

## ACTUAL ASPECTS REGARDING THE IFRS FOR SME – OPINIONS, DEBATES AND FUTURE DEVELOPMENTS

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*ABSTRACT: Globalization (primarily the economic one) is today an incontestable reality that has an important influence on the human condition, socioeconomic and cultural situation of the collectivities. The SMEs have an important position in the world wide economy. The accounting information provided by them must have the same role. We must decide: who are the users of this information, the comparability is compulsory at this level, the harmonization is required? Asking this question we must try to give an answer without ignoring the opinion of those who act in “in this show”. At European level, the legitimacy to develop standards specific to SME is contested. However, this global accounting standard may represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance. We consider that IFRS for SMEs may still be considered too complex for micro-entities; however many of the requirements will not be applicable for entities with a more simple business model. The extent to which IFRS for SMEs can be used for tax purposes remains an issue that requires further study.*

*Key words: SME, accounting regulations, users of accounting information, micro-entities, IFRS*

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### **Introduction**

#### **The basis for conclusions at the IFRS Exposure Drafts for Small and Medium-sized Entities**

Starting with 2000 IASB was informing the recently set up ISAB about the existence of a “demand” of international accounting standards for the SMEs.

In 2001, IASB already answered this new idea, initiating a project developing such standards, setting up for this reason a work group intended to council the Board on the problems, alternatives and potential solutions.

In July 2005, the IASB Foundation reformulated the objectives presented in the Statutes of the Foundation, adding an objective according to which IASB, in its activity of standardization had to take into account also the special needs of small and medium-sized entities. Therefore, at the moment, the objectives of the IASB Foundation are the following:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

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(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to realise the convergence of national accounting standards with International Accounting Standards and International Financial Reporting Standards to high quality solutions.

At the public meetings of the Board in the second half of 2003 and the beginning of 2004, the Board already developed some preliminary and temporary opinions on the approach of some accounting standards for the SMEs.

In June 2004, The Board posted on the organization's site ([www.iasb.org](http://www.iasb.org)) a Discussion Paper, *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*, inviting those interested to comments. The most important issues that were presented in this Discussion Paper were the following (IASB, 2004):

- (a) Should IASB develop special financial reporting standards for SMEs?
- (b) What should be the objectives of a set of financial reporting standards for SMEs?
- (c) For which entities would IASB Standards for SMES be intended?
- (d) If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
- (e) May an entity using IASB for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?
- (f) How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
- (g) If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs? In what format should IASB Standards for SMEs be published?

Concerning the issues presented in the Discussion Paper, we would like to point out that although the Foundation is at an initial stage with this project, it did not raised issues on the users of the SMEs financial reporting, nor issues on the specific needs of these users.

Furthermore, we find it curious that IASB raised the issues of the objectives of such a set of standards before clarifying the group of entities these standards are addressed to!

After reading the issues intended for discussion it can be easily noticed how IASB establishes a connection between the future standards addressed to SMEs and those already developed for the listed enterprises.

We notice how, although for the Foundation it is not very clear if it should develop special financial reporting standards for SMEs, nor the group of entities to which such standards would be addressed, ISAB already looks the right format for publishing those regulations.

Taking into account the extraordinary variety of ways and activities performed by the SMEs in Europe or worldwide, we consider that IASB is entitled to bring into discussion some recognition and accounting evaluation issues that are not approached by the standards aimed for the SMEs. We find awkward the fact that ISAB did not take into account at all the multitude of accounting practices used worldwide, practices that easily satisfy precisely those needs specific to some small enterprises.

For the *Preliminary Views on the Accounting Standards for Small and Medium-sized Entities*, 120 answers were received, answers that were analysed within the subsequent meetings, in 2004. IASB says that the answers for the Discussion Paper have indicated a clear demand for an International Financial Reporting Standard for SMEs. Many of those who answered claimed that simplifications in recognition and evaluation are necessary. IASB has concluded that it needs more information in order to estimate the possible simplifications in the field of recognition and evaluation. Therefore, in 2005, the Board organized public round tables to discuss the possible modifications of the recognition and evaluation principles in IFRS so that they can be used in a standard specific to SMEs. At these round tables there were special discussions about the domains

with a possible simplification of the recognition and evaluation principles for SMEs and about subjects approached in IFRS that could be eliminated from the standards for SMEs due to the fact that probability these to appear in the SME context is almost null. While these debates were on, the Board made some decisions regarding the demands that should be included in the exposure draft, decisions on which basis, in January 2006 a preliminary version of the exposure draft was done. At the meetings in progress in 2006 the exposure draft was revised several times, so that in 2007 this was posted on the organization's site.

In the Basis for Conclusions on Exposure Draft IFRS for Small and Medium-sized Entities published at the same date (February 2007), on the Foundation's site, the main issues approached at the public meetings organized in 2006 are briefly presented (IASB, 2007):

- a) the necessity for the existence of some financial reporting standards for SMEs;
- b) the users of the SMEs' financial statements,
- c) IASB legitimacy of developing international standards for SMEs;
- d) the needs of the different users and considerations on the cost-benefit ratio;
- e) the relative level of adequacy of the financial reporting concepts to all entities;
- f) why doesn't the IFRS project for SMEs have as goal the providing of information for sole proprietors;
- g) the adequate character of the *IFRS Project for SMEs* for the very small entities – the so called “micro” entities.

#### **Opinions, debates, actual issues regarding the adoption of IFRS for SME**

##### **The necessity of having financial reporting standards for SMEs. The users of the financial statements set up by the SMEs**

When reviewing the arguments brought to support the necessity of the financial reporting standards for SMEs, we notice the insistent remind of the crediting institutions' interest for the financial statements set up by the SMEs, thing that shows the special importance given by IASB to this category of users. Moreover, the same idea of the special importance given to the crediting institutions is proved also by the enumeration first of all of “the banks that give loans to SMEs” among the users of the financial statements set up by using the IFRS project for small entities. In the same enumeration, the shareholders of SMEs that are also the managers are placed on the last position, after the clients and sellers. The IASB position concerning this last category of the financial statements users is clearly stated: providing information for sole proprietors in order to help them make administrative decisions does not represent the goal of the *IFRS for SMEs* project (IASB, 2007). The Board motivates its approach through the fact that managers may get any information they need in order to run their business and subsequently explains how “SMEs often develop financial statements only for the use of sole proprietors or for the fiscal reporting or for other regulation goals that do not make reference to securities. The financial statements written only for these reasons are not necessarily financial statements with a general purpose”.

Obviously, we cannot agree with this very elegant, yet very expensive solution of IASB, that SMEs should write different financial reports meeting the needs of decision of sole proprietors, the fiscal requirements of the governmental institutions and the demands of the international standards. Within this discussion it seems that an aspect is forgotten, the fact that writing the reports becomes the responsibility of some small and medium-sized enterprises, for which the financial aspect is essential. Furthermore, there are researchers that show that beside the distance existing between the literature referring to users and the financial statements written by SMEs, also the fiscal relaxation wish of the small entities is treated with ignorance and indifference! (Collis, J. Et al., 2001).

Regarding the first position that the crediting institutions held among the users of the financial information offered by SMEs, we totally agree with the IAS Board. If generally the listed enterprises apply for financing to the potential share buyers, the unlisted entities do not choose the same path. This happens because, on one side SMEs are not listed and do not have a market where

to negotiate their shares. In the absence of the stock, a bank loan is much more accessible from all points of view than looking for a person interested in the development of a small enterprise. On the other hand, the reason that leads to the set up of a company is the wish of the future owner to dispose of the profit of that firm, and at the basis of this wish sometimes lays the need for individual security, other times the need for respect, but most often the need for self-achievement. All these three human needs are achieved mainly by exercising a way of control over the work environment (Lean, J., and Tucker, J., 2001). From this point of view, it is easy to understand why the sole proprietor of such a firm hardly consents to the diminishing of personal control over the enterprise, by accepting some exterior capital ways. The interest payment afferent to a bank loan is much easier to bare than the interference of one or other persons in the newly set up firm.

### **The IASB legitimacy of developing international standards for SMEs**

Regarding the IASB legitimacy to develop standards specific to SMEs, Alexander Radwan, coordinator of the Group of the European People's Party (Christian Democrats) and European Democrats, presented in April 2008, in front of the Commission for Economic and Monetary Affairs a Report, although it is admitted that IASCF is a private body deprived of self-regulation that was assigned the role of legislative body for the EU, that highlights the fact that IASCF/IASB does not have transparency, legitimacy, responsibility and is not under the control of any parliament or govern democratically chosen. At the same time, the EU institutions did not establish the procedures and practices afferent to democratic consultation and decision that normally regulates its own legislative processes. The authors of the Report also present two administrative solutions:

- on one side, the Report highlights the need that the bodies that establish the international standards to have in their structure more representatives with European experience, justifying in this way an international approach and satisfying the need of balanced representation of the share that the EU has (which constitutes by far the vastest economic area, having the highest number of enterprises that apply IFRS);

- on the other side, those who wrote the Report think that an European simplified structure, which would take into account the national accounting structures could contribute to the simplification, and through this, the consolidation of the role that the EU has at a world level. For this reason the Economic and Monetary Affairs Committee is required to develop and present a proposal, consulting the European Parliament, the member states and the Committee of the European Securities Regulators (CESR), for the set up at the level of the Union, which should constitute a legitimate interlocutor at an international level and which should guarantee the uniform interpretation and application of the standards.

Concerning the Foundation's transparency, the subscribers of the Report think that the financing structure of IASCF and IASB, based at the moment to a great extent on voluntary contributions, raises question marks and invites IASB and IASCF to especially analyse the way in which this financing system can be changed, so that to make certain that all groups of users contribute correspondently to the financing and there will not be a conflict of interests between financers and users (Bowles, S. and Radwan, A., 2008).

As far as we are concerned, we consider that IASB is the right body to develop a European or international accounting standard and that it all right for this regulation to use a common conceptual framework with the IFRSs. We may take into consideration the fact that this small entity is, at least at a theoretical level, a future public enterprise that will apply the international accounting standards.

### **IFRS for SMEs are adequate to micro-entities?**

IFRS for SMEs is intended to be a stand-alone document for a typical small business with approximately 50 employees.

With respect to the micro-entities, with one, two or three employees, the IASB considered

that external users such as creditors, suppliers, customers, credit rating agencies and employees need certain information, but have no authority to demand reports tailored to meet their needs for information.

In this case, they must rely on general purpose financial statements and those prepared under IFRS for SMEs meet just these needs.

According to the IASB, more than 50 jurisdictions decided that the full IFRS should be compulsory or allowed for all entities. The IASB considers that, if the full IFRS is adequate for all entities, then the IFRS for SMEs will certainly be adequate (appropriate) and should not be a burden for the micro entities.

In our opinion, the IFRS for SMEs should not be compulsory for all entities. To support this argument, we remind that the adoption of full IFRS is required in those jurisdictions which do not have their own accounting system (Armenia, Bahrain, Chile, Costa Rica, Cyprus, Dominican Republic, Ecuador, Fiji, Ghana, Guatemala, Guyana, Haiti, Honduras, Jamaica, Kenya, Kuwait, Kyrgyzstan, Mongolia, Montenegro, Nepal, Nicaragua, Oman, Panama, Republic of Serbia, Sierra Leone, Slovak Republic, Tajikistan, Trinidad and Tobago, Ukraine, Venezuela) (Deloitte, 2009).

Theoretically, the micro-entities are a subset of small and medium-sized entities. Except the European Union, international institutions do not recognize the existence of micro-entities as a separate group of SMEs, but include them in the latter. In terms of global accounting normalization, the recognition of a group of micro-entities with the specific needs of information is essential. At present, it is much easier for the IASB to require the application of the new IFRS for SMEs to all unlisted entities, other than to develop a specific standard for the micro-entities. Even if it is not very clearly stated, the IFRS for SMEs are more appropriate for unlisted entities, but large, than for unlisted enterprises, but small. The first category is more interested in comparability and its own promotion and in addition, has financial potential which allows it to spend in order to obtain these benefits. Micro-entities are at the opposite side of listed companies, which makes us believe that their interest as well as their possibility to adopt IFRS for SMEs is quite low.

In the literature, we didn't find studies related to the microentities "appetite" for IFRS for SMEs, but Jonathan Tucker and Jonathan Lean, in their paper *Small Firm Finance and Public Policy* (Tucker, J. and Lean, J., 2002) studied the relationship between very small entities and credits suppliers, as main users of the financial information prepared by this entities. They found that in this relationship there is an asymmetry of information. The banks have difficulties in understanding the quality of financing projects presented by the small entities, monitoring funded projects involve excessive costs for banks and the small entities business may not be able to offer information that prove their financial performances.

All the small entities face the same problems: the lack of goods to guarantee the loans, the lack of knowledge of the loan conditions, difficulties related to the funding sources available, lack of financial performance analysis, the risk is higher because of the lack of experience of owners.

From this study, we conclude that the informational asymmetry is not caused by the financial statements prepared by the small entities, so the adoption of IFRS for the SMEs will add a new problem to those that small entities already have.

A similar study realized by Ramona Neag, Irina Pascan and Ema Masca (Neag, R. et al., 2009) showed that the small businesses do not need sophisticated accounting and reporting regulations and that the accounting regulatory body must recognize differences between larger and smaller enterprises. The need for universality for the small businesses is not sustained in practice because, as we revealed from our empirical study realized on a sample of entities from Mures county, Romania, the main users of cash flow information and, implicit of all financial statements, are the banks and other financial institutions. We also consider that these entities may have the option to prepare the financial statements if the users of the financial information require them.

### **Actual positions regarding the implementation of IFRS for SMEs**

The publication on July 2009 of the IFRS for SME represented a successful accomplishment of a 5 years work for IASB. Although IASB legitimacy in issuing these norms was a subject to debate the comments after this release appeared.

Graham Holt, ACCA examiner and principal lecturer in accounting and finance, Manchester Metropolitan University Business School (Graham Holt, 2009) mentioned that the standard has been organised by topic with the intention that the standard is user-friendlier for preparers and users of SME financial statements. IFRS for SMEs and full IFRS are separate and distinct frameworks.

Therefore, the standard for SMEs is by nature not an independently developed set of standards. It is based on recognized concepts and pervasive principles and it allows easier transition to full IFRS if the SME later becomes a public listed entity. In deciding on the modifications to make to IFRS, the needs of the users have been taken into account, as well as the costs and other burdens imposed upon SMEs by the IFRS.

Relaxation of some of the measurement and recognition criteria in IFRS had to be made in order to achieve the reduction in these costs and burdens. Small companies pursue different strategies, and their goals are more likely to be survival and stability rather than growth and profit maximization. The stewardship function is often absent in small companies, with the accounts playing an agency role between the owner-manager and the bank.

The standard also contains simplified language and explanations of the standards.

In the absence of specific guidance on a particular subject, an SME may, but is not required to, consider the requirements and guidance in full IFRS dealing with similar issues. The IASB has produced full implementation guidance for SMEs.

The author suggests that IFRS for SMEs is a response to international demand from developed and emerging economies for a rigorous and common set of accounting standards for smaller and medium-sized enterprises that is much easier to use than the full set of IFRS. It should provide improved comparability for users of accounts while enhancing the overall confidence in the accounts of SMEs, and reduce the significant costs involved in maintaining standards on a national basis.

The European organization EFRAG (European Financial Reporting Advisory Group) did not make comments (till now) regarding the IFRS for SMEs. But we must underline its position when the project for IFRS for SMEs was published, as follows:

(a) Users in a SME environment generally require less complex and less sophisticated financial reporting since they are less capital market oriented.

(b) As users of SME financial statements may have limited resources to devote to an in-depth analysis of financial statements, they value standardization in the preparation and presentation of financial statements more.

(c) Users in an SME environment tend to use financial statements more to assess the quality of management (effectiveness of strategies, performance etc.) than to reach decisions about whether to buy, hold or sell the shares.

(d) There is a greater focus amongst users of SME financial statements on the entity's ability to generate positive cash-flows in the normal course of business in the short- and medium-term in order to meet liabilities as they fall due.

The Fédération des Experts Comptables Européens (FEE) made some comments related to IFRS for SMEs and we are trying to point out its opinion.

“Brussels, 9 July 2009 – FEE (Fédération des Experts Comptables Européens – Federation of European Accountants) welcomes the publication today by the global standard setter, the IASB, of its new standard on accounting for SMEs. FEE wishes to contribute to the debate on the role IFRS for SMEs can play in Europe” (FEE, 2009).

This standard intends to meet user needs while balancing costs and benefits from a preparer perspective. The IASB has developed this standard in a response to simplify full IFRSs for use by non-listed entities in response to requests they received.

FEE supports high quality, global principles-based financial reporting standards for companies since these promote consistency and transparency and help companies and their advisors to respond appropriately to new developments in business practice. In that respect FEE welcomes the IFRS for SMEs. Companies including SMEs with cross-border activities, branches and subsidiaries will experience simplification in their financial reporting by being able to use one standard and accounting framework and speak thereby one accounting language in all countries concerned.

The use of IFRS for SMEs would give National Standard Setters the possibility of no longer having to produce their own standards and keeping them up to date. This may constitute a real and tangible cost reduction at national level. FEE believes that the EC Accounting Directives should not form an impediment for Member States to allow for the use of IFRS for SMEs. To the extent they might at present be considered doing so, the current revision of these Directives provides a proper opportunity to remove any of such perceived discrepancies. The market should decide on the uptake of this standard for use in Europe.

**IFRS for SMEs may still be considered too complex for micro-entities;** however many of the requirements will not be applicable for entities with a more simple business model. The extent to which IFRS for SMEs can be used for tax purposes remains an issue that requires further study. This will need to be resolved at individual jurisdiction level.

Hans van Damme, FEE President, observed that "Accounting is an essential facilitator for cross border trade. In practice, there is a need for more internationally comparable and harmonised financial statements, especially for medium sized and larger non-listed companies, because of increasing cross border operations, shareholdings, mergers and acquisitions involving companies in different Member States. We call on all stakeholders including the European Commission to consider the contents of this new standard carefully in order to make a balanced decision on its possible use. FEE is willing to contribute to the debate what role the IFRS for SMEs can play in Europe".

Across the ocean, the International Federation of Accountants (IFAC) welcomed the new SMEs reporting standard as important step in enhancing SME Financial Statements.

"The International Federation of Accountants (IFAC) and its Small and Medium Practices (SMP) Committee welcome the release of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* by the International Accounting Standards Board (IASB). IFAC encourages its 157 member organizations to carefully consider how to use the standard in their respective jurisdictions" (IFAC, 2009).

"This global accounting standard represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance," remarks IFAC Chief Executive Ian Ball, adding, "The beneficiaries will be not only SMEs, but also their customers, clients, and all other users of SME financial statements." IFAC, largely through its SMP Committee, has been closely following and supporting this project since its inception. It has provided input to the IASB to assist it in reaching a solution that will contribute to the quality of SME financial reporting without placing costly and unnecessary compliance burdens on SMEs.

Sylvie Voghel, chair of the IFAC SMP Committee, points out, "This standard is a significant development; however, its issuance is not the end of the story, but rather the opening chapter. Consistent and effective implementation will demand a concerted international effort to mobilize the necessary support for companies and preparers. The development of free training materials by the International Accounting Standards Committee Foundation is a very positive step in this

direction."

IFAC is currently considering the role it can play together with its member bodies to facilitate implementation of the new standard.

The American accounting profession (American Institute of Certified Public Accountants) stated: U.S. private companies may have a new choice for accounting and financial reporting - a slimmed-down version of IFRS tailored more to their needs. IFRS for SMEs (small- and medium-size entities) is a simplification of full IFRS. The International Accounting Standards Board (IASB), which released the new standard in July after five years of work on the project, defines SMEs as businesses that publish general-purpose financial statements for external users and do not have public accountability. Many U.S. private companies would fit that definition" (AICPA, 2009).

The American Institute considers that the document is a significantly smaller version of full IFRS (230 pages). The IASB eliminated from the standard many accounting topics, such as earnings per share and segment reporting, that are not generally relevant to private companies. Instead, users of the financial statements of SMEs are more focused on shorter-term cash flows, liquidity, balance sheet strength, interest coverage, and solvency issues. The new standard is expected to ease some of the financial burden, which has increased as full IFRS has become more detailed, on SME preparers.

"Some U.S. private companies may find the simplified IFRS for SMEs an attractive alternative to the more complicated and voluminous U.S. GAAP," the AICPA says in a frequently asked questions document. AICPA's opinion is that using the SME framework may be less costly and more relevant than using U.S. GAAP for certain U.S. companies. Other reasons pointed out by the same Institute are that U.S. private companies may consider adopting IFRS for SMEs if they are ownership by a foreign parent or relationships with foreign investors or business partners.

Private companies in the U.S. can prepare their financial statements in accordance with U.S. GAAP, an "other comprehensive basis of accounting" (OCBOA), such as cash- or tax-basis; or full IFRS, among others. The governing Council of the AICPA recognizes the IASB as an accounting body for purposes of establishing international financial accounting and reporting principles. CPAs may need to check with their state boards of accountancy to determine the status of reporting on financial statements prepared in accordance with IFRS for SMEs within their individual state.

Liam McQuaid (2009), member of Accounting Standards Board (ASB), CASE Committee and the Accounting Committee of Chartered Accountants in Ireland, remarks that the IASB has published a separate, stand alone accounting standard aimed at small and medium sized entities, IFRS for SMEs. Consequently, the ASB is now proposing that, going forward, it would be its intention to work under the IASB framework and to converge Irish and UK accounting practice to the fullest possible extent with IFRS. The ASB proposals set out a 3 tier financial reporting regime based on public accountability. In essence this will mean that entities that are 'publicly accountable', including listed entities, would henceforth use full IFRS as endorsed by the EU; tier 2, non-publicly accountable entities, would use the new IFRS for SMEs (while having the option of using full IFRS); and finally, a 3rd tier, currently 'small companies' as defined in company law would continue to use the ASB's existing and in Ireland, perhaps not widely applied, Financial Reporting Standard for Smaller Entities ('FRSSE') (again having an option of using a higher tier). The ASB acknowledges that the 'consequence of (its) approach, the separate body of literature currently referred to as UK and Irish GAAP will cease to exist.' Instead this will be replaced by IFRS based requirements.

So it is likely that most Irish entities, unless opting to move down to the FRSSE, would move to the IFRS for SMEs standard. While phrase IFRS had initially some notoriety, this IFRS for SME document, in my opinion, offers a positive and simplified alternative for companies to current Irish/UK GAAP. For a start, it compares favourably with the volume of material that companies currently have to apply - running to some 200 pages compared to the current suite of FRS which amount to approximately 3000 pages. It would also facilitate greater comparability between



financial reports and introduce greater consistency in the preparation of financial statements.

The ASB reports that field testing of the IFRS for SMEs standard by those who currently apply the FRSSE in the UK revealed no significant problems with its application.

Some important issues will need to be resolved before any final decision is taken. Not least of these is the definition of 'publicly accountable entities' who, under the current proposals would have to apply full IFRS. Under the proposed definition, for example, this would include credit unions; it is also likely to impact some specialised sectors such as the funds industry. Both are significant sectors in an Irish context.

Consistency of the IFRS for SMEs with existing EU requirements is also an issue though this is not expected to be a major problem

The ASB proposals are currently out for consultation until February of next year. Assuming responses to its proposals are favourable, it is likely that ASB will withdraw its existing body of FRS to be replaced with the IFRS for SMEs. Under current arrangements for the issue and application of ASB standards, IFRS for SMEs will then automatically be applicable to eligible Irish entities. It is crucial that all stakeholders with an interest in financial reporting consider these and offer their views. For its part, ICAI will be facilitating a public discussion of the proposals in the near future.

At the global level, the World Bank welcomed the publication of the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) by the International Accounting Standards Board. The Bank has consistently recommended simplified financial reporting requirements for SMEs in the 95 Reports on the Observance of Standards and Codes (ROSC) on Accounting and Auditing covering 86 countries that have been issued to date (World Bank, 2009).

The IFRS for SMEs provides a valuable financial reporting reference framework for smaller entities that is more responsive to the size and ownership of their operations, and should help improve their access to finance, said Fayezul Choudhury, Vice President, Corporate Finance & Risk Management, World Bank. In countries that have already adopted IFRS as the national accounting standard, the simplifications introduced by the SME standard will provide much needed relief.

### **Concluding and remarks**

Globalization (primarily the economic one) is today an incontestable reality that has an important influence on the human condition, socioeconomic and cultural situation of the collectivities. Globalization does not regard the conquest of territories, but the conquest of trade markets. Being a business language, accounting, by its means, should contribute to accomplish that process.

In this context, at international level, the IASB promoted and will support the development of international accounting standards. The recognition of these standards should be global. The new regulation for SMEs issued July 2009 will lead to equal regulations for the SMEs in countries that will apply them.

The main argument supporting the adopting of IFRS for SMEs is the need for comparability and for universality in terms of financial accounts.

Comparability is hard enough to achieve at a national level, let alone internationally. Stephen A. Zeff shows how enhancing comparability and convergence across borders may be difficult to achieve. It is well known that some countries, such as the US and even Britain, believe strongly in the superiority of their own accounting standards.

This global accounting standard represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance.

We expect that those countries would bring always in discussion the administrative costs related to the adoption of international standards instead of national accounting rules. Some differences between countries make it difficult too: some countries use mostly capital markets for long term finance and others use bank loans; valuation bases differ; and SMEs in different countries enjoy different facilities and face different fiscal policies that affect the way profit is described.

The main argument against the uniform application of IFRS for SMEs refers to the disproportionate costs involved by double accounting relative to the needs and revenues of the smaller businesses.

Small enterprises, where the owners are often also managers, consider that revenue statements are a useful and sufficient source of information (Dugdale, D. et al., 1998).

But this state perception decreases with the growth of the enterprise and the evolution of the information system. Together with the development of the company, the disadvantage of high costs is gradually transformed into an advantage of the drawing up of financial statements in a language understood by most accounting information users who operate in a competitive market (Keasey, K. and Short, H., 1990).

In fact the application of these standards presupposes the diminution of the differences between the accounting practices all over the world.

The preservation of national elements related to the accounting practices represent an opportunity and the uniformity at European level from IASB perspective do not agree this idea. From our point of view, the entities should have the possibility to use different accounting regulations, even national regulations, the main criteria for this choice should be the enterprises size. The micro-entities could be the beneficiary of accounting regulations issued by the accounting regulations bodies at national level.

We wonder if the adoption of IFRS for SMEs may be a useful behavior for listed companies? In a context of a merger or an acquisition with a listed company, the understandability of financial information prepared using IFRS for SMEs will make the evaluation process easier. We may say that for the smaller and medium sized entities this can be an opportunity offered by the market but we have a last question: the acquisition mobile of these small business by a listed company will be always a subject of inquiry.

Although it is trying to impose its standard with the help of the European Parliament, there is also the possibility for the IASB to convince each particular government of the advantages of the IFRS for SMEs. Of course, it is possible that at some time in the future, the standardization of accounting and the removal of the last national financial accounting practice could be achieved. It remains to be seen when this mirage shall be realized. If the implementation of the international standard for SMEs requires the approval of each particular government, it is likely that its universal acceptance will happen far in the future.

As we stated above, after publication of IFRS for SMEs, a large part of the opinions pointed out in previous pages were favorable. Important organization from accounting field in Europe like CNC (Conseil National de la Comptabilite) and GASB (German Accounting Standards Board) did not mentioned any official opinion after the release of IFRS for SMEs.

Romania, as we expected, did not present any opinion related to this standard for SMEs. Surprisingly, the new project regarding our accounting regulations (the proposed modification of Order 1752/2005) did not make any comment regarding the IFRS for SMEs. Also, this project did not make any differences between entities related to their size. Also, the mentioned project is closer to IFRS (this subject will be developed in a future research by our team). Taking into account that a very important part of the Romanian entities (about 89%) may be classified like micro-entities, we wonder who will be the user of the financial information prepared according to the future Romanian regulation?

We consider that IFRS for SMEs may still be considered too complex for micro-entities; however many of the requirements will not be applicable for entities with a more simple business

model. The extent to which IFRS for SMEs can be used for tax purposes remains an issue that requires further study.

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