rs 2.5 million but does not exceed Rs. 50 million; (iii) a medium enterprise is an enterprise where the investment in plant and machinery is more than Rs 50 million but does not exceed Rs 100 million. In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O.1722(E) dated October 5 2006.
Ireland	Small Company: must meet two of the following three criteria in the current and preceding year – less than or equal to: €8.8 million turnover; €4.4 million balance sheet total (fixed assets plus current assets); 50 employees. Medium Company: must meet two of the following three criteria in the current and preceding year – less than or equal to: €15.24 million turnover; €7.62 million balance sheet total (fixed assets plus current assets); 250 employees.
Italy	Big PMI [SME] but there are also small PMI that don't apply financial report.

Liberia	Private enterprise entity that is not listed on any public listing entity or subsidiary of a publicly listed entity and also not a deposit taking institution.
Lithuania	The entities at least two indicators whereof on the last day of the financial year do not exceed the following limits for two consecutive financial years, including the reporting financial year: 1. Net turnover during the reporting financial year – €2,896,200; 2. The value of assets specified in the balance sheet – €1,737,720; 3. Average number of payroll workers during the reporting financial year – 15 persons. Are allowed to draw up an abridged balance sheet, abridged profit (loss) account, abridged notes on the accounts and not draw up a cash flow statement.
Malta	Entities which do not exceed the limits of any one of the following three criteria: (a) balance sheet total: €17.5 million, or the equivalent thereof converted at the closing rate of exchange on the balance sheet date; (b) total revenue: €35 million, or the equivalent thereof converted at the average rate of exchange for the financial reporting period; (c) average number of employees during each of the two consecutive financial reporting periods immediately preceding the relevant financial reporting period: 250.
Netherlands	In conformity with the fourth European Union Directive.
New Zealand	Not officially defined. However, large is over $30 million revenue and $60 million total assets under new Financial Reporting Bill (expected enactment 2013). Survey answered on basis of new Bill.
Niger	Revenues or net sales under $40,000 or under 10 employees.
Nigeria	Sole proprietorship/small partnership firms and private companies with balance sheet size below ₦5 million. SME is defined by the Central Bank of Nigeria as a micro, small and medium sized enterprise with an asset base between ₦5 million and ₦500 million and a staff strength of 11 to 300 employees, the company's turnover notwithstanding. Alternative definition given: 1. By asset: micro = less than ₦1.5 million; small = less than ₦50 million; medium = less than ₦200 million; 2. By employees: micro = less than 10; small = less than 50; medium = less than 300.
Norway	According to the European Union regulation. Small enterprises are defined in the accounting act as companies which are not listed companies and on the balance sheet date do not exceed the limits of two of the following three conditions: 1. Sales revenue: NKr 70 million; 2. Balance sheet total: NKr 35 million; 3. Average number of employees during the financial year: 50 man–labour years. We have no separate definition for medium-sized entities.

Pakistan	Medium-sized company and small-sized company shall mean as follows: A medium-sized company shall be a company that: (a) is not a listed company or a subsidiary of a listed company; (b) has not filed, or is not in the process of filing, its financial statements with the Commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; (c) does not hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity; (d) is not a public utility or similar company that provides an essential public service; (e) is not economically significant on the basis of criteria as defined below: Provided that an entity is considered to be economically significant if it has: (i) turnover in excess of PRs 1 billion, excluding other income; (ii) number of employees in excess of 750; (iii) total borrowings (excluding trade creditors and accrued liabilities) in excess of PRs 500 million. Provided further that in order to be treated as economically significant any two of the criterion mentioned in (i), (ii) and (iii) above have to be met and that the criteria followed shall be based on the previous year's audited financial statements. Companies can be excluded from this category where they do not fall under the aforementioned criteria for two consecutive years: (f) is not a Small-Sized company. A small-sized company shall be a company that: (a) has paid-up capital plus undistributed reserves (total equity after taking into account any dividend proposed for the year) not exceeding PRs 25 million; (b) has employees not exceeding 250 at any time during the year; (c) has annual turnover not exceeding PRs 200 million, excluding other income.
Papua New Guinea	In accordance with IFRS definitions.
Paraguay	Companies that are not listed are regulated by Law 4457/2012 and its Decree 11.453/2013.
Peru	According to IASB.
Republic of Korea	The companies whose total amount of assets is below ₩10 billion (approximately $8.7 billion) can be categorized as SMEs unless: companies whose total assets are ₩7 billion or more and meet either of the following: (i) its total is ₩7 billion or more; (ii) the number of its employees is 300 or more.
Romania	The category of SMEs is made up of enterprises that employ fewer than 250 persons and that have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million. Alternatively: size criteria established under Order 3055/2009 are: total assets of €3.65 million; turnover of €7.3 million; average number of employees during the financial year – 50. Entities which in two consecutive financial years exceed two of the three size criteria are required to submit standard financial statements including: balance sheet; income statement; statement of changes in equity; statement of cash flows; notes. The other entities are required to submit abridged financial statements, including an abridged balance sheet, an income statement and notes. The preparation of the statement of changes in equity and of the statement of cash flows is optional. Entities with total assets and turnover of less than €35,000 draw up simplified financial statements including only the balance sheet and the income statements.

Russian Federation	Number of employees < 250 – medium; < 100 – small; < 15 – micro. Annual revenue < Rub 1,000 million – medium.
Samoa	SMEs relates to businesses with a turnover of less than $100,000; however, some SMEs can have a turnover of more than $200,000. About 89 per cent of companies in Samoa from my own opinion are SMEs given that they are family companies that are privately owned and no public accountability. However, most of these companies are subject to preparation of GPFR due to banking requirements and other stakeholders.
Slovenia	Yes, in the Companies Act.
South Africa	Our country does not have a definition of SMEs. Our Companies Act defines companies as follows: State-owned; public companies listed on an exchange; public companies not listed on an exchange; companies other than state-owned or public companies based on a PI score. The PI score is based on points which are allocated to the number of employees, third party liabilities, turnover, and shareholders.
Spain	In Spain there is not a single definition of SME. Recently the Central Bank of Spain has adopted the definition of SME as established by the European Commission Recommendation 2003/361/EC, by which the category of micro, small and medium-sized enterprises consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding €50 million, or an annual balance sheet total not exceeding €43 million. As regards thresholds for financial reporting purposes, another recent regulation states that the General Chart of Accounts for SMEs (although not compulsory), can be applied by all enterprises, whether companies or individuals, which meet at least two of the following conditions at the close of two consecutive financial years: - Net turnover not exceeding €8 million; - Balance sheet total not exceeding €4 million; - Average employees during the year not exceeding 50.
Sri Lanka	Similar to the IFRS for SMEs definition and excludes specialized business entities. Small and medium-sized entities are entities that do not have public accountability and publish general-purpose financial statements for external users. And scopes out listed entities and regulated entities known as specified business entities (SBEs).
Switzerland	There is no legal provision for the definition of SMEs existing in Switzerland. Some provisions of the Swiss Code of Obligations implicitly refer to the term of SME: article 963a (exemption from the duty to prepare consolidated accounts) or article 727 (1) (1) (duty to review annual accounts and if applicable consolidated accounts by an external auditor): (a) Balance sheet total of SwF 20 million; (b) Sales revenue of SwF 40 million; (c) Full-time positions on annual average of 250. Several statistics define SMEs as enterprises with less than 250 employees.
United Kingdom	Size per European Union legislation.
United States	There is no standard definition of SMEs in the United States.
Uruguay	See pronouncement 18 from Colegio de Contadores, Economistas y Administradores del Uruguay (CCEAU).

Zambia	Economically significant companies – companies that are not public companies or quoted on the stock exchange with turnover of K 20 million and above.

Question 2: Indicate the number of entities in various categories at 30 June 2013.

This question proved problematic for the respondents; however, most of them did answer this question although it was optional. Usable responses are as below:

Country	Listed companies	Domestic companies with public accountability	Foreign registrants	Small and medium-sized entities	Microenterprises
	Number	Number	Number	Number	Number
Argentina	100	40	2	500,000	1,000,000
Belgium	221	?	?	507,074	456,896
Bolivia (Plurinational State of)	-	1,473	193	16,589	86,629
Chile	350	0	0	0	0
Colombia	100	2,600	250	40,000	800,000
Croatia	250	-	-	91,000	-
Democratic Republic of the Congo	7000	10	1000	4,000	2,000
Ecuador	422	-	718	22,000	16,788
Fiji	20	50	50	5,000	5,000
Finland	around 110	no information available	no information available	around 300,000	no information available
Guatemala	10	15	300	2,175	25,000
India	6,000	NA	1200+	N	N
Ireland	Not available	Not available	Not available	Not available	Not available
Liberia	0	50	100	8,000	25,000
Lithuania	32	5,000*	No information	48,000*	600**
Malta	21	23	000	29,877	28,468

Nepal	600	1,000	50	500,000	500,000
Netherlands	200	?	?	800,000 including micros	
New Zealand	180	20,000	1	420,000	0
Niger	210	320	25	750	1,250
Nigeria	About 216 - 251	800,000 to 1,000,000+	1,480	21,264	17,261,753
Norway	200 - 250	200,000	0	180,000 - 250,000	120,000
Pakistan	Data not available	Data not available	Data not available	Data not available	Data not available
Peru	300	7,000	7,000	200,000	300,000
Republic of Korea	1,750	18,500	0	3,200,000	0
Romania	79 - 224	1,052,673	187,047	490,000 – 529,015	475,536 to 544,626
Russian Federation	600	1,500	500	240,000	1,760,000
Samoa	0	10	0	1,100	1,356
Slovenia	65	100	250	15,000	40,000
South Africa	386	2,721	1,480	1,279,222	Not sure of split
Spain	800	7,600	Not available	3,090,000	Not available
Sri Lanka	274	No statistics available	Approx. 1,240	No statistics available	No statistics available
Switzerland	315	-	120	39,361***	272,346****
United States	Approx. 18,000	Data not available	Dec. 2012:Total no. of foreign private issuers is just under 1,000 and the no. that file using IFRS is	Approx. 28 million private companies of which approx. 20 million are SMEs	-

			approx. 450		
Zambia	20	24	30	900	1,000
*Domestic companies with public accountability are those entities which exceed definition of SME indicators. SMEs are those which do not exceed SME indicators. **This indicates the number of microentities which have submitted their financial statements to the State register (they do not have such a responsibility according to national law) *** < 250 employees **** < 10 employees					

An email response from South Africa explained that a PI score has been developed in an attempt to quantify public accountability and the resultant accounting framework which must be used and whether or not an entity must be audited or be subject to an independent review (see appendix B). Due to the recent introduction of this calculation, it is still unknown by the company regulator as to what the PI score is for each entity, and thus how many entities are SMEs or microenterprises in South Africa. The total active entities at 30 June 2013 are shown below. It can be assumed that the SMEs and microenterprises consist of the close corporations (695,632) and the private companies (583,590) which, clearly in numerical terms, are the majority of the entities.

South Africa: Total active entities at June 2013

Close corporations	695,632
Public companies	2,721
Private companies	583,590
Non profit (section 21)	32,465
Limited by guarantee	3
External companies under section 21A	33
External companies	1,447
Incorporated (professionals)	8,048
Company unlimited	4
Cooperative	69,126
State owned company	35
Transvaal ordinance	15
Statutory body	1

The role of accounting and reporting for SMEs

Question 3: In your opinion has preparing financial statements IFRS for SMEs facilitated SMEs access to finance?	**Yes**	**No**	**Total**
	10	2	12
(Note that if all respondents are included in this answer as this is an "opinion" question, the percentage agreement would be 91 per cent.)	83%	17%	100%
A comment was "Yes as banks are willing to finance SMEs where there are financial statements			

provided that are auditable" (South Africa).	
Question 4: Please provide reasons why preparing financial statements using IFRS for SMEs has not facilitated SMEs access to finance?	
South Africa:	Assets are not shown at market value – this typically affects entities where plant and machinery or owner occupied property far exceed cost. Generally access to finance is not dependent on the accounting framework.
Uruguay:	Because [the] financial system looks for guarantees when they deal with SMEs.

National accounting frameworks for different type of entities

Question 5: For the following categories of entities recognized in the national regulatory system, please indicate the applicable accounting framework. (If this question is unable to accommodate all the possibilities which exist in your regulatory system, please email additional explanations to the researcher.)

	IFRS as published by IASB	National GAAP (that is to a large extent based or partially based on IFRS)	National GAAP (that is not based on IFRS)	IFRS for SMEs as published by IASB	Other reporting frameworks	Total
Listed companies	32	8	4	0	2	46
Domestic companies with public accountability	14	19	7	1	3	44
Foreign registrants	20	16	5	1	5	47
Small and medium-sized entities	2	19	6	12	9	48
Microenterprises	2	17	8	6	12	45

Note: More than one accounting framework could be chosen for each category of entity.

Question 6: Do you have financial reporting standards that apply to SMEs?	Yes	No	Total
	31	11	42
	74%	26%	100%

Question 7: What institution is in charge of setting the financial standards that apply to SMEs?		
Question 8: Please provide information on its general characteristics (i.e. legal authority, funding, membership, whether self-regulatory etc.)?		
	Question 7:	**Question 8:**
	Institution in charge of setting the financial standards that apply to SMEs	**General characteristics**
Argentina	Argentinian Federation of Professional Councils of Economic Science (Federación Argentina de Consejos Profesionales de Ciencias Económicas, FACPCE)	FACPCE is a second-level body that is integrated by the 24 Economic Sciences Councils of Argentina. It has not legal authority over the companies, but the standards developed by it are accepted by the legal authorities of the country (in the federal order and in the regional order).
Belgium	The executive power (Federal Government)	Federal Government.
Bolivia (Plurinational State of)	The only institution that sets accounting standards in general for all types of companies is the National Technical Council of Audit and Accounting (Consejo Técnico Nacional de Auditoria y Contabilidad, CTNAC).	The CTNAC is the body authorized in Bolivia to develop accounting standards; however, other state control bodies do not always approve. Members are professionals who are appointed by the departmental schools within the College of Auditors of Bolivia and its financing is by the same professionals nationwide. There is a body of regulation.
Chile	Colegio de Contadores de Chile (CCCH)	(a) CCCH is the authority to issue accountancy standards. (b) none. (c) 6,000 approx.
Colombia	Colombian regulator	The Colombian Regulator is comprised of both the Minister of Finance and the Minister of Trade, Industry and Tourism. The approved standards should be in line with IFRS for SMEs and the corresponding decree has to be signed jointly by the above mentioned ministers.
Croatia	Committee on Financial Reporting Standards	The national accounting standard setter in the Republic of Croatia is the Committee on Financial Reporting Standards which was established on the basis of the Accounting Act. This Committee is an expert body of the Ministry of Finance. It consists of nine members on the proposal of the Minister of Finance with approval of the Croatian Government.
Czech Republic	Ministry of Finance	Ministry of Finance Chamber of Auditors of the Czech Republic National Accounting Council Universities.

Ecuador	Superintendence of Companies	Superintendence of Companies is a public entity in control of the following aspects: issuing regulations and standards necessary for governance, and to exercise control over the entities of the private sector. Control the entities under the Companies Act, the Superintendence is legal authority. The Superintendence of Companies is a public entity.
Fiji	Fiji Institute of Accountants	Established by an Act of Parliament. Self regulatory. Funded by members, who are persons who meet the set academic and experience qualifications.
Finland	Regulation is mainly based on legislation; the Ministry of Employment and the Economy and the national parliament, also the Accounting Board (operating under the Ministry) gives instruments and opinions of the application of the Accounting Act. Basically the same laws apply to all companies (there are additional requirements for listed companies). Finnish laws are based on European Union directives.	Legal authority.
Guatemala	The Accounting Standards Committee of the Association of Accountants and Auditors in Guatemala (Comité de Normas de Contabilidad of Colegio de Contadores Públicos y Auditores de Gautemala) and the Guatemalan Institute of Accountants and Auditors (Instituto Guatemalteco de Contadores Públicos y Auditores)	Self regulatory. Members comply with the regulations and are appointed by the two entities indicated.
India	National Advisory Committee on Accounting Standards and Institute of Chartered Accountants of India	Legal Authority and Autonomous Body respectively.
Ireland	The Financial Reporting Council- http://www.frc.org.uk/Home.aspx	FRC Board: http://www.frc.org.uk/About-the-FRC/FRC-structure/FRC-Board.aspx FRC Board members: http://www.frc.org.uk/About-the-FRC/FRC-structure/FRC-Board/Members.aspx FRC Structure: http://www.frc.org.uk/About-the-FRC/FRC-structure.aspx Executive Structure and Regulatory Functions: http://www.frc.org.uk/About-the-FRC/FRC-structure/Executive-Structure-Regulatory-Functions.aspx Further information: http://www.frc.org.uk/Home.aspx.

Italy	Organismo Italiano di Contabilità – OIC (The Italian Standard Setter)	National foundation appointed by Economy Minister.
Liberia	Liberian Institute of Certified Public Accountants (LICPA)	Created by an act of legislature as a national capacity-building institution; has legal authority to set standards (accounting, auditing, ethics, other accounting-related); monitor and enforce compliance. Membership small (35) but growing. Successful completion of professional credentialing exams required. Administers two levels of such examination programmes. One, is a foundation programme known as the Accounting Technicians Scheme, West Africa (ATSWA), which is organized by the English speaking member bodies of the Association of Accountancy Bodies of West Africa (ABWA), which is headquartered in Abuja, Nigeria. The other is the LICPA's full professional exam programme, which are actually the professional exams of the Institute of Chartered Accountants, Ghana (ICAG). ABWA is gearing for a regional professional exam that will bring together the full professional exams of the Institute of Chartered Accountants, Ghana (ICAG) and the Institute of Chartered Accountants of Nigeria. Starting September 2013, the LICPA has introduced a new programme called Syllabi Integration Programme (SIP), under which the syllabi of the LICPA's two credentialing programmes, as outlined above, are being integrated into the accounting curricula of Liberian universities. Because Liberia has NOT had a history of accounting credentialing exams, the LICPA (with funding support provided by the United States Agency for International Development (USAID) has recruited a number of expatriate coaching instructors who will, on a full-time basis, teach students in participating schools. This is in part the LICPA's response to allegations of academic corruption in Liberian schools given widespread allegations that instructors sell and students buy grades for cash and/or sex. Under the SIP students in participating schools who take any LICPA-tested subject are required to pass a corresponding external exam conducted by the LICPA as a precondition for academic credit for each and every such course. Under the programme USAID pays the instructors. Therefore, each participating school is required to use tuition paid by students for the course to sponsor one or more of its regular instructors to pass the LICPA's full professional exam, as described above. Successful local instructors then enter the USAID supported pool of professional instructors. This way, the programme is expected

		to become self-sustaining. The Institute is also seeking additional support from the Government of Liberia to expand the programme to areas not supported by USAID funding. Funding support (USAID as well as the Government of Liberia) is expected to last a minimum of five (5) years but hopefully not more than 10 years by which time the programme is expected to become self sustaining. It is also expected that by then students who have successfully gone through the programme will have established coaching schools on a free enterprise basis.
Lithuania	Authority of Audit and Accounting is responsible for setting national standards (Business Accounting Standard) for all (large, SME and microentities) profit-seeking limited civil liability entities.	Budgetary institution subordinated to the Ministry of Finance, 100% financed from the State budget. The Accounting Standard Committee, a collegial advisory body is composed (representatives from practitioners (accountants, auditors), academy, Central Register, State Tax Authority, Statistics, Central Bank, Ministry of Finance) in the authority in order to advise on setting business accounting standards.

Malta	The Accountancy Board	The Accountancy Board is the regulator of the Maltese accountancy profession. The Accountancy Board was established in 1979 when the Accountancy Profession Act Cap 281 was enacted. The Accountancy Board regulates the accountancy profession in Malta and is entrusted with: the issue of accountants' warrants and auditors' practicing certificates after making their recommendations to the Minister for Finance; the registration of firms of accountants and auditors; keeping a register of the above; dealing with cases leading to the suspension or withdrawal of warrants or practicing certificates; advising or making recommendations and expressing its views to the Minister; and such other functions arising from any law or as may be delegated to it by the Minister under the Accountancy Profession Act. Over the years the Accountancy Board has taken various initiatives within the ambit of its role. These include the formulation of a code of ethics for accountants and auditors, proposing regulations for continued professional education, setting up a system of quality assurance and conducting disciplinary proceedings on members of the profession. The Accountancy Board participates actively in the European Commission proceedings on accountancy and auditing in Brussels. The Board has the collaboration and technical support of the Malta Institute of Accountants which is an approved accountancy body as established under the Accountancy Profession Act.
Nepal	Accounting Standard Board	The Accounting Standards Board is a statutory body under the Institute of Chartered Accountants Act.
Netherlands	The Dutch Legislator and the Dutch Accounting Standards Board (DASB)	The DASB has no legal authority; it is funded by employees and employers organizations and the NBA (the Dutch Association for Registered Accountants) and analyst organizations; the board consists of 12 members and an independent chair. The 12 members form three groups of four members, each representing users, preparers and auditors of financial statements.
New Zealand	Professional Accounting Body to set voluntary reporting guidelines	PAO membership body.
Niger	Regional organization – Union Economique et Monétaire Ouest-Africaine (UEMOA)	UEMOA Conseil Permanent de la Profession Comptable and UEMOA Conseil Comptable Ouest-Africain.

Nigeria	Financial Reporting Standard of Nigeria (FRCN)	Established by Act of Parliament No. 6, 2011. Funding is by the government board and stakeholder. Membership is made up of stakeholders and the Government. It is self regulatory.
Norway	Norwegian Accounting Standards Board	Please find some information about the Norwegian Accounting Standards Board here: http://www.regnskapsstiftelsen.no/a9084301/english. Private Foundation. Funded via seminars.
Pakistan	Institute of Chartered Accountants of Pakistan	Non-Profit Organization. Self Funded. Membership of 5589. Self regulated.
Papua New Guinea	Investment Promotion Authority (IPA)	It is a government funded organization with the primary task of promoting investment opportunities in Papua New Guinea. They monitor the rules and regulations on how business should be conducted in Papua New Guinea and how foreign companies can come into the country and operate. Within IPA is the register of companies which deals directly with the establishment of accounting standards in Papua New Guinea.
Paraguay	There is no standard. The National Congress has issued a law on SMEs, which has been enacted by the President and regulated by the Ministry of Finance.	As mentioned before, it was the National Congress who issued the SMEs Law: the Law was enacted by the President and regulated (detailed rules) by the Ministry of Finance. There is no institution responsible for issuing standards for SMEs. Each regulatory body such as the National Securities Commission, the INCOOP, and the Central Bank of Paraguay through its Superintendence of Banks and Insurance regulate companies under their control.
Peru	Accounting standards of Peru, according to those issued by IASB	The board is a state agency and funded by the state, and is made up of representatives of the public organization of supervisors.
Republic of Korea	Korea Accounting Standards Board	The Korea Accounting Standards Board, which consists of representatives from users, preparers, auditors, and academics, was also established for the purpose of deliberation and decision making regarding accounting standards and related matters. Article 13 of the Act on External Audit of Corporations, and Article 7-3 of the Enforcement Decree of the said Act took effect, giving the Korea Accounting Institute (KAI) the mandate to create and revise the accounting standards as well as interpret and respond to queries regarding these standards. The Korea Accounting Standards Board in the KAI carries out such duties. It is funded by contributions of members or other forms of contributions allowed

		under the law.
Romania	Ministry of Finance	Ministry of Finance [is the] Ministry with the role of synthesis and performs the following functions: (a) strategy, which ensures, in accordance with the financial policy of the Government and European Union standards, development strategy in specific ministry activities: fiscal, budgetary, public accounting, accounting regulations, public debt, public internal financial control, financial management and control systems, coordination and verification of procurement, specific subject areas. After 2005 a decentralization of accounting standard setting took place, supervisors being charged to set accounting regulations for the entities they supervise. Thus, the Ministry of Finance establishes the accounting regulations for the enterprise sector while the regulations for credit institutions, insurance undertakings, pension funds and entities operating on the capital market are elaborated by the National Bank of Romania, the Insurance Supervisory Commission, the Private Pension Funds Supervisory Commission and the National Securities Commission, respectively and issued by these institutions after endorsement by the Ministry of Finance. The Ministry of Finance has established a Council of Accounting and Financial Reporting to advise [the Ministry of Finance] on the development of Romanian Accounting Standards. [Corpul Experţilor Contabili şi Contabililor Autorizaţi din România] CECCAR is a member of the Council. Other members of the Council include representatives of government agencies and ministries, several other professional bodies, and academics.
Russian Federation	Ministry of Finance of the Russian Federation	The central government agency fully financed by the state federal budget.
Samoa	Samoa Institute of Accountants adopting SMEs	The Samoa Institute of Accountants is the governing body of accountants in Samoa with its own mandate Samoa Institute of Accountants Act 2006. The Institute was formerly known as the Samoa Society of Accountants under the Somoa Society of Accountants Act 1984. The Somoa Institute of Accountants is the professional body of accountants that aims to initiate and implement legislation and policies to regulate the practice of accountancy in Samoa. It represents about 200 or more members of the accounting profession

		working in Samoa and abroad.
Slovenia	The Slovenian Institute of Auditors	The Slovenian Institute of Auditors is a non-profit organization, established in 1993 with The Auditing Act. The Institute's tasks and competencies are: see Article 9 of Auditing Act: http://www.si-revizija.si/o_siru/dokumenti/Zrev_2-EN.pdf. The Slovenian Institute of Auditors has approximately 2000 members from different professions.
South Africa	The Financial Reporting Standards Council, established in terms of the Companies Act 71 of 2008 in 2011, is the body that currently fulfils the standard-setting role in South Africa. This body falls under the ambit of the Department of Trade and Industry.	Legal authority and membership is determined in terms of the Companies Act, as mentioned in response to the previous question. Funding is supplied by the Government.
Spain	The Institute of Accounting and Audit (Instituto de Contabilidad y Auditoría de Cuentas, ICAC)	The Institute of Accounting and Audit is a self-governing body attached to the Ministry of the Economy, regulated by the Auditing Act 19/1988, as amended by Legislative Royal Decree 1/2011 and Regulation 1517/2011. ICAC is the maximum regulatory authority for accounting and auditing matters in Spain.
Sri Lanka	The Institute of Chartered Accountants of Sri Lanka	The Institute of Chartered Accountants of Sri Lanka is the sole accounting standards setting authority in Sri Lanka, incorporated by an Act of Parliament. It has nearly 4000 members and is governed by a council.
Switzerland	Swiss GAAP Fachempfehlungen zur Rechnungslegung (FER) Foundation	The FER is an independent, private standard setting body. It is "composed of a maximum of 30 members equally representing auditing and accounting firms, employers and employee organizations, banks and insurance companies as well as stock exchanges, both small and international enterprises, universities, public administration and other parties interested in accounting".

United Kingdom	Financial Reporting Council	Please see http://www.frc.org.uk/About-the-FRC.aspx.
United States	Financial Accounting Standards Board (FASB) sets GAAP. Non-GAAP frameworks are non-authoritative.	Details about the FASB can be found at http://www.fasb.org/jsp/FASB/Page/Sectionpage&cid+1176154526495.
	American Institute of Certified Public Accountants (AICPA)	AICPA is the world's largest member association representing the accounting profession, with nearly 386,000 members in 128 countries/territories and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, Government, education and consulting. AICPA sets ethical standards for the profession and United States auditing standards for audits of private companies, non-profit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination and offers specialty credentials for CPAs who concentrate on personal financial planning; fraud and forensics; business valuation; and information technology.
Uruguay	Colegio de Contadores, Economistas y Administradores del Uruguay (CCEAU) as advisor of the National Executive Power	Self-regulatory and professional voluntary organization.

Question 9: Have you adopted IFRS for SMEs as issued by IASB as part of the national regulatory system?	Yes	No	Total
	16	26	42
	38%	62%	100%

The United States explained that non-public companies are not subject to a national regulatory system. However, since May 2008, the AICPA recognized IASB as an official source of GAAP and as such IFRS for SMEs is recognized as GAAP in the United States and may be used by non-public companies if they choose to do so.

Question 10: What was the date of adoption of IFRS for SMEs?	
Argentina	March 2010
Chile	2013
Colombia	1 January 2016
Ecuador	1 January 2012

Fiji	For financial periods beginning on or after 1 January 2011
Gautemala	7 July 2010 – but is to be adopted in 2013
Ireland	Mandatory adoption of FRS 102 for accounting periods beginning on or after 1 January 2015. Early adoption is permitted for periods ending on or after 31 December 2012.
Liberia	December 15 2015
Peru	2011
Samoa	July 2011
South Africa	2007
Sri Lanka	1 January 2012
Switzerland	Allowed: The relevant article in the regulation titled “Verordnung über die anerkannten Standards zur Rechnungslegung” (Regulation of Recognized Accounting Standards) was enacted by the Swiss Federal Council in December 2012 and the regulation became effective 1 January 2013.
Uruguay	2010
Zambia	15 December 2010

Note that some countries/territories treated adoption of IFRS for SMEs in the future, as if IFRS for SMEs had already been adopted, and this is reflected in a number of the dates above.

Question 11: If the country is not planning on adopting IFRS for SMEs, what accounting standards does the country use for SMEs?		
Question 12: Please provide a short explanation as to the differences between the national accounting standards used for SMEs and IFRS for SMEs.		
	Question 11:	**Question 12:**
Country:	**Accounting standards used (if not planning on adopting IFRS for SMEs)**	**Short explanation as to differences between the national accounting standards used for SMEs and IFRS for SMEs**
Croatia	In accordance with the Accounting Act, companies that are not listed have to use the national standards. All other SMEs that are listed have to use IFRS.	-
Democratic Republic of the Congo	DRC GAAP until 31 December 2013. SYSCOHADA the new DRC GAAP for implementation from 1 January 2014 for all firms except the bank area.	Differences between DRC GAAP and IFRS are: • The conceptual framework; • The contents and the presentation of financial statements; • Certain rules of valuation and

		accounting; • The terminology.
India	Ind SA	Accounting standards issued by National Advisory Committee on Accounting Standards shall be applicable with some exemptions to SMEs. In case NACAS is silent on specific issues, accounting standards as issued by Institute of Chartered Accountants of India shall be applicable.
Lithuania	National accounting standards based on IFRS/IAS.	National accounting standards based on IFRS/IAS are less complex than IFRS/IAS and take into account national legal provisions.
Malta	General Accounting Principles for Smaller Entities (GAPSE).	There are a number of differences between GAPSE and IFRS for SMEs.
New Zealand	None. NZICA prepares a voluntary guide. SMEs can elect to adopt IFRS or even IFRS for SMEs if they want.	N/A. No national standards for SMEs.
Norway	For medium-sized companies, we use Norwegian accounting standards for non-listed companies. Small companies may also use the Norwegian accounting standard for small companies.	Our national standards are probably closer to IFRS for SMEs than to IFRS. IFRS for SMEs have somewhat more use of fair value accounting than our national standards.
Republic of Korea	The KASB sets the accounting standards for non-IFRS-applying companies, typically unlisted companies, and also sets the accounting standards for SMEs.	For example, the national accounting standards for SMEs are allowed to use tax purposed accounting for some events and transactions.
Romania	Regulations in accordance with European Directives. The Order of the Ministry of Finance no 3055/2009 (accounting regulations in compliance with the European Directive). Entities with total assets and turnover of less than €35,000 draw up simplified financial statements including only the balance sheet and the income statements (the Order of the Ministry of Finance no 2239/2011).	The close connection between accounting and tax regulation. IFRS for SMEs is seen as a financial reporting standard rather than the accounting basis. Professional accountants are accustomed to use a standardized chart of accounts. See appendix D for a detailed analysis of the differences between the national accounting standards and IFRS for SMEs.
Russian Federation	The special provisions for smaller entities are incorporated into the system of national accounting standards.	A lot of simplifications in accounting methods, presentation, disclosure requirements (including cash basis for revenue and expense recognition).

		Possibility to implement some or few simplifications.
Spain	A national GAAP (General Chart of Accounts for SMEs) that is to a large extent or partially based on IFRS, has been implemented since 2008.	Contrary to what is established under our national accounting standards for SMEs, the IFRS for SMEs allows for the following: – Financial expenses are not part of the initial measurement of inventories or property, plant and equipment; – After initial recognition, investment properties are measured at fair value with changes in profit and loss account, provided that it can be determined reliably and without incurring disproportionate costs; – Goodwill and other intangible assets with indefinite useful life are amortized, initially estimated maximum life of 10 years; – Research and development costs cannot be recorded as assets in any case; – When recording actuarial gains and losses an option exists to account for them as income or expenses in the profit and loss account or as income or expenses in equity; – In any case, non-repayable grants are initially recognized as income in the profit and loss account.
Switzerland	Normally the national GAAP (which is not based on IFRS) is used. Where an SME prepares consolidated financial statements, it normally uses Swiss GAAP FER, which focuses on accounting for small and medium sized organizations and groups based in Switzerland. Small organizations have the possibility to only apply the framework and selected central standards (core FER). Medium-sized organizations have to apply core FER as well as extended (full) SWISS GAAP FER. Criteria for the application of core FER are: (a) balance sheet total of CHF 10 million; (b) annual net sales of CHF 20 million; (c) 50 full-time employees on average per year. If an entity does not exceed two of the three criteria in two consecutive years it is eligible to apply core FER.	Please refer to box 2 above.
United Kingdom	United Kingdom GAAP, partially converged with full IFRS, and with a simplified version by small companies, but all to be replaced in 2015.	Many differences as United Kingdom standards have been around since the 1970s, but from 2015 they will be relatively few, e.g. a United Kingdom solution for deferred tax, unlisted financial institutions can use with some extra disclosures, option to

		revalue plant and machinery.
United States	Non-listed (non-public) companies in the United States are not subject to statutory reporting requirements and generally choose an accounting framework that meets their financial reporting needs. These frameworks consist of GAAP and non-GAAP frameworks. GAAP frameworks include United States GAAP, IFRS and IFRS for SMEs. However, there is not much use of IFRS or IFRS for SMEs among non-public companies in the United States at this time. Among non-GAAP frameworks are the cash or modified cash basis, tax basis and the Financial Reporting Framework for Small and Medium-Sized Entities. In addition, the regulatory basis and contractual basis are other non-GAAP frameworks that are sometimes used by non-public companies in certain situations.	N/A

Question 13: In your opinion have the needs of users been fulfilled through the use of IFRS for SMEs?	Yes	No	Total
	10	2	12
(Note that if all respondents are included in this answer as this is an "opinion" question, the percentage agreement would be 87 per cent.)	83%	17%	100%

Reasons for not adopting IFRS for SMEs were probed with a structured question (where 1 = not at all important and 5 = extremely important) and a follow-up question asked the respondents to list other reasons for deciding not to adopt IFRS for SMEs. These replies were as follows:

Question 14: What are your reasons for deciding not to adopt IFRS for SMEs?							
Reasons:	Not at all important	Slightly important	Moderately important	Very important	Extremely important	Total	Mean
Lack of knowledge of international standards and practices	10	3	0	1	2	14	2.14

Shortage of professional accountants working in this sector	13	2	1	1	0	14	1.86
Shortage of professional auditors working in this sector	13	2	2	0	0	14	1.64
Language barriers	10	3	0	1	0	14	1.43
Totals	46	10	3	3	2	56	-

Question 15: Please provide reason(s) why the needs of users have not been fulfilled through the use of IFRS for SMEs.	
Ecuador	Lack of knowledge of the standards; lack of training.
	Lack of an adequate assessment, lack of training and update of knowledge.
Uruguay	The owner of the company, when SMEs, don't require this sort of information, they prefer the managerial accounting.

When asked in which year IFRS for SMEs would be adopted, the 10 countries above indicated:

Question 16: If your country is planning to adopt IFRS for SMEs in the near future, please select the year that is most applicable.		
2014	2	Nigeria, Pakistan
2015	1	Niger
After 2015	7	Democratic Republic of the Congo, Italy, Nepal, Norway, Papua New Guinea, Paraguay, Slovenia
Total	10	

Question 17: Please list any other reasons you may have for deciding not to adopt IFRS for SMEs and indicate their importance.	
Belgium	It is not compulsory in the European Union.

Croatia	Current legal framework defines the application of national accounting standards for small and medium businesses.
Czech Republic	Existence of own local accounting standards for entities that are not publicly listed, long-term tradition of own accounting standards. IFRS is to a large extent adopted within these local accounting standards. On the other hand, IFRS is obligatory for all listed companies (not only consolidated FS but also individual) and is optional for the subsidiaries with owners from abroad.
Finland	We have understood that there is no need or demand for IFRS for SME. Most of the SMEs are microentities in the European Union scale. The Finnish market is very small compared to Central European markets. The Ministry of Employment and the Economy is not planning to adopt IFRS for SMEs.
India	India is going have its own Ind AS for the same. It may come up incorporating the important provisions in IFRS.
Lithuania	National accounting standards based on IFRS/IAS for profit seeking limited liability entities. For small entities, simplified provisions of national accounting standards are applied.
Malta	We have our local GAAP (GAPSE) which has been tailored to Maltese SMEs.
New Zealand	Considered too cost-intensive for SMEs. In New Zealand, the legal framework does not require SMEs to prepare financial statements according to GAAP.
Norway	Some of the reasons: – The transition costs for a full transition to IFRS for SMEs is assumed to be higher than allowing some adjustments; – Some topics are regulated in local GAAP, but not in IFRS for SMEs to the same extent, which is considered to be useful. For instance mergers and demergers by companies under common control; – Regulation in the European Union directives and the Norwegian accounting act not fully in line with the IFRS for SMEs. An example for small companies: the maximum harmonization of disclosures in the coming accounting directive does not allow the regulator to require other than certain disclosures from small companies. We have a project to develop a new Norwegian accounting standard for non-listed companies based on IFRS for SMEs, but with adjustments, similar to what they have done in the United Kingdom and Sweden.
Republic of Korea	There are few demands for SMEs to produce their financial reports using IFRSs. It is the most important reason not to adopt IFRS for SMEs.
Romania	It is considered more appropriate to have a regulation in accordance with the European directives and reasonably convergent with IFRS for SMEs. Professional accountants are accustomed to detailed rules and a standardized chart of accounts. Compliance with European Directives – extremely important. Relationship between accounting and taxation – very important.
Russian Federation	Lack of simplification in the IFRS for SMEs – extremely important. Absence to use some or part of the simplifications, but not full set of them – very important.
Spain	A national GAAP (General Chart of Accounts for SMEs) that is to a large extent or partially based on IFRS has been implemented since 2008.

United Kingdom	From 2015, a new United Kingdom standard for large and medium-sized companies will be based quite substantially on the IFRS for SMEs. Further simplification is likely for small/microcompanies.
United States	Adoption of IFRS for SMEs by non-public companies is a decision left to the owners and management of the entity. Barriers to adoption in the United States include a lack of familiarity with IFRS and certain technical aspects of IFRS for SMEs, like the prohibition against LIFO inventory accounting, which is problematic for United States non-public companies and would need to be addressed.

Of the 26 countries/territories that had not adopted IFRS for SMEs, 25 countries/territories answered the next question which asked:

Question 18: Are you planning to adopt IFRS for SMEs in the near future?	Yes	No	Total
	10	15	25
	37.5%	62.5%	100%

The United States response indicated that non-public companies in the United States can choose to adopt IFRS for SMEs or another accounting framework based on their financial reporting needs. (Therefore the next question is not applicable in the United States.)

Audit requirements

The questionnaire investigated the following areas relating to auditing standards and SMEs:

Question 19: Are SMEs required to have their financial statements audited?	Yes	No	Total
	22	17	39
	56%	44%	100%

Three countries modified their answers as follows:

Lithuania: No audit is required if the entity is not a PI entity.

United States: There is no statutory audit requirement for non-public company financial statements in the United States. The decision to have an audit of those financial statements is based in the individual circumstances of the reporting entity. Audits of non-public companies are conducted in accordance with the AICPA’s Statements on Auditing Standards.

Croatia: Yes, if they are listed companies or if their revenue is of €4 million (or HRK 30 million) (in which case IASs are used if listed).

Question 20: What standards are used for auditing the financial statements of SMEs?	
Argentina	National audit standards.
Bolivia (Plurinational State of)	The Nagas (Generally Accepted Auditing Standards) issued by the CTNAC.
Colombia	Colombian statutory auditors will be required to apply International Auditing and Assurance Standards (as issued by IFAC), including ISQC1 and the Code of Ethics during 2016. Only larger and medium SMEs will be required to audit their financial information. Smaller SMEs will not need to have their information audited.
Czech Republic	ISA including national application clauses if ISA does not specifically solve the issue and when local law requires something that is not covered by ISA.
Finland	Finnish Auditing Act and ISAs
Guatemala	International Auditing Standards of the IAASB.
India	All standards on auditing are relevant except: SA402, if SME does not use a service organization; SA 501, if SME does not have any inventory; SA 600, if SME audit is not a group audit; SA 610, if SME has no internal audit function.
Ireland	Medium-sized enterprises are required to have the financial statements audited. Please note that in order to avail of audit exemption there are other conditions other than the small company criteria mentioned previously: http://www.cpaireland.ie/UserFiles/File/Technical%20Resources/Availing%20of%20the%20Audit%20Exemption%20Guidance%202012.pdf. The International Standards on Auditing (United Kingdom and Ireland) are the standards applied.
Malta	ISAs as issued by the IAASB.
Nepal	Nepal auditing standards.
Netherlands	Dutch auditing standards, derived from ISA.
Niger	International Auditing Standards.
Nigeria	Nigerian standards on auditing which substantially comply with ISAs.
Norway	International Standards on Auditing.
Pakistan	International Standards on Auditing as applicable in Pakistan.
Paraguay	The International Standards on Auditing and the tax rules of the country are used.
South Africa	International Standards on Auditing.
Spain	There is not a separate set of auditing standards for the audit of SMEs.
Sri Lanka	Sri Lanka auditing standards which are based on ISAs.
Switzerland	Swiss auditing standards (edition 2013, based on International Auditing Standards, edition 2009). ("Schweizer Prüfungsstandards") resp. Swiss Standard on Limited

	Statutory Examination (edition 2008) ("Standard zur Eingeschränkten Revision").
Zambia	International Standards on Auditing.

Twenty-four respondents answered the next question which was:

Question 21: Are there specific challenges you have noted with regards to auditing standards as applied to SMEs?	Yes	No	Total
	12	12	24
	50%	50%	100%

When asked to indicate what those specific challenges were perceived to be, the following responses were made:

Question 22: Please indicate what you perceive those specific challenges to be?	
Argentina	The majority of SMEs are required to present audited financial statements, but they do not use its financial statements as general-purpose financial statements (that is, access to financing). In my opinion that is the first cause for the departure in the practice from accounting standards to tax rules of SMEs.
Colombia	Independence is a great issue. Individual public accountants will have problems of independence, review of quality control and the need of a second partner for qualified opinions.
Finland	Proportionality of ISAs in the audit of SMEs.
Guatemala	Checking the fair value.
India	Improper record maintenance.
Ireland	It can be a challenge for auditors to apply the standards to small entities with limited activities.
Nepal	Financial statements are not properly prepared.
Niger	Quality standards on fair financial information level of identified financial risks for non-banking rural entities.
Nigeria	Conversion challenges.
Norway	There are no adjustments to the auditing standards for the audit of small companies. Many of our members auditing small companies think the regulation should be more proportionate, that simplifications should be developed to allow a more cost effective audit of small companies. Furthermore, we have given the following feedback to IAASB concerning the length of the audit opinion: First of all we feel the need to express clear concern that the current lengthy auditor's report is indeed unhelpful, confusing and even depriving trust for users of SME financial statements. This is the unanimous feedback we get from members, our regulator, tax authorities and owners/investors. The experience we had with the former ISA 700 requirements was better. The division of the report into two parts

	is unfortunate. A lengthy description of responsibilities deprives trust in the auditor's report and is not suited to narrow the expectation gap. The ISAs' provisions on modifications and emphasis of matter, however, seem to work well also for SME audits.
Paraguay	The main challenge is that SMEs cannot be audited with ISAs because of the relevance of the size they have.
South Africa	Often the cost involved is excessive and exceeds the benefits that can be derived from an SME having an audit. Auditors struggle with being able to proportionally apply the ISAs to perform the audit of SMEs in a cost effective and efficient manner while still complying with the requirements of ISAs and performing a quality audit.

Challenges of implementation of international requirements

Only countries/territories that have adopted IFRS for SMEs answered this section.

Question 23: Are you implementing IFRS for SMEs?	Yes	No	Total
	13	4	17
	76%	24%	100%
The United States answer is not included, as although IFRS for SMEs is permitted, there does not seem to be much implementation of IFRS for SMEs by non-public companies in the country at this time.			

Question 24: Please rate the difficulties encountered in implementing IFRS for SMEs according to their significance.						
Challenges:	Not at all important	Slightly important	Moderately important	Very important	Extremely important	Total	Mean
Lack of knowledge of international standards and practices	1	1	0	4	1	7	3.42
Shortage of professional accountants working in this sector	1	0	0	4	2	7	3.86
Shortage of professional auditors working in this sector	1	0	2	3	1	7	3.43
Language barriers	3	1	2	1	0	7	2.14

Totals	6	2	4	11	4	28	

Question 25: Please list any other difficulties you may have encountered in implementing IFRS for SMEs and indicate their importance.	
Colombia	The main problem relates to the change from local (tax) accounting to international standards. There are many differences between Colombian GAAP and IFRS (mainly because some local accounting principles were set to comply with tax legislation).
Ecuador	Adequately assessment and lack of training and up-to-date knowledge, non-existence of CPD. [Inadequate assessment for qualification of professional accountants, lack of training, outdated training materials, absence of regulatory requirement for maintaining continuing professional development.]
Guatemala	Identification of temporary differences for deferred income tax.
Nigeria	• Cost of implementation; • Information technology issues; • People issues.
South Africa	– Lack of knowledge of IFRS for SMEs (very important); – Requirement in IFRS for SMEs to consolidate problematic due to a lack of accounting expertise in SMEs and does not add value to them (very important); – The use of "other comprehensive income" (very important); – PPE residual values and component approach (very important); – Straight lining of leases (very important); – Accounting for extended payment terms (very important).

Question 26: Can you mention some examples of entities (actual names that have prepared their financial statements in accordance with IFRS for SMEs)? (If possible, please send copies of any financial statements prepared according to IFRS for SMEs to the researcher. All names and financial statements will be treated with confidentiality.)			
Town and city councils			
A number of entities were listed by name. Respondents were reluctant to provide financial statements due to confidentiality issues. Only SAICA submitted a set of unnamed financial statements.			
Question 27: Did you encounter any difficulties in the implementation process?	Yes	No	Total
	6	6	12
	50%	50%	100%
Question 28: Please provide reason(s) why you are not implementing IFRS for SMEs.			

Chile	CCCH only dictates the pronouncement. The Institute of Research and Professional Development (Instituto de Investigación y Desarrollo Profesional, INDEP) is the educational arm of CCCH and offers courses, but it does not mean that it is implementing.
Liberia	Effective date is 2015. However, early adoption encouraged and actively promoted.
Netherlands	The DASB sees no benefits in replacing DUTCH GAAP by IFRS for SMEs. IFRS for SMEs seems still too complicated and costly for SMEs and the DASB does not like to become dependent on IASB as standard setter for Dutch GAAP.

Technical challenges

Question 29: Do you support this approach?	Yes	No	Total
	27	1	28
	96%	4%	100%

Question 30: What other improvements to IFRS for SMEs do you expect?	
Democratic Republic of the Congo	To improve the financial information quality of SMEs.
Guatemala	To include the capitalization of interest, which provisions liabilities for termination benefits, acceptable to the revaluation of fixed assets, investment property and intangible assets.
Italy	Before understand real and different asset between PMI in European country, so improve some IFRS for SMEs due to dimension of PMI.
South Africa	IFRS for SMEs should be adapted for microenterprises.
United States	Although the United States supported the approach of IASB, the following point was made: Adoption in the United States by non-public companies could be facilitated by addressing certain technical aspects of the IFRS for SMEs that are problematic for United States companies like: • Allowing the use of LIFO method of inventory valuation if that method is used for tax purposes – i.e., essentially allow if conformity is required by law or regulation; • Clarifying the interpretation on whether a parent can issue parent-only financial statements and claim compliance with IFRS for SMEs.

The IASB is conducting a comprehensive review of the IFRS for SMEs to consider whether there is a need for any amendments to the standard. When IASB issued the IFRS for SMEs in July 2009, it said that it would undertake an initial comprehensive review of the Standard to enable IASB to assess the first two years' experience in implementing the Standard and consider whether there is a need for any amendments. Companies have been using the IFRS for SMEs in 2010 and 2011. Therefore, the initial comprehensive review commenced in 2012. The IASB also said that, after the initial review, it expected to consider amendments to the IFRS for SMEs approximately once every three years. SMEIG is providing recommendations to IASB throughout the comprehensive review of the IFRS for SMEs, including recommendations about possible amendments. Specifically, SMEIG and IASB will consider whether to amend the IFRS for SMEs:

- To incorporate issues that were addressed in the Q&As;
- For new and amended IFRSs issued since the IFRS for SMEs was published;
- To reflect any other issues, e.g. implementation issues identified by constituents, that may necessitate a change in the standard.

Respondents who had not adopted IFRS for SMEs and were not planning to adopt IFRS for SMEs were asked which accounting framework they are using.

Question 31: What is the name of the institution in charge of implementing the national standards for SMEs and indicate its characteristics (i.e. legal authority, funding, membership, whether or not self-regulatory etc.)?	
Belgium	Federal Government through Royal Decree.
Czech Republic	Ministry of Finance.
Democratic Republic of the Congo	CPCC: Conseil Permanent de la Comptabilité au Congo (accounting advisory service of the DRC Government).
Finland	Ministry of Employment and the Economy and the national parliament; also the Accounting Board (operating under the Ministry) gives instruments and opinions on the application of the Accounting Act.
Guatemala	Association of Accountants and Auditors in Guatemala (Colegio de Contadores Públicos y Auditores de Guatemala) and the Guatemalan Institute of Accountants and Auditors (Instituto Guatemalteco de Contadores Públicos y Auditores).
India	National Advisory Committee on Accounting Standards & Institute of Chartered Accountants of India.
Lithuania	Authority of Audit and Accounting is partially in charge of implementing national accounting standards. It has to provide explanations on application of standards. The Authority is a budgetary institution subordinated to the Ministry of Finance, 100 per cent financed from the state budget. The Accounting Standard Committee, a collegial advisory body is in the authority in order to advise on setting business accounting standards.
Malta	The Accountancy Board.
Norway	The Norwegian Accounting Standards Board.
Republic of Korea	The Ministry of Justice will be in charge of implementing the accounting standards for SMEs since new accounting standards for SMEs are to be effective in 2014.
Romania	The Ministry of Finance has established a Council of Accounting and Financial Reporting to advise the Ministry on the development of Romanian accounting standards. CECCAR is a member of the Council. Other members of the Council include representatives of government agencies and ministries, several other professional bodies and academics. CECCAR is also responsible for the translation of IFRSs and IFRS for SMEs into Romanian.
Russian Federation	Ministry of Finance of the Russian Federation, the central government agency fully financed by the state federal budget.
United Kingdom	Financial Reporting Council.

Question 32: Is there an institution in charge of supervising	7	8	15

the implementation of IFRS for SMEs?			
	47%	53%	100%

Question 33: What is the name of the institution in charge of supervising the implementation of IFRS for SMEs and indicate its characteristics (i.e. legal authority, funding, membership, whether self-regulatory etc.)?

Question 34: Please provide a short explanation as to how the institution verifies that the standards are adequately applied.

Country	**Question 33:** **Name of institution and indicate its characteristics**	**Question 34:** **Explanation as to how the institution verifies that the standards are adequately applied**
Colombia	Superintendence of Companies	Financial statements prepared by SMEs are sent to the Superintendence of Companies. In the near future, such financial statements will be sent using XBRL.
Ecuador	Superintendence of Companies, the legal authority	Through inspections in site, external audits when possible, analysis of the statements submitted by the entities.
Guatemala	The Regulator of Banks, loans granted by banks over $650,000	In reviewing the records of the bank's customers, to borrow over $650,000.
Ireland	There are nine Prescribed Accounting Bodies (PAB) in Ireland. Each body supervises its members.	Onsite inspections of regulated firms audit of compliance with CPE requirements. Complaints procedure in place.
Nigeria	Financial Reporting Council of Nigeria established by Act of Parliament No.6 of 2013 and funded by the Government. Has stakeholders (ANAN and the Institute of Chartered Accountants of Nigeria) and Government as members. It is self-regulatory.	Firms are required to submit financial statements to the Financial Reporting Council which subsequently verifies their compliance with standards. (Implementation yet to commence.)
Samoa	Samoa Institute of Accountants	The onus is on practitioners and clients. The adoption is also based upon consent of client.
Uruguay	National Internal Audit (Auditoria interna de la nación) – legal and public office	They receive all the financial statements for registration and control.

Question 35: In your opinion, what are the main areas in financial reporting for SMEs and microenterprises that require further development in your country? Please rate the main areas according to their importance (where not at all important = 1 and extremely important = 5). (Note all responses are included here as this is an "opinion" question.)							
	Not at all important	Slightly important	Moderately important	Very important	Extremely important	Total	Mean
More oversight by regulators is needed	15	5	10	10	7	47	2.77
More training is required on IFRS for SMEs	5	6	8	14	14	47	3.55
More professional accountants are needed in this sector	13	4	7	13	10	47	3.06
A legal framework for microenterprise reporting is required	10	3	12	14	8	47	3.15
Totals	43	18	37	51	39	188	-

Question 36: Please list any other areas in financial reporting for SMEs and microenterprises that require further development in your country and indicate their importance.	
Argentina	Financial system authority should require banks to demand IFRS for SMEs financial statements for those SMEs and microentities that want to apply for credit.
Bolivia (Plurinational State of)	Training of regulators [in] Bolivia and information to owners, managers, administrators, etc., about the advantages of carrying out the framework of IFRS in their companies and enterprises.
Chile	SMEs do not have any obligation to publish their financial report nor use IFRS, because they are focused in preparing results to prepare the annual tax return. As everything in life, medium size entities must meet with the requirement of law for governance of corporations.
Colombia	Colombian Government recently issued the applicable standards for microenterprises, effective 31 December 2015 and it is too early to identify key issues.
Czech Republic	Clear definitions should be set out and then adoption of the law that corresponds to these definitions in practical terms.
Democratic Republic of the Congo	The Democratic Republic of the Congo GAAP of assurance area The Democratic Republic of the Congo GAAP of social area

	The Democratic Republic of the Congo GAAP of mining area
Ecuador	Assessment for an adequate implementing of the standards.
Finland	Reduction of administrative burden (reporting same information to different authorities); electronic reporting.
Guatemala	Financial instruments.
India	Reporting requirements need to be incorporated under the legal framework so that a set of properly prepared financial statements could be made available for users.
Italy	Tax planning and small financial planning.
Nepal	For SMEs, minimum disclosures should be recommended to make it cost effective.
Netherlands	The use of IFRS for SMEs should be promoted more, but the European Union directives do not adopt IFRS for SMEs, neither in the form of an option for companies or European Union member States.
New Zealand	Clarification of special purpose requirements of tax authority.
Niger	Non-banking rural financial entities and rural cooperatives for [their] significant economic and social impacts.
Nigeria	The enabling statute must be reviewed to remove areas of inconsistencies between the Act and the provisions of the Financial Reporting Council enabling legislation and tax laws. Timely information to stakeholders.
Norway	Based on the regulation for microenterprises in the new accounting directive, we expect the Norwegian authorities to look into simplifications for microenterprises in the Accounting Act, either by making simplifications directly in the Accounting Act or developing a separate Accounting Act for Microenterprises.
Norway	Simplifications as far as possible for micros.
Pakistan	SMEs that are NGOs.
Paraguay	Create the need for the application of the financial reporting standards for micro, small and medium-sized enterprises – very important.
Republic of Korea	Improving clarity of standards is also important.
Romania	Simplification of disclosure requirements - very important.
Russian Federation	Stability of accounting and financial reporting regime is needed.
Samoa	The revaluation of land as raised by Samoa to be accepted under IFRS for SMEs given the dynamics of business in Samoa. As mentioned earlier, about 89 per cent of businesses are SMEs and with their equity, it relies heavily on

	ARR from other comprehensive income when due for further financing and capital injection.
South Africa	We need guidance templates for the following entities: sole traders (VI); trusts (VI); partnerships (VI); other microcompanies (VI) VI = very important.
Sri Lanka	Industry specific guidelines will be important – moderately important.
Switzerland	No further development is required.
United Kingdom	This is all due to change soon with the introduction of an optional highly simplified framework for micros allowed under European Union law since 2012.
Uruguay	No more indications.

Specific challenges for microenterprises

Question 37: How does your country define microenterprises?	
Belgium	Application of the ISAs as adopted by IAASB on 15 December 2008, as follows: – For the audit of public interest entities from December, 15, 2012 on; - For the audit of all other entities from December, 15, 2014 on. The condition for application of an ISA is its translation in Dutch and French. [Checked: correct as per answers]
Bolivia (Plurinational State of)	There is no standard for defining microenterprises.
Chile	Equal or below UF2,400 or $110,000 approximately.
Colombia	Formal entities with less than 20 employees.
Croatia	In the actual Accounting Act, we do not have a definition for microenterprises. But according to the new European Union Accounting Directive we have to implement changes in our regulation.
Czech Republic	Not as European Union definition but there are specific small entities/individuals that do not need to maintain double-entry bookkeeping but make single entry bookkeeping called “tax evidence”.
Democratic Republic of the Congo	When the turnover does not exceed FCFA 100,000 ($180,000)
Ecuador	Less than $100001 in assets and less than $100001 in sales and less than 10 employees.
Fiji	Those who do not meet the definition under the IFRS for SMEs standard.

Finland	No official definition.
Guatemala	Sales less than $20,000.
India	(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below: (i) A microenterprise is an enterprise where investment in plant and machinery does not exceed Rs 2.5 million; (ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs 2.5 million but does not exceed Rs 50 million; and (iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs 50 million but does not exceed Rs 100 million. In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries [via] its notification No.S.O.1722(E) dated 5 October 2006 (annex I). (b) Enterprises engaged in providing or rendering services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered) or as may be notified under the Micro, Small and Medium Enterprises Development Act, 2006, are specified as follows: a microenterprise is an enterprise where the investment in equipment does not exceed Rs. 1 million; a small enterprise is an enterprise where the investment in equipment is more than Rs 1 million but does not exceed Rs 20 million; and a medium enterprise is an enterprise where the investment in equipment is more than Rs 20 million but does not exceed Rs 50 million.
Ireland	< 10 employees.
Italy	Enterprises from one to five up to 15.
Liberia	Not officially defined.
Lithuania	Profit seeking entities with unlimited liability and special category of limited liability entities independent of indicators of their activity are defined as microentities.
Malta	We do not have a definition of microentities but of small entities, which definition is contained in our Companies Act.
Nepal	Based on fixed investment.
Netherlands	In conformity with European Union legislation, as soon as implemented in the Netherlands, turnover less than €700,000, total assets less than €300,000 and less than 10 employees.
New Zealand	The country does not define a microenterprise.
Niger	Revenue and net sales under $20,000 and under 5 employees.
Nigeria	Enterprises operated by financially deprived entrepreneurs with limited or no capacity for credits. 1. By asset: less than ₦1.5 million. 2. By employees: less than 10. As defined for SME by the Central Bank of Nigeria.

Norway	Not defined in accounting law so far. Will be introduced by implementing the new European Union Accounting Directive. For the exemption from the audit requirements microenterprises is defined as follows: 1. sales revenue does not exceed NKr 5 million; 2. balance sheet total does not exceed NKr 20 million or; 3. average number of employees during the financial year does not exceed 10 man-labour years.
Pakistan	Companies other than listed, medium-sized, small-sized or economically significant. There is no formal definition of microenterprises.
Papua New Guinea	Sole traders to small business enterprises.
Paraguay	Microenterprises are engaged in artisanal, industrial, agricultural, commercial, business services and other activities. They should not exceed 10 employees and a volume of sales of approx. $112,000.
Republic of Korea	We don't define microenterprises differently from SMEs.
Romania	Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million. For tax purposes a microenterprise is a Romanian legal entity which meets as at 31 December of previous year all of the following conditions: obtains revenue from sources other than those mentioned below; employs 1 to 9 employees inclusive; has annual revenue which does not exceed the amount in [new leu] RON of €100,000; has its share capital held by persons other than the State or local authorities. No specific definition for financial reporting purposes.
Russia Federation	Number of employees < 15. Annual revenue < Rub 60 million.
Samoa	Sole trader or proprietor.
Slovenia	Average number of employees less than 10; net income less than €2 million; in total assets less [than] €2 million.
Spain	The enterprises and individuals that opted to apply the National General Chart of Accounts may apply specific criteria for microenterprises if they meet at least two of the following conditions at the close of two consecutive financial years: • Net turnover not exceeding €2 million; • Balance sheet total not exceeding €1 million; • Average employees during the year not exceeding 10.

Sri Lanka	Microfinance sector is defined as microfinance refers to small scale financial services for both credits and deposits that are provided to people who perform agricultural activities; operate small and medium enterprises in developing countries/territories, in both rural and urban areas. Microfinance enterprises are defined as: small scale financial services for both credits and deposits that are provided to people who perform agricultural activities, operate small and medium enterprises in developing countries/territories, in both rural and urban areas.
Switzerland	There is no legal provision for the definition of microenterprises existing in Switzerland. A number which is used in different statistics is enterprises that employ on average less than 10 full-time [employees] per year.
United Kingdom	There is no definition for accounting at present but new European Union definition will be adopted shortly (no more than €700,000 net turnover is a key criterion).
United States	There is no standard definition of microenterprises.
Uruguay	See pronunciamiento 18 CCEAU.
Zambia	Entities with turnover of less than K20 million.

Question 38: Are there specific institutions in charge of setting standards and carrying out oversight functions for microenterprises?

	Yes	No	Total
	12	31	43
	28%	72%	100%

Question 39: Please list the institutions and briefly describe their mandate.

Colombia	Colombian Regulator, comprised [of] the Finance Minister and [the] Trade, Industry and Tourism Minister (jointly signing the decrees to be applied to any company in Colombia).
Democratic Republic of the Congo	OPEC (Office de Petities Entreprises du Congo).
Ecuador	Superintendence of Companies, the legal authority.
India	SME chamber of India, Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Companies Sectretaries of India and government bodies.
Ireland	As for small and medium enterprises. There is a separate reporting framework (optional) for small enterprises called the Financial Reporting Standard for Smaller Entities. This can be applied to microenterprises.
Lithuania	The Authority of Audit and Accounting is partially in charge of implementing national accounting standards. It has to provide explanations on application of NAS. The Authority is budgetary institution subordinated to the Ministry of Finance, 100 per cent financed from the State budget. The Accounting Standard Committee, a

	collegial advisory body, is composed in the authority in order to advise on setting business accounting standards.
Nepal	Accounting Standard Board.
Nigeria	Financial Reporting Council of Nigeria and Medium Enterprise Development Agency of Nigeria.
Papua New Guinea	If they register as companies, then they comply with the Companies Act. IPA is the custodian of this Act.
Romania	Ministry of Finance.
Spain	The Institute of Accounting and Audit (ICAC).
Zambia	Zambian Institute of Chartered Accountants (ZICA).

Question 40: Does your country have a separate microenterprise reporting framework?	Yes	No	Total
	7	33	40
	17.5%	82.5%	100%

Question 41: Briefly explain what reporting framework is used for microenterprises?	
Colombia	The Colombian standards for microenterprises are based on the guidelines issued by UNCTAD for that type of enterprises.
Czech Republic	Single entry bookkeeping (cash accounting), i.e., taxable cash receipts less taxable cash payments (with some disclosures of temporary items); duty is to maintain receivables ledger, payables ledger.
Democratic Republic of the Congo	Democratic Republic of the Congo GAAP especially to simplify reporting and [provide] minima reporting.
Guatemala	A cash basis.
Ireland	The standard is called the Financial Reporting Standard for Smaller Entities. The measurement requirements in this standard are the same as those in ‘full’ Irish/United Kingdom GAAP but many of the disclosure and presentation requirements of ‘full’ Irish/United Kingdom GAAP have not been included.
Lithuania	Shortened financial statements and explanatory notes, simplified requirements for recognition of assets and liabilities. Preparation of financial statements is not mandatory for microentities with unlimited liability.
Paraguay	There is the Law 4457/2012 for Microenterprises and SMEs and its Resolution 11.453/2013.
Zambia	Zambian Financial Reporting Standard for Micro and Small Entities.

	Yes	No	Total
Question 42: Are microenterprises considered to be part of SMEs?	29 72.5%	11 27.5%	40 100%
Question 43: Are you aware of the existence of the Accounting and Financial Reporting Guideline (SMEGA – level 3) developed by UNCTAD?	23 57.5%	17 42.5%	40 100%
Of the 23 respondents who were aware of SMEGA level 3, replies from 22 respondents were given to the following question: **Question 44: Is this guidance (SMEGA – Level 3) applied or used in your country?** (The "yes" answers are from Colombia, the Democratic Republic of the Congo, Nigeria and Paraguay.)	4 18%	18 82%	22 100%
Question 45: The IFRS Foundation has issued a guide on applying IFRS for SMEs for microentities [*A Guide for Micro-sized Entities Applying the IFRS for SMEs*] designed to help microentities apply the IFRS for SMEs by extracting from the IFRS for SMEs only those requirements that are clearly necessary for most microentities, without modifying any of the principles for recognizing and measuring assets, liabilities and expenses. Only the main principles relating to this requirements are included. The guidance for micros is a 'subset' of the IFRS for SMEs. It is not a separate standard. The guidance contains cross-references to the IFRS for SMEs for matters not dealt with in the guidance booklet. Subsequently, having applied the guidance, an entity's notes to the financial statements and auditor's report could refer to conformity with the IFRS for SMEs because there is no modification. **Do you agree with this approach?**	38 93%	3 7%	41 100%

Conclusions

Question 46: Please share with us any lessons learned or good practices that you have encountered in financial reporting for SMEs and/or microenterprises.	
Argentina	SMEs and microentities have not a clear knowledge about the difference between GPFS and other kind of reporting based on the accounting system (i.e. tax purpose FS). And the legal authorities do not have it too. Adoption of standards should be based on user needs, instead standards are based on capabilities of the entities.

Bolivia (Plurinational State of)	Mainly the essence on how to carry out accounting. Accounting respecting the decision-making process and not just for tax purposes.
Chile	After closing of this calendar year, we will see the adherence to CCCH.
Colombia	Lack of knowledge by preparers. Smaller SMEs and microenterprises don't need audited financial statements.
Ecuador	Transparency.
Italy	Speak with administration office and chief executive officer (CEO).
Lithuania	SMEs and microenterprises use the same framework of preparing financial statements based on IFRS/IAS.
New Zealand	Compliance costs outweigh benefits for SMEs. Better to move to a Special Purpose Framework for this without public accountability, economic significance and separation (managers/owners). Tax authority is largest consumer of financial information, important that their requirements are understood and are clear. Banks and other providers of funds to engage with PAO to try and provide a robust and consistent Special Purpose Financial Reporting Framework.
Nepal	Huge capacity gap in preparation of financial statements as per standards.
Netherlands	Small entities and micros are allowed to use tax accounting for their financial statements in the Netherlands.
Niger	We need to develop a common understandable and clear Financial and procedures approach to build Financial reporting.
Nigeria	There is a serious knowledge gap. Training is very essential.
Paraguay	Section 7 is extremely important for determining a very important factors corresponding to the use of money for decision making.
Republic of Korea	Cooperation between relevant parties and governmental authorities is a key to developing standards and guidelines.
Romania	Poor perception of the usefulness of financial statements. Main user is perceived as being the tax authority. Importance of transparency and clarity of disclosure – SMEs giving importance to voluntary disclosure – adaptation of disclosure to users' needs.
Samoa	Simple and less requirements.
South Africa	Continuous education and workshops on implementation issues is vital.
Sri Lanka	In Sri Lanka the SMEs applied this Standard from 1 Jan 2012. Therefore awareness building was a major concern. Capacity-building is important.

Switzerland	The Swiss Code of Obligations (SCO) is liberal regarding the regulation of accounting. The SCO supports primarily a principle-based approach and regulates only significant matters in detail giving room for own interpretation. This practicable approach has a long tradition in Switzerland and ensures clear and accurate financial reporting generating reasonable costs. Furthermore, if there is an effective internal control system for the financial reporting in place the reporting processes are structured and the number of errors in the financial statements can be reduced significantly.
United Kingdom	A concern is that oversimplification may damage SME prospects for finance raising. Where automation is normal, as in the United Kingdom, cost savings of accounting deregulation is far less.
Question 47: Are there any recommendations with regards to financial reporting for SMEs and/or microenterprises that you would like to make?	
Argentina	Enhancing the difference between GPFS and other kind of accounting reports, for a good understanding of the meaning and objective of a financial standard for SMEs (that is useful for the microentities too).
Bolivia (Plurinational State of)	Only mass information campaigns to owners, managers, and others, administrators responsible for managing companies, regarding the benefits of using international standards when issuing its financial statements and financial reports.
Chile	Without a governmental obligation, the degree of adherence will be too slow.
Colombia	As mentioned before, it's too early to make recommendations, since the international standards are yet to be implemented during the next two years.
Czech Republic	Reduction of administration, for example, less information needed in the notes to FS. More strict formats of balance sheet, income statement for all entities (ensuring comparability) with less "judgmental" lines to B/S and I/S. Basis: historical cost at balance sheet, in the notes there could be indication of fair value. In general: more comparability, easy to prepare, no fair value model.
Ecuador	The adoption of standards to the local reality, especially in very small businesses … do not reflect an appropriate cost benefit.
India	Reporting should be extended to clutches of legal framework so as to have a proper reporting set.
Nepal	Required to make minimum disclosure requirement.
New Zealand	Focus SMEs and micros on financial management, not financial reporting. Access to accounting systems and solutions is the key. The marginal cost of information is low when [there is] access to good software. Software providers increasingly able to standardize information.
Niger	We need to develop a common understandable and clear financial and procedures approach to build financial reporting.
Nigeria	Audit exemption should be encouraged.

Paraguay	The use of the revaluation method for property, plant and equipment, should be allowed because it is very important to recover the assets' value considering their fair value.
Republic of Korea	Since our new financial reporting standards for SMEs is to be effective in 2014, we would like to share with you any developments or recommendations later.
Romania	We consider [it] necessary to have separate regulations for SME's and for microentities. Currently in Romania, accounting regulation is unique and in line with European directives. Currently in Romania, there is a simplified accounting system for entities that do not exceed €35,000 for total asset and turnover. This system is not applied because its impact is limited to simplification of disclosure requirements without affecting recognition and measurement.
Samoa	The revaluation of assets needs to be part of the regular requirements of the standard – rather than on exceptional cirucumstances.
Sri Lanka	The requirement to expense borrowing costs and not being able to capitalize that cost is a drawback. SMEs not being able to revalue their PPE is a drawback. Having a separate guideline is important. [The] guide on applying IFRS for SMEs for microentities will be useful.
Switzerland	We recommend also for smaller companies to consider the application of internal controls in the financial process according to their size and complexity.
United Kingdom	Recognize that reliable financial information is important to small businesses. Hence, for example, maintain accruals accounting regime.
Zambia	Need to educate our accountants on the importance of these standards.

Question 48: Is there any other information you would like to share with UNCTAD with regards to financial reporting for SMEs and microenterprises that you would like to make?

Chile	Please read my report on human capital for Chile.
Czech Republic	IFRS for SMEs is a good starting point for debate about accounting of SMEs but for microentities still too complicated. These entities need clear and easy rules.
Ecuador	The need on support for an extensive training for regulator and entities is a very important issue.
Niger	We need to develop a common understandable and clear financial and procedures approaches to build financial reporting.
Pakistan	The Institute's Council has adopted the IFRS for SMEs and has recommended the same for notification to the Securities and Exchange Commission of Pakistan.
Republic of Korea	Provide more support on capacity-building in implementation of IFRS/SME in the underdeveloped and developing economies. Since our new financial reporting standards for SMEs is to be effective in 2014, we

	would like to share with you any developments or recommendations later.
Romania	New European Accounting Directive was issued and will be implemented in Romania, which will affect the financial reporting requirements for SMEs and microenterprises. Simplifications are expected.
Samoa	Maybe a refresher course on SMEs with new developments.
United States	We believe that the following changes/adjustments to IFRS for SMEs could increase uptake among non-public companies in the United States: • Allowing the use of [the] LIFO method of inventory if that method is used for tax purposes – i.e., essentially allow if conformity is required by law or regulation; • Clarifying the interpretation on whether a parent can issue parent only financial statements and claim compliance with IFRS for SMEs.

Appendix B. List of organizations that participated in the survey

Country	Organization	Website
Argentina	Gajst & Asoc. Comité Emisor de Normas de Contabilidad y Auditoria de la Federación Argentina de Consejos Profesionales de Ciencias Económicas	www.estudiogajst.com.ar http://www.facpce.org.ar/web2011/
Belgium	Institute of Registered Auditors (Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren)	www.ibr-ire.be
Bolivia (Plurinational State of)	Colegio de Auditores de Oruro	www.facebook.com/luizzuniga
Chile	Independent	www.contach.cl
Colombia	Instituto Nacional de Contadores Publicos	www.incp.org.co
Croatia	Croatian Audit Chamber	www.revizorska-komora.hr
Czech Republic	Rödl & Partner Audit s.r.o.	www.roedl.com
Democratic Republic of the Congo	Congo Institute of Certified Accountants/Institut de Reviseurs Comptables	www.irc.rdc.org
Ecuador	Superintendencia de Compañías	www.supercias.gob.ec
Fiji	Fiji Institute of Accountants	www.fia.org.fj
Finland	HT-yhdistys – Föreningen CGR ry (Finnish Institute of Authorized Public Accountants)	www.kht.fi
Guatemala	Colegio de Contadores Públicos y Auditores de Guatemala y Del Instituto Guatemalteco de Contadores Públicos y Auditores	www.cpa.org.gt, www.igcpa.org.gt
India	Amit Kumar & Company	www.akcadvisors.in
Ireland	The Institute of Certified Public Accountants in Ireland	www.cpaireland.ie
Italy	Single auditor	www.cndec.it
Liberia	Liberian Institute of Certified Public Accountants	licpa.org
Lithuania	Ministry of Finance of the Republic of Lithuania	www.finmin.lt

Malta	Malta Institute of Accountants	www.miamalta.org
Nepal	N Bhattarai & Co., Chartered Accountants	ican.org.com.np
Netherlands	The Netherlands Institute of Chartered Accountants	www.nba.nl
New Zealand	New Zealand Institute of Chartered Accountants	www.nzica.com
Niger	ONECCA Niger, Ordre des Experts comptables	no
Nigeria	The Institute of Chartered Accountants of Nigeria Association of National Accountants of Nigeria	www.ican-ngr.org www.anan.org.ng
Norway	The Norwegian Institute of Public Accountants	www.revisorforeningen.no
Pakistan	Institute of Chartered Accountants of Pakistan	www.icap.org.pk
Papua New Guinea	Certified Practising Accountants Papua New Guinea	www.cpapng.org.pg
Paraguay	GC Gestion Comercial/Consultora	www.gc.com.py; www.consultora.com
Peru	REDContable.com	www.REDContable.com
Portugal	Ordem dos Revisores Oficiais de Contas	www.oroc.pt
Republic of Korea	Korean Institute of Certified Public Accountants	www.kicpa.org
Romania	Body of Expert and Licensed Accountants of Romania	www.ceccar.ro
Russian Federation	Ministry of Finance of the Russian Federation	www.minfin.ru
Samoa	SU'A ma PAUGA & Associates	www.sua-associates.com
Slovenia	The Slovenian Institute of Auditors	www.si-revizija.si
South Africa	SAICA	www.saica.co.za
Spain	Instituto de Censores Jurados de Cuentas de España	www.icjce.es
Sri Lanka	The Institute of Chartered Accountants of Sri Lanka	www.casrilanka.com
Switzerland	Swiss Institute of Certified Accountants and Tax Experts (Treuhand-Kammer)/State Secretariat for Economic Affairs	www.treuhand-kammer.ch; www.seco.admin.ch

United Kingdom	Institute of Chartered Accountants in England and Wales	www.icaew.com
United States	American Institute of Certified Public Accountants	www.aicpa.org
Uruguay	Colegio Contadores Economistas y Administardores del Uruguay	www.ccea.com.y
Zambia	Zambia Institute of Chartered Accountants	zica.co.zm

Appendix C. How to calculate the public interest score – South Africa

Regulation 26 to the Companies Act 2008 requires every company to calculate a PI score at the end of each financial year. The PI score is the sum of the following:

- A number of points equal to the average number of employees of the company during the financial year
- One point for every R 1 million (or portion thereof) in their party liability of the company, at the financial year end
- One point for every R 1 million (or portion thereof) in turnover during the financial year
- One point for every individual who, at the end of the financial year, is known by the company:

  (a) In the case of a profit company, to directly or indirectly have a beneficial interest in any of the company's issued securities

  (b) In the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company

An example of a calculation of the PI score is below:

	Points
Average number of employees during the financial year (1 point for each employee)	300
For every R1 million of third party debt or part thereof at financial year end (= 1 point) (thus on R 30 million of third party debt, the number of points is 30)	30
For every R 1 million of turnover or part thereof during the financial year (= 1 point) (thus on turnover/revenue of R 400 million, the number of points is 400)	400
If a profit company, then for every security holder at the end of the financial year end (= 1 point) (thus if there were 100 security holders at the end of the financial year, the number of points is 100)	100
(Or, if a non-profit company, then for every member of the company or member of an association that is a member of the company at the financial year end (= 1 point)	
Total points	**830**

Regardless of the PI score, if the company is listed on the Johannesburg Stock Exchange, it is required to apply IFRSs. If the company is a for-profit company, then the company has a choice between using IFRSs or IFRS for SMEs. It can only use IFRS for SMEs if it meets the scoping requirements in IFRS for SMEs. Each company is required to calculate a PI score annually. The PI score is also important in deciding whether a company must be audited or independently reviewed; who may perform the independent review, and whether a company must appoint a social and ethics committee.

Appendix D. Literature review

A review of available literature on accounting for SMEs conducted in the context of this study supports the conclusions of this report by showing that there are differences in how countries/territories perceive the benefits and obstacles to the adoption of IFRS for SMEs. This can be considered in light of the finding in this study that shows that jurisdictions already have national frameworks in place and do not intend to adopt IFRS for SMEs. With regards to access to finance, the literature review shows that there is some evidence that access to finance is facilitated by better quality financial statements, but the studies examined did not focus on IFRS for SMEs as the reporting framework under consideration. Finally, with regards to microenterprise accounting and reporting, studies indicate that there is a need for a more simplified framework.

1. Introduction

Much has been written on the need for differential reporting. This literature review considers some of the main papers in this area. However, it should not be considered exhaustive as not all papers have been accessed nor have papers written in other languages been consulted. To try and give some logical sequence to this review, the theoretical justification for differential reporting is examined first, as much of the literature uses the theoretical justification as a basis for the empirical research. This literature review also, as far as possible, deals with the topics in the same order as the report Accounting and the reporting needs of small and medium-sized enterprises (including microenterprises) (UNCTAD).

2. Theoretical justification

The theoretical justification for differential reporting lies in the consideration of users' needs and the cost/benefit constraint. In 2004, IASB indicated in its preliminary review that while the objectives of general-purpose financial statements are the same for all entities, the types and needs of users of SME financial statements may be different from those of users of financial statements of larger entities (IASB, 2004, p.15). Users of financial statements of SMEs may have less interest in some information in general-purpose financial statements than users of financial statements of entities whose securities are listed or that otherwise have public accountability (IASB, 2004, p.14). IFRS for SMEs is for use by SMEs which are defined as entities that do not have public accountability and publish general-purpose financial statements for external users.

The IASB's position on the cost/benefit trade-off is that it should be assessed in relation to the nature, number and information needs of the users of an entity's financial statements. Financial reporting standards for SMEs should, therefore, provide high quality understandable and enforceable accounting standards suitable for SMEs globally and that meet the needs of users of SME financial statements. The objective of IASB is, therefore, to reduce the financial reporting burden on SMEs that want to use global standards and also enable financial statement preparers to meet the needs of SME financial statement users.

3. Literature prior to the issue of IFRS for SMEs

Prior to the start of IASB's deliberations and the issue of IFRS for SMEs, a number of studies had been undertaken on this topic. These studies are shown in table 5.

Table 5. Studies prior to the issue of IFRS for SMEs		
Study	***Target group***	***Objectives/conclusions***
Mosso D (1983). Standard overload. No simple solution. *The CPA Journal*, October:12–22.	CPA firms, small entities and creditors of small entities in the United States	Bankers were of the opinion that users' needs are the same for small and large entities CPAs held the opposite opinion
Carsberg BV, Page MJ, Sindall AJ and Waring ID (1985). *Small company financial reporting*. The Institute of Chartered Accountants in England and Wales. London.	Directors of SMEs and partners in accounting firms in the United Kingdom	There was little evidence to suggest that GAAP places a high burden on SMEs
Holmes S, Kent P and Downey G (1991). The Australian differential reporting debate: A survey of practitioners. *Accounting and Business Research*. 21(82):125–132.	Australian practising accountants	Their results found support for differential reporting on the basis of both size and legal structure
Barker P and Noonan C (1996). Small company compliance with accounting standards: Irish situation. Available at www.dcu.ie/dcubs/research_papers/no10.html#contents.	Accounting practitioners in Ireland	Respondents were of the opinion that full GAAP places a great burden on SMEs and 43 per cent of the respondents agreed that all standards should apply to all companies provided they are applicable and if the issue is material
Cleminson J and Rabin E (2002). The reporting problems faced by small business entities in South Africa. Paper presented at the Southern African Accounting Association conference. Port Elizabeth.	Eight accounting firms made up of small practitioners	The study identified (a) costs of compliance with SA GAAP and (b) the inability of financial statements to meet users' needs as the most significant financial reporting problems
Joshi PL and Ramadhan S (2002). The adoption of international accounting standards by small and closely held companies in Bahrain. *International Journal of Accounting*. 37:429–440.	Professional accountants working in small and closely held entities in Bahrain	Relevance of the suitability of IFRS to small and closely held entities in Bahrain. They concluded that IFRS were not costly to adopt by SMEs and that these standards help to achieve the objectives and improve the effectiveness of financial reporting
Wells M (2005). A survey of South African registered accountants' and auditors' attitudes towards differential corporate reporting. Unpublished MAcc dissertation. University of KwaZulu-Natal. Durban, South Africa.	Practising accountants and auditors	Differential reporting should be introduced in South Africa. Study showed support for multiple differential thresholds each with its own requirements

AICPA (2005). Private Company Financial Reporting Task Force. Available at http://www.aicpa.org/members/div/acctstd/pvtco_fincl_reprt/index.	1,008 participants, including 300 external users (lenders, non-managing equity investors and sureties) in the United States	United States GAAP does not adequately meet the different needs of unlisted entities' constituencies including external users
Sinnett WM and de Mesa Graziano C (2006). *What do users of private companies financial statements want?* Research Series Private Companies. Financial Executives Research Foundation, New Jersey. Available at http://www.pcfr.org/downloas/05_07_Meet_Materials/FERF_Private_Co_User_Survey.pdf.	Interviewed/surveyed seven preparers of financial statements from unlisted entities, nine commercial bankers and two small, boutique investment bankers in the United States	Key findings are that commercial and investment bankers and equity investors want audited annual United States GAAP financial statements, and in fact want more information from unlisted entities than is provided under United States GAAP
Maingot M and Zeghal D (2006). Financial reporting of small business entities in Canada. *Journal of Small Business Management.* 44(4):513–530.	A sample of managers and owners of small business enterprises, preparers, auditors, and users of small business accounts in Canada	Stakeholders indicated that financial statements of small business enterprises are prepared mainly for tax purposes and borrowing; that present standards are complex and costly to comply with; and that the present standards should be simplified

As users' needs are used as one of the theoretical justifications for differential reporting, studies on differential reporting should include users in their target groups. Table 5 shows that four studies (Mosso, 1983; AICPA, 2005; Sinnett and de Meza Graziano, 2006; and Maingot and Zeghal, 2006) consulted external users of SMEs' financial statements. However, with regards to the information needs of the external users of the financial statements of SMEs, the conclusions are mixed. For example, Mosso found that, in the United States, while users were of the opinion that users' needs are the same for small and large entities, certified public accountants held the opposite opinion. AICPA concluded that United States GAAP does not adequately meet the different needs of unlisted entities' constituencies including external users, while the respondents in the Sinnett and de Meza Graziano study indicated that they want more information from unlisted entities than is provided under United States GAAP. Carsberg et al. (1985) in the United Kingdom found that there was little evidence to suggest that GAAP places a high burden on SMEs, while Joshi and Ramadhan (2002) in Bahrain concluded that IFRS was not costly to adopt by SMEs and Maingot and Zeghal (2006) found in Canada that compliance with the standards are costly. The two South African studies both supported the introduction of differential reporting requirements.

Although the studies showed conflicting results, the reporting environments in which the research was carried out at that time (as shown in table 5) were different, which may have influenced the findings. For example, at that time in South Africa, all companies were required to prepare their financial statements based on South Africa GAAP, which had been aligned to IFRS for some time, and all companies were required to be audited. This has subsequently changed.

4. Literature on the IASB's due process

(a) The role of the IASB's due process

Ram and Newberry (2013) explore the role of the IASB's due process in developing IFRS for SMEs. They contend that there has been recent debate about the IASB's legitimacy as the international accounting setter with criticism being levelled at features of its standard setting and due process. They argue that the due process followed in the case of the IFRS for SMEs project barely reflected the "will of the people" but was more inclined towards acting as a communicative function for IASB without any commitment to change its stance on the SME standard. In other words, IASB had an already predetermined stance but recognized that some change may be necessary depending on pressure from powerful groups. Ram and Newberry argue that IASB's main aim seemed to be to minimize divergence from full IFRS and that this was secondary to meeting the needs of the users of SMEs' financial statements. They point out that IASB was divided over this project but was under pressure from the World Bank and the European Commission. There was also the possibility that ISAR would produce guidelines for SMEs that could become established. Ram and Newberry argue that there was an element of "turf protection" that influenced IASB to continue with the project.

(b) The IASB consultations with the users of SMEs' financial statements in its due process

A number of research studies have questioned whether IASB adequately consulted with the users of SMEs' financial statements. These are shown in table 6.

Table 6. Studies relating to due process of IASB

Study	***Description of study***	***Observations***
European Accounting Association (EAA) Financial Reporting Standards Committee (FRSC) (2005)	Review of European literature	This committee identified significant gaps in the research literature on SMEs findings and concluded that relatively little is known about the actual views and needs of owner-managers and other users EAA FRSC recommend that IASB should initiate in-depth research to determine to what extent the needs of owner-managers and other users of SME financial statements differ between larger versus the smaller SMEs, and to what extent they may differ internationally
Anacoreta L and Silva PD (2005). International Accounting Standards for SMEs: An exploratory study. Unpublished paper. Available at http://www.porto.ucp.pt/feg/links/papers/IASB_on_SME_Luisa_An	Analysis of the comment letters received by IASB	Authors note that 12 per cent of the commentators request IASB to do detailed research into the common information needs of external users' of SMEs' financial statements

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American Accounting Association Financial Accounting Standards Committee (2006)	Literature review	This literature review led the committee to conclude that the major users of unlisted entities' financial statements do not see a need for differential financial reporting and prefer United States GAAP. They recommend IASB to respond cautiously to requests for GAAP exceptions supported primarily by complexity arguments
EAA FRSC (2008)	Follow up of previous literature review and survey of published literature since the publication of the discussion paper	This committee raised 13 points, which include – the ED does not define users of SMEs nor the uses of SMEs' financial statements; SMEs do not have a dominant user group and the information needs of all stakeholders are not addressed; the relevance to users of the ED's fair value rules are questionable. The committee recommended that the results of field tests carried out in developing economies should be considered before the SME project is completed
Schiebel A (2008). Is there solid empirical evidence for IASB's draft IFRS for SMEs? Paper presented at the thirty-first Annual Congress of the European Accounting Association, Rotterdam, the Netherlands.	Literature review	Schiebel contends that IASB failed to determine the information needs of external users of SMEs' financial statements and the kind of information those external users require from SMEs

EAA FRSC (2005) and Anacoreta and Silva (2005) identify significant gaps in the literature. For example, the EAA FRSC comment that "relatively little is known about the actual views and needs of owner-managers and other users" (EAA FRSC, 2005, p.39). They also note that groups such as academics and practitioners are frequently the drivers of differential reporting. They recommend that IASB initiates "in-depth research to determine to what extent the needs of owner-managers and other users of SME accounts differ between the larger versus the smallest SMEs, and to what extent they differ internationally. It may be the case that the needs of the smallest SMEs are best served by a system developed by national regulators, taking into account their specific economic environment." Anacoreta and Silva note that 12 per cent of the commentators to IASB's comment letters request IASB to do detailed research into the common information needs of external users of SMEs financial statements. In 2008, EAA FRSC also noted that IASB's board structure does not represent SME constituents and this may have to change if it continues to set standards for SMEs. The committee also queried whether the needs and circumstances of developing economies had been taken into account.

Schiebel (2008, p.11) examines the literature on common information needs of external users of SMEs' financial statements and concludes that the research so far has focused on "one group of external users and one region or country at a time", and that "[n]o information is available about the common information needs of various external groups on a national or international level". He argues furthermore that IASB failed to determine the information needs of external users of SME financial statements and the kind of information those external users require from SMEs, and instead has relied on the responses by the accounting regulators, profession and academics when IASB should have focused on the users and preparers of SME financial statements (Schiebel, 2008, p.18).

Contrary to the above viewpoint, the the American Accounting Association Financial Accounting Standards Committee (2006) concludes that major users of unlisted entities' financial statements do not see a need for differential reporting and they recommend that IASB responds cautiously to requests for GAAP exceptions when the arguments are based on the complexity of GAAP (page 180 of the publication).

The Cole et al. (2009) study provides a summary of research studies investigating the users of financial statements and concludes that empirical research concerning identification of the users of SME financial statements and their needs is very limited. Their own research carried out in Belgium indicated that, while it may not be necessary to differentiate between the financial statements of listed and unlisted companies as the differences between the information needs of these users are limited, there was a clear country preference for financial statements, which contradicted the idea that users do want to consult and compare financial statements from other jurisdictions.

5. Studies subsequent to the issue of IFRS for SMEs by IASB

Subsequent to the issue by IASB of the IFRS for SMEs, a number of country-specific studies have been produced: Belgium (Cole et al. 2009), Czech Republic (Strouhal, 2012), Fiji (Hussain et al., 2012), Germany (Eierle and Haller, 2009), Romania (Albu et al., nd), the Netherlands (Litjens et al., 2012), Turkey (Uyar and Güngörmüs, 2013), the United Kingdom (Sian and Roberts, 2009), the United States (Allee and Yohn, 2009; Fitzpatrick and Frank, 2009) and the European Union consultation (European Commission, 2010; Quagli and Paoloni, 2012; Maşca, 2012). The above studies do not include all those from 2009 onwards, but serve to illustrate that a number of themes are developing that require further research.

(a) Users and their needs

With regards to users and their needs, the European Commission (2010) found divergent opinions with regards to the application of IFRS for SMEs (or applicability of IFRS for SMEs in various jurisdictions), while Quagli and Paoloni (2012), who analysed the European Commission survey, found users more supportive of IFRS for SMEs than preparers. The studies also found that IFRS for SMEs should not be applied by all SMEs (Albu et al., nd). As stated previously, the Cole et al. (2009) study provides a summary of research studies investigating the users of financial statements and concludes that empirical research concerning identification of the users of SME financial statements and their needs is very limited.

(b) Costs and benefits of IFRS for SMEs

Studies on the costs and benefits of IFRS for SMEs have been undertaken by the Deutsches Rechnungslegungs Standards Committee (2008), the European Commission (2010), Litjens et al. (2012) and Strouhal (2012). The Deutsches Rechnungslegungs Standards Committee (2008) found IFRS for SMEs too costly to apply and with hardly any benefit to it. The European Commission (2010) commented that there would be an increase in costs of preparation and audit. Litjens et al. (2012) examined preparers' perceptions of the costs and benefits of IFRS for SMEs and found preparers' cost perceptions are more strongly associated with the cost than the benefit. Strouhal (2012) found a number of benefits of IFRS for SMEs raised in structured interviews with professional accountants and regulators in the Czech Republic and found that there was an awareness that there would be higher initial costs linked with a shift in accounting frameworks.

The Russian response in the IASB *IFRS Application Around the World* indicates that, according to the Ministry of Finance, public discussion suggests that the costs of transition to IFRS for SMEs are thought to be greater than the benefits gained by the entities and users.

Hussain et al. (2012) found in Fiji that SME reporting entities are more concerned about the costs associated with the transition rather than perceived benefits from such an adoption.

A number of studies outline the advantages of and obstacles to the adoption of the IFRS for SMEs (for example, European Commission, 2010; Uyar and Güngörmüş, 2013). The European Commission study found divergent opinions in the responses received upon their consultation on IFRS for SMEs. In some member States the linkage between taxation and capital maintenance rules could make the application of IFRS for SMEs burdensome, while there was support by companies operating across jurisdictions or considering future listing. Uyar and Güngörmüş found that while there were a number of obstacles to IFRS for SMEs in Turkey, the proponents of stand-alone IFRS for SMEs outnumbered the opponents.

(c) Studies on the implementation of IFRS for SMEs in various jurisdictions

Studies on the applicability of IFRS for SMEs in various jurisdictions are those by Maşca (2012), Quagli and Paoloni (2012), Hussain et al., 2012, Albu et al. (2013) and Cole et al. (2009). Comparing these studies is difficult as they were conducted in various jurisdictions.

Maşca found that the opinion of organizations about using IFRS for SMEs on a large scale in the legal framework in Europe is influenced by the accounting culture of the geographical area in which they operate: institutions, regardless of accounting culture of the geographical area in which they operate, do not believe that increased comparability of accounts prepared under IFRS for SMEs benefits users and it is uncertain if institutions, regardless of the accounting culture of geographical space in which they operate, think it is appropriate to give companies, at European Union level, an option to adopt IFRS for SMEs. Quagli and Paoloni found differences between German speaking and Latin countries (less appreciation for the standard) as compared to Anglo-Nordic countries (more appreciation for the standard). Albu et al. investigated the implementation of IFRS for SMEs in the Czech Republic, Hungary, Romania and Turkey, where country differences in perceptions were found as well as differences in the perceptions of users, preparers, professional bodies and regulators. Hussain et al. interviewed practitioners in Fiji and found that the transition to IFRS for SMEs will pose challenges for practitioners such as meeting training and educational requirements, SME informational needs and justifying to SMEs the need for a globalized reporting framework. They also found that the "big four" (audit firms) have a competitive advantage over the "non-big four", as their international counterparts provide substantial resources, expertise and training to them, and are therefore in a better position to adopt IFRS for SMEs. Albu et al. found in their interviews of various stakeholders (preparers, auditors, regulators, professional bodies and users) that the interviewees do not perceive the implementation of IFRS for SMEs as a cost or burden, but as an opportunity to train accountants, to implement better accounting systems, to disclose a higher quality accounting information, and to better the business environment. The Eierle and Haller study investigated whether size influenced the suitability of IFRS for SMEs and found size effects as well as a difference in costs and benefit assessment of accounting methods.

6. Studies concerning SME access to finance

It is generally accepted that SMEs have a challenge raising finance. According to the Organization for Economic Cooperation and Development, addressing this challenge is important for job creation, innovation and sustainable growth. The Organization notes that with the recovery in the global economy, attempts by Governments to address this challenge by policymaking are finding that there is insufficient evidence and data.

Allee and Yohn (2009) found that firms in the United States with audited financial statements are marginally but significantly less likely to be denied credit and that firms with accrual-based financial statements benefit in the form of lower cost of capital. Nanyondo et al. (2013) found in Uganda that "there is a significant positive relationship between quality of financial statements and access to finance and a significant negative relationship between information asymmetry and access to finance. However, perceived risk is not significantly associated with access to finance. The interaction between quality of financial statements and perceived risk is negative meaning that high quality financial statements coupled with high risk will result in low access to finance."

According to the European Commission (2010) study, banks felt that financial statements represent only one of several aspects to be taken into account and that risk can already be assessed with the current reporting framework (and, therefore, did not see the necessity for the adoption of IFRS for SMEs). This study also noted that banks disregard deferred taxation items.

7. Microenterprises and the need for a more simplified framework

South African studies have found that there is a need for a third tier reporting framework (Wells, 2005; Van Wyk and Rossouw 2009, 2011). The research of Van Wyk and Rossouw was conducted prior to the issue of the Micro-GAAP toolkit in South Africa, but at that stage, they were of the opinion that IFRS for SMEs was still too complicated for SMEs. Neag and Maşca (2012) and Sian and Roberts (2008) also found the proposed IFRS for SMEs to be too complex for microentities. The Sian and Roberts (2008) study also found significant differences in their focus groups, especially in Kenya where new guidance was requested. Roberts and Sian (2006) noted that the literature has a developed-country focus and may not fully reflect the situation in developing and transition countries/territories.

A study carried out by SAICA (2013) on their members' experiences with IFRS for SMEs in particular was answered mainly by members in practice (91 per cent). This study found that most of the microentity clients were using IFRS for SMEs (55 per cent) and about 29 per cent are using their own entity-specific accounting policies. Respondents found IFRS for SMEs cumbersome to apply for an entity with a PI score below 100. It was felt that some of the "cumbersomeness" of applying IFRS for SMEs may be due to members not really understanding what compliance with IFRS for SMEs actually is. The vast majority of the respondents prefer the historical cost model of accounting to the fair value model or a combination of the two. Going forward, SAICA plans to organize more education and training around IFRS for SMEs in its most simplistic form and to develop templates for IFRS for SMEs financial statements in small and microentities. SAICA is also considering simplifying the accounting treatments (and thus not complying with IFRS for SMEs).

8. Conclusion

The studies show mixed results in the various themes that have been examined. However, one common theme is that the users of SME financial statements do not seem to have been consulted in any great depth. Although the literature review indicates that this is a well-researched area, there are a number of areas that require further research – for instance, the needs of the users of SME and microenterprise financial statements; the extent of differences between national frameworks and IFRS for SMEs; the impact of these differences, if any, on the informational needs of the users of SME financial statements; and the need for a third tier reporting framework.

The recent issue of *A Guide for Micro-sized Entities Applying the IFRS for SMEs (2009)* by IASB (2013) will also provide opportunities for research.

When comparing this literature review to the main findings in the report Accounting and the reporting needs of small and medium-sized enterprises (including microenterprises) (UNCTAD), a number of points can be made. First, the literature review shows that there are differences in how countries/territories perceive the benefits of and obstacles to the adoption of IFRS for SMEs. This can be considered in light of the finding in the main report where jurisdictions already have national frameworks in place and do not intend to adopt IFRS for SMEs. In other words, the differences in countries/territories' perceptions lead them to either adopt or reject IFRS for SMEs. Second, with regards to access to finance, the literature study shows some evidence that access to finance is facilitated by better quality financial statements, but the studies examined did not focus on IFRS for SMEs as the reporting framework under consideration. Finally, with regards to microenterprise accounting and reporting, studies indicate that there is a need for a more simplified framework.

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