



UNION EUROPEENNE DE L'ARTISANAT ET DES PETITES ET MOYENNES ENTREPRISES  
EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE  
EUROPEAN ASSOCIATION OF CRAFT, SMALL AND MEDIUM-SIZED ENTERPRISES  
UNIONE EUROPEA DELL'ARTIGIANATO E DELLE PICCOLE E MEDIE IMPRESE

### Point 9.1.

## **The future International Accounting Standards for SMEs**

### **1. How it all started**

In Europe the accounting rules were regulated by the Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies. This means that the accounting rules were made within Europe.

But from the very beginning the ideas of the different member states were not the same. In fact there are two main accounting schools in Europe. The continental school led by France and Germany and the Anglo-Saxon school with of course the United Kingdom as most important member. The ideas of those two schools are in more than one matter different.

To give an example: the continental school has the idea that assets such as shares in other companies must be accounted at their historical cost, except when the market value is below the initial purchase price. The Anglo-Saxon school has the idea that those shares must be accounted at their fair value or market value, even if the fair value is far above the initial purchase price. The differences between the two systems are quite important. In the case of the Anglo-Saxon school, a raise of the market value of the shares will be accounted as a profit in the income statement. The continental school will not do so, because the profit is not realized or convert into money.

That is the reason why the accounting rules in the Fourth Directive are not always rectilinear. Because the two schools had different ideas concerning some important accounting issues, the different articles of the Fourth Directive allow the continental solution and the Anglo-Saxon version at the same time. The member state was allowed to choose one of the two. That had as consequence that the main accounting rules can differ in the different member states. An annual account of a company in the Unites Kingdom is often not comparable with a financial statement of a German enterprise.

At more than one occasion, the European Commission tried to modernize the fourth directive. But the two schools were not able to find a solution.

### **2. Europe takes the International Accounting Standards**

In 2000, at the Lisbon European Council, the Commission proposed to implement in Europe the International Accounting Standards. In order to contribute to a better functioning of the internal market, publicly traded companies must be required to apply a single set of high quality

international accounting standards for the preparation of their consolidated financial statements. Furthermore, the Commission found it important that the financial reporting standards applied by Community companies participating in financial markets are accepted internationally and are truly global standards. The reason why the Commission took an existing set of accounting standards is obvious. In that case, the member states could no longer argue about the accounting option to be taken.

The International Accounting Standards Board is an independent, private-sector body that develops and approves International Financial Reporting Standards, the new name for the IAS standards. The IASB operates under the oversight of the International Accounting Standards Committee Foundation.

It must be very clear that decision of the Commission was purely taken to activate the capital markets. That is the reason why the Regulation of 19 July 2002 on the application of international accounting standards forces only publicly traded companies to prepare their *consolidated* accounts in conformity with the international accounting standards for each financial year starting on or after 1 January 2005.

There is no obligation for the annual accounts to be prepared in conformity with the IAS standards.

### **3. The SME project**

Although the IAS-IFRS standards are written for quoted companies, the IASB started with a project called "SME project". IASB wants to develop an appropriate and comprehensive reporting regime for SME companies.

One reason why the first draft appears lengthy and complex is that staff of IASB seems to sticking very closely to full IFRS. Very often the Board concluded that "No major simplifications are needed for SMEs.". This is making it difficult to achieve an important objective in this SME project, which is to make the accounting requirements easy to understand.

The question is if there is a need for new SME accounting rules. Do we need them or can we go further on with the Fourth Directive rules?

A few questions might be interesting. Is there a need for small sized companies to go to another accounting framework such as the SME IAS-IFRS project? Isn't it better to use the Fourth Directive for those companies? If the answer is positive, which threshold can be used to make a difference between small and medium sized companies? The Fourth Directive defines "big" companies as ones that meet 2 or more of the following requirements: turnover of more than 7.3 million EUR, balance sheet total of more than 3.65 million EUR and number of employees more than 50.

Another question is whether the binding that exists in most countries between the accounting result and the fiscal result, must continue to exist. If that combination is left, it is clear that the accounting price for the SMEs will increase.