

IS IT NECESSARY TO REGULATE FINANCIAL REPORTING OF SMALL AND MEDIUM-SIZED ENTITIES?

^aMICHAL JEŠŠ, ^bMATEJ LEPIEŠ, ^cDAŠA MOKOŠOVÁ

Department of Accounting and Auditing, Faculty of Economic Informatics, University of Economics in Bratislava, Dolnozemská cesta 1/B, 852 35 Bratislava, Slovakia
 email: ^amichal.jess@mail.euba.sk, ^bmatejlepies@gmail.com, ^cdasa.mokosova@euba.sk

Abstract: This paper deals with the analysis of the position of small and medium-sized entities in the Slovak Republic and with the international regulation of small and medium-sized entities' financial reporting. It provides the business demography of economic subjects by size class category by number of employees and follows by an average number of employed persons by size classes of enterprises in persons. Due to the fact that the number of these entities represents a significant role, the regulation of their financial reporting becomes a material fact. The International Accounting Standards Board issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS[®] for SMEs) to achieve the international comparability of accounting and reporting information. The paper covers as well as the perspectives of the IFRS[®] for SMEs implementation within the European Union.

Keywords: small and medium-sized entities, International Financial Reporting Standards, International Financial Reporting Standard for Small and Medium-sized entities, comprehensive review, Accounting Directive

1 Introduction

Small and medium-sized entities are not only an inseparable part of the European economy, but they also represent a tool to maintain the competitiveness in the market mechanism. Small and medium-sized entrepreneurship provide an opportunity for self-realization and represents large and differentiated source of job opportunities. Small and medium-sized entities are the dominant form of business organizations in Europe. Because they are not equally represented in various sectors of the economy, we can find them in areas where they can use their competitive advantages.

2 Analysis of the position of small and medium-sized entities

In the European Union non-financial business economy exists more than 27 million enterprises employing a workforce of more than 133 million people. The vast majority (over 91 %) are micro enterprises employing less than ten people. Around 30 % of the European workforce in private business is employed by micro enterprises. The second largest small and medium-sized entities group (around 7 %) is made up of small enterprises, defined as employing 10 – 49 people, employing one fifth of the total workforce. Only 1 % of enterprises in the non-financial business economy belonged to the medium-sized enterprises defined as employing 50 – 249 people. With a workforce of about 22 million people, medium-sized entities are the smallest of the four enterprise groups. In spite of very small share (0.2 %) of the overall number of enterprises, large companies (defined as employing 250 or more people) employed about one third of the workforce.¹

According to the statistics of *Economic subjects by institutional sectors ESA 95 and size class category by number of employees* produced by Statistical Office of the Slovak Republic, at the end of the 2012 were 610,381 economic subjects in the Slovak Republic.

Based on the statistical surveys of Statistical Office of the Slovak Republic, at 31.12.2012 the sector of small and medium-sized entities consists of 99.82 % of the overall number of enterprises and provides job opportunities to 70.44 % of the overall number of employees in the economy. To improve the

development of small and medium-sized entities is necessary to evaluate the current situation and monitor the development. The analysis of the situation helps to identify current trends and predict the future development.

Table 1 Business demography of economic subjects in the Slovak Republic by size class category by number of employees

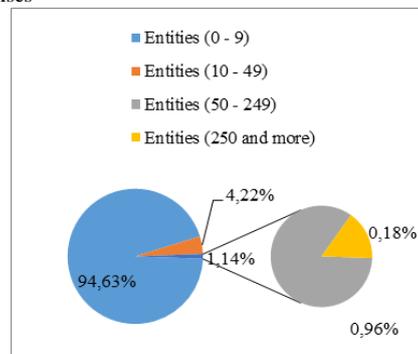
Entities by size class category by number of employees	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012
Entities (0 – 9)	287,448	315,475	307,084	401,221
Entities (10 – 49)	33,741	16,262	22,702	17,912
Entities (50 – 249)	4,403	4,204	4,295	4,082
<i>Small and medium-sized entities</i>	<i>325,592</i>	<i>335,941</i>	<i>334,081</i>	<i>423,215</i>
<i>The percentage of small and medium-sized entities on the overall number of entities with known number of employees</i>	<i>99.75%</i>	<i>99.78%</i>	<i>99.77%</i>	<i>99.82%</i>
Entities (250 and more)	829	746	756	761
Number of entities with unknown number of employees	266,798	270,710	277,575	186,405
Total number of entities with known number of employees	326,421	336,687	334,837	423,976
Total	593,219	607,397	612,412	610,381

Source: SLOVSTAT, Statistical Office of the Slovak Republic, own processing

At the end of the 2012, were 610,381 economic subjects in the Slovak economy. Only 423,976 economic subjects reported the number of employees in statistical surveys carried out by Statistical Office of the Slovak Republic (Table 1). The total number of economic subjects in 2012 compared to 2011 increased about 26.62 %, which represent creation of 89,139 new economic subjects. The largest share in the growth of economic subjects belongs to micro entities, where the number of economic subjects was increased about 94,137 new economic subjects over the comparable period in the previous year.

Since the beginning of 2010, we can observe in the Slovak economy the positive development of economic entities with known number of employees. It means, that since 2010 was created 97,555 new economic subjects with identified number of employees.

Chart 1 Structure of economic subjects by size classes of enterprises



Source: SLOVSTAT, Statistical Office of the Slovak Republic, own processing

¹ EUROPEAN COMMISSION. 2011. *Final Report „Future Skills Needs in Micro and Craft(-type) Enterprises up to 2020“*. [online]. Cologne, Hamburg, Vienna : Publications Office, 2011. p. 40. Available at internet: <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/files/skillsneeds_final_report_final_180211_en.pdf>, Accessed at 20.4.2013

At the end of 2012, the group of small and medium-sized entities represented 99.82 % of the overall number of economic subjects with known number of employees (Chart. 1). The largest share of small and medium-sized entities belongs to micro entities employing less than ten people with a 94.63 % representation in this group (401,221 micro entities).

Since 2009, the average number of representation of small and medium-sized entities with known number of employees oscillate around 99.78 %. This number indicate that this group have a dominant position in the Slovak economy.

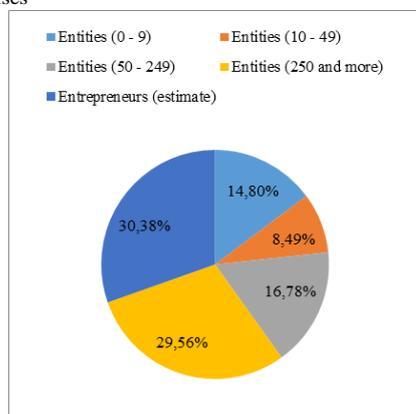
At the end of 2012, the number of small and medium-sized entities slightly increased about 26.68 % (89,134 new economic subjects) in comparison with the number of small and medium-sized entities at the end of 2011. Within the quarterly statistical reporting was observed minor decrease of small and medium-sized entities which could be converted into micro entities as a result of amendments to law or another factors that affect small and medium-sized business.

Table 2 Average number of employed persons by size classes of enterprises in persons

Entities by size class category by number of employees	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012
Entrepreneurs (estimate)	665,000	660,000	660,000	661,000
Entities (0 – 9)	104,588	186,117	159,892	321,950 ²
Entities (10 – 49)	370,908	300,814	344,438	184,702 ³
Entities (50 – 249)	376,396	389,063	388,073	365,101
<i>Small and medium-sized entities</i>	<i>1,516,892</i>	<i>1,535,994</i>	<i>1,552,403</i>	<i>1,532,753</i>
<i>The percentage of small and medium-sized entities on the overall number of employees</i>	<i>70.18%</i>	<i>70.62%</i>	<i>70.76%</i>	<i>70.44%</i>
Entities (250 and more)	644,417	639,031	641,581	643,093
Total	2,161,309	2,175,025	2,193,984	2,175,846

Source: SLOVSTAT, Statistical Office of the Slovak Republic, own processing

Chart 2 Structure of employed persons by size classes of enterprises



Source: SLOVSTAT, Statistical Office of the Slovak Republic, own processing

According to the statistics of *Average number of employed persons by size classes of enterprises in persons* produced by Statistical Office of the Slovak Republic, at the end of the 2012 were 2,175,846 people employed in the Slovak Republic (Table 2). Small and medium-sized entities, including entrepreneurs, employed 1,532,753 persons which represent 70.44 % of the overall number of employed persons in the Slovak economy (Chart 2). The total number of employed persons in 2012 compared to 2011 decreased about 0.27 %, which represent termination of 19,650 job positions. Since 2009, the average number of employed persons oscillate around 70.50 %. This number also indicate that the small and medium-sized entities provide job opportunities to nearly three quarters of all employed persons in the Slovak economy.

Entrepreneurs provide employment to 30.38 % of the employed population (661,000 employees), medium-sized entities provide employment to 16.78 % of the employed population (365,101 employees), micro entities to 14.80 % of the employed population (321,950 employees) and small entities to 8.49 % of the employed population (184,702 employees).

3 Assessment of comprehensive review of the IFRS[®] for SMEs

Due to the fact that the number and proportion of small and medium-sized entities represent a significant part of the economy of each countries around the world, the regulation of their financial reporting becomes a material fact. To achieve this purpose small and medium-sized entities need a uniformed set of standards, which will be tailored to the needs of small and medium-sized entities. This set of standards have to permit clear and accurate expression of their current transactions, events and facts. Advanced and emerging economies needed to use a precise, joint and simple system of accounting standards for small and medium-sized entities. The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS[®] for SMEs) achieves this purpose. The Standard provides better comparability and increases the overall confidence in the financial reporting of small and medium-sized entities.

The first release of the proposal for a simpler set of financial reporting standards (IFRS[®] for SMEs) was issued in 2007. Subsequently, in July 2009 was published the final version of this Standard. The IFRS[®] for SMEs allows individual countries to decide, which economic subjects may, respectively are required to apply this Standard.

Compared with the full International Financial Reporting Standards (IFRS[®]), the IFRS[®] for SMEs contains about 230 pages and is less complex in a number of ways. The Standards does not include topics which are not relevant for small and medium-sized entities such as operating segment reporting, interim financial reporting, insurance contracts or non-current assets held for sale and discontinued operations.

The IFRS[®] for SMEs is issued by the International Accounting Standard Board (IASB). Because this Standard was published in 2009, with its application in practice occurs various ideas and insights to the situations, which are not covered or not specified how it should be applied by the Standard in these cases. Therefore, in order to assess individuals ideas and insights, the IASB established a Small and Medium-sized Entities Implementation Group (SMEIG), which deals with the suggestions. After its careful consideration, the SMEIG issues more detailed implementation guidance for problematical areas and topics. Up to now, the SMEIG issued eight final implementation guides governing specific problems with the application of the IFRS[®] for SMEs and three papers in the form of questions and answers in which has expired the opportunity to comment them.⁴

² Due to changes in the methodology of Statistical Office of the Slovak Republic, data includes entities employed 0 – 19 persons

³ Due to changes in the methodology of Statistical Office of the Slovak Republic, data includes entities employed 20 – 49 persons

⁴ IFRS FOUNDATION. 2012. *IFRS for SMEs – Draft Q&As*. [online]. Available at internet: <<http://www.ifrs.org/IFRS-for-SMEs/Pages/Draft.aspx>>. Accessed at 20.04.2013

The IASB examines the experience of small and medium-sized entities in countries, where the IFRS[®] for SMEs is used, on basis of already prepared financial statements in accordance with this Standard. The result of the survey, by which the IASB seeks to obtain relevant information about problems with application of the IFRS[®] for SMEs, should be a proposal of amendments to issues related to its implementation and application, including new and amended IFRSs[®]. The process of a comprehensive review of the IFRS[®] for SMEs is planned about once in every three years. The Standard has not yet been revised or amended.

In 2012, the IASB issued publication *Request for Information – Comprehensive Review of IFRS[®] for SMEs*, which arise from the IASB timing plan of comprehensive review process. For the past four years since the IFRS[®] for SMEs was released, it was adopted in more than 80 countries over the world. On this basis we expect the amendment of the IFRS[®] for SMEs in next two years. Subsequent comprehensive reviews according to the Standard are scheduled again once in every three years.

During the revision of the IFRS[®] for SMEs, the SMEIG provides recommendations to the IASB, which may include any proposals for changes in the Standard. At the same time, the SMEIG and the IASB plans to amendments of the IFRS[®] for SMEs implement problems that have been published by questions and answers form. As well as they plan to implement new and amended IFRSs[®], which have been published since the first publication of the IFRS[®] for SMEs.

The aim of the IASB and SMEIG is to obtain information not only about opinions of the users of financial statements prepared in accordance with the IFRS[®] for SMEs, but as well as the opinions of professional organizations, regulatory authorities of individual countries and all other interested parties. The objective of a comprehensive review is to determinate whether the IFRS[®] for SMEs needs to be amended and, if so, what amendments should be made.

Request for Information – Comprehensive Review of the IFRS[®] for SMEs is divided into two parts. The first part covers specific information in selected sections of the IFRS[®] for SMEs and contains twenty questions to which the respondents could express their opinions and includes following thematic areas:⁵

- use by publicly traded entities;
- use by financial institutions;
- clarification of use by not-for-profit entities;
- consideration of recent changes to the consolidation guidance in full IFRSs[®];
- use of recognition and measurement provisions in full IFRSs[®];
- guidance on fair value measurement for financial and non-financial items;
- positioning of fair value guidance in the IFRSs[®] for SMEs;
- consideration of recent changes to accounting for joint ventures in full IFRSs[®];
- revaluation of property, plant and equipment;
- capitalization of development costs;
- amortization period for goodwill and other intangible assets;
- consideration of changes to accounting for business combinations in full IFRSs[®];
- presentation of share subscriptions receivable;
- capitalization of borrowing costs on qualifying assets;
- presentation of actuarial gains or losses;
- approach for accounting for deferred income tax;
- consideration of *IAS 12 Income Taxes* exemptions from recognizing deferred taxes and other differences under *IAS 12 Income Taxes*;
- rebuttable presumption that investment property at fair value is recovered through sale;
- inclusion of additional topic in the IFRSs[®] for SMEs; and
- opportunity to add own specific issues.

⁵ IFRS FOUNDATION. 2012. *Comprehensive Review of the IFRS for SMEs*. [online]. Available at internet: <http://www.ifrs.org/IFRS-for-SMEs/Documents/RequestforInformation_IFRSforSMEs_WEBSITE.pdf>, p. 12 – 32, Accessed at 20.4.2013

The second part of the *Request for Information – Comprehensive Review of the IFRS[®] for SMEs* includes six general questions relating to the IFRS[®] for SMEs and are relevant to consideration of minor improvements to full IFRS[®], to further need for “questions and answers” and treatment of existing questions and answers, to continue providing the self-study educational materials or to the possibility of adding another general questions.

After completion of this phase of comprehensive review will be followed by a further revision dealing with new and amended IFRSs[®]. Whereas the *Request for Information – Comprehensive Review of the IFRS[®] for SMEs* could be commented until 30 November 2012 we actually expect an assessment of the results and their publications. On this basis it should be created a proposal to amend the IFRS[®] for SMEs. After the careful consideration of this proposal is scheduled to publish the final amendments of which effectiveness may take effect from 1.1.2015.

Up to now, the IASB received 87 comment letters as a response to Request for Information – Comprehensive Review of the IFRS[®] for SMEs.⁶ Only 70 respondents sent to the IASB completely filled out the questionnaire which was a part of a comprehensive review. Remaining 17 respondents gave only general opinion to the comprehensive review.

Our analysis of the responses to the questions of the first part of the *Request for Information – Comprehensive Review of the IFRS[®] for SMEs* indicate that respondents:

- do not require to change the current requirements of the IFRS[®] for SMEs for:
 - publicly traded entities and financial institutions and they agree to continue to prohibit an entity whose debt or equity instruments trade in a public market and all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary business from using the IFRS[®] for SMEs;
 - capitalization of development costs and they agree to continue to charge all development costs to expense;
 - capitalization of borrowing costs on qualifying assets and they agree to continue to require all borrowing costs to be recognized as an expense when incurred;
- need to revise the IFRS[®] for SMEs:
 - to clarify that soliciting and accepting contributions does not automatically make a not-for-profit entity publicly accountable and a not-for-profit entity can use the IFRS[®] for SMEs if it otherwise qualifies under the *Section 1 Small and Medium-sized Entities*;
 - to reflect the main changes from *IFRS 10 Consolidated Financial Statements*, modified as appropriate for small and medium-sized entities;
 - so that arrangements are classified as joint ventures or joint operations on the basis of the parties rights and obligations under the arrangement (terminology and classification based on *IFRS 11 Joint Arrangements*, modified as appropriate for small and medium-sized entities);
 - to incorporate the main changes introduced by *IFRS 3 Business Combinations (2008)*, modified as appropriate for small and medium-sized entities;
 - to incorporate those aspects of the fair value guidance in *IFRS 13 Fair Value Measurement* that are important for small and medium-sized entities, modified as appropriate for SMEs including the appropriate disclosures and move the fair value guidance from *Section 11 Basic Financial Instruments* into a separate section on fair value measurement;
 - to permit an entity to choose, for each major class of property, plant and equipment, whether to apply the cost-depreciation-impairment model or the revaluation

⁶ IFRS FOUNDATION. 2012. *IFRS for SMEs – Comment Letters*. [online]. Available at internet: <http://www.ifrs.org/IFRS-for-SMEs/comment-letter/Pages/Home.aspx>, Accessed at 20.4.2013

model (the approach in *IAS 16 Property, Plant and Equipment*);

- to revise *Section 29 Income Tax* to conform it to the current *IAS 12 Income Taxes*, modified as appropriate for small and medium-sized entities and to incorporate the exemption for investment property at fair value; and
- so that an entity is required to recognize all actuarial gains and losses in other comprehensive income (i.e. removal of profit or loss option in paragraph 28.24);
- agree to allow entities the option of following the recognition and measurement provisions of *IFRS 9 Financial Instruments* with the disclosure requirement of *Section 11 Basic Financial Instruments* and *Section 12 Other Financial Instruments Issues*;
- agree that small and medium-sized entities should recognize deferred income tax using the temporary difference method (the approach currently used in both the IFRS[®] for SMEs and full IFRSs[®]); and
- need to modify paragraph 18.20, which states “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.” to establish a presumption of ten years that can be overridden if a shorter period can be justified.

Actually, the IASB began on Tuesday 23 April 2013 its public meetings, which will conclude on Friday 26 April 2013. During these meetings is planned a discussion about the issues in the IASB’s 2012 *Request for Information – Comprehensive Review of the IFRS[®] for SMEs*.

4 Perspective of the implementation of the IFRS[®] for SMEs within the European Union

In November 2009, the European Commission asked European Financial Reporting Advisory Group (EFRAG) to provide it with advice detailing on exactly which points the IFRS[®] for SMEs are incompatible with the European Union Accounting Directives (*Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies and Seventh Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3)(g) of the Treaty on consolidated accounts*).

In May 2010, the EFRAG issued its advice to the European Commission and considered following incompatibility with the European Union Accounting Directives:⁷

- 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);
- the requirement to measure financial instruments within the scope of *Section 12 Other Financial Instruments Issues* of the IFRS[®] for SMEs (non-basic financial instruments) at fair value;
- the requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life;
- the requirement to recognize immediately in profit or loss any negative goodwill;
- 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; and
- the prohibition to reverse an impairment loss recognized for goodwill.

⁷ European Financial Reporting Advisory Group. 2010. *EFRAG’s consultation on Compatibility Analysis: IFRS for SMEs and the EU Accounting Directives*. [online]. p. 1. Available at internet: <<http://www.efrag.org/files/EFrag%20public%20letters/IFRS%20for%20SMEs%20compatibility%20analysis/The%20Feedback%20Statement.pdf>>, Accessed at 20.4.2013

For these reasons the IFRS[®] for SMEs cannot be used within the European Union, although the majority of member states believe that the European Commission nevertheless prohibit individual countries to adopt this Standard.

In order to further simplify the requirements for small and medium-sized entities, the European Commission started a review process of the Accounting Directives with the “think small first” as the guiding principle. European Commission proposes a new *Directive of the European parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings* repealing and replacing the Fourth Council Directive 78/660/EEC and Seventh Council Directive 83/349/EEC. The proposal simplifies the accounting requirements for small companies and improves the clarity and comparability of companies’ financial statements within the European Union.⁸

New Directive is not only designed to unite the Fourth Council Directive 78/660/EEC and Seventh Council Directive 83/349/EEC, but also certain accounting policies and principles, such as the principle of substance over the form and materiality, will become mandatory so as to increase the clarity of financial statements.

Within the European Union should new Accounting Directive totally exempt small companies from audit requirement and do not allow member states to make a choice. All public interest entities shall be subject to a statutory audit, regardless of their size.⁹

The proposal introduces a specific regime for small companies that will considerably reduce the administrative burden currently borne by small companies when they prepare their financial statements. It will limit disclosures by way of notes to the accounts to:¹⁰

- i. accounting policies;
- ii. guarantees, commitments, contingencies and arrangements that are not recognized in the balance sheet;
- iii. post-balance sheet events not recognized in the balance sheet;
- iv. long-term and secured debts; and
- v. related party transactions.

The proposal of new Accounting Directive plans to increase criteria for division the economic subjects into micro, small, medium-sized and large companies, which would theoretically allow the extension of the subjects that could prepare abridged financial statements. It is up to the decision of a member state whether this exemption allow or not.

The proposal of new Accounting Directive also mentions about possible mandatory implementation of the IFRS[®] for SMEs within the European Union. It was concluded that implementation of this Standard would not serve the objectives of simplification and reduction of administrative burden, because experiences with its implementation and application worldwide

⁸ EUROPEAN COMMISSION. 2011. *The EU Single Market – Review of the Accounting Directives*. [online]. Available at internet: <http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives/index_en.htm>, Accessed at 20.4.2013

⁹ EUROPEAN COMMISSION. 2011. *Directive of the European parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*. [online]. p. 12. Available at internet: <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0684:FIN:EN:PDF>>, Accessed at 20.4.2013

¹⁰ EUROPEAN COMMISSION. 2011. *Directive of the European parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*. [online]. p. 6. Available at internet: <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0684:FIN:EN:PDF>>, Accessed at 20.4.2013

are still lacking. Mandatory adoption of the IFRS® for SMEs is not being pursued within the new Accounting Directive, because the differences between this proposed Accounting Directive and IFRS® for SMEs are still remaining.

Currently, the European Council, Parliament and Commission agreed on the finalization of the new Accounting Directive. The full text of the final compromise on the Accounting Directive¹¹ doesn't mention about possible implementation of the IFRS® for SMEs within the European Union, but refers to the international accounting standards adopted in accordance with *Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standard*. This reference should allow member states of the European Union to provide financial statements in accordance with the IFRS® for SMEs as soon as the differences between the Accounting Directive and the IFRS® for SMEs will be eliminated and the Standard will be accepted within the European Union legislation.

5 Conclusion

In recognition of the fact that the importance of small and medium-sized enterprises worldwide is increasing, there is the question whether it is necessary to implement an international regulation of their financial reporting. The IASB considers opinions of the users of financial statements prepared in accordance with the IFRS® for SMEs, professional organizations, regulatory authorities of individual countries and all other interested parties by revision of this Standard.

Responses to the *Request for Information – Comprehensive Review of the IFRS® for SMEs* indicate that the need to revise the IFRS® for SMEs exists, i.e. in the area of soliciting and accepting contributions, which do not automatically make an not-for-profit entity publicly accountable and an not-for-profit entity can use the IFRS® for SMEs if it otherwise qualifies under the *Section 1 Small and Medium-sized Entities*; the main changes from *IFRS 10 Consolidated Financial Statements* and *IFRS 3 Business Combinations (2008)* should be modified as appropriate for small and medium-sized entities; incorporation of those aspects of the fair value guidance in *IFRS 13 Fair Value Measurement* that are important for small and medium-sized entities, modified as appropriate for small and medium-sized entities including the appropriate disclosures and move the fair value guidance from *Section 11 Basic Financial Instruments* into a separate section on fair value measurement.

The issues mentioned above signal that the IFRS® for SMEs needs to be amended in the short period of time. The European Union is considering the IFRS® for SMEs that is why the European Commission asked the EFRAG to provide a comparison of the IFRS® for SMEs with the European Union Accounting Directives. The EFRAG issued its advice to the European Commission and considered six incomparable features with the European Union Accounting Directives. For these six reasons the IFRS® for SMEs cannot be used within the European Union, although the majority of member states believe that the European Commission nevertheless prohibit individual countries to adopt this Standard.

Currently, the European Council, Parliament and Commission agreed on the finalization of the new Accounting Directive that should simplify the accounting requirements for small companies and improve the clarity and comparability of companies' financial statements within the European Union.

Literature:

1. EUROPEAN COMMISSION. 2011. *Directive of the European parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*. [online]. 87 p. Available at internet: <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0684:FIN:EN:PDF>>, Accessed at 20.4.2013
2. EUROPEAN COMMISSION. 2011. *Final Report „Future Skills Needs in Micro and Craft(-type) Enterprises up to 2020“*. [online]. Cologne, Hamburg, Vienna : Publications Office, 2011. 133 p. Available at internet: <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/files/skillsneeds_final_report_final_180211_en.pdf>, Accessed at 20.04.2013
3. EUROPEAN COMMISSION. 2011. *The EU Single Market – Review of the Accounting Directives*. [online]. Available at internet:<http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives/index_en.htm>, Accessed at 20.4.2013
4. EUROPEAN FINANCIAL REPORTING ADVISORY GROUP. 2010. *EFRAG's consultation on Compatibility Analysis: IFRS for SMEs and the EU Accounting Directives*. [online]. p. 15. Available at internet: <<http://www.efrag.org/files/EFRAG%20public%20letters/IFRS%20for%20SMEs%20compatibility%20analysis/The%20Feedback%20Statement.pdf>>, Accessed at 20.4.2013
5. IFRS FOUNDATION. 2012. *Comprehensive Review of the IFRS for SMEs*. [online]. 46 p. Available at internet: <http://www.ifrs.org/IFRS-for-SMEs/Documents/RequestforInformation_IFRSforSMEs_WEBSITE.pdf>, Accessed at 20.4.2013
6. IFRS FOUNDATION. 2012. *IFRS for SMEs – Comment Letters*. [online]. Available at internet: <http://www.ifrs.org/IFRS-for-SMEs/comment-letter/Pages/Home.aspx>, Accessed at 20.4.2013
7. IFRS FOUNDATION. 2012. *IFRS for SMEs – Draft Q&As*. [online]. Available at internet: <<http://www.ifrs.org/IFRS-for-SMEs/Pages/Draft.aspx>>, Accessed at 20.04.2013
8. THE COUNCIL OF THE EUROPEAN UNION. 2013. *Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (Accounting Directive) (First reading) – Approval of the final compromise text*. [online]. 215 p. Available at internet: <<http://register.consilium.europa.eu/pdf/en/13/st08/st08328.en13.pdf>>, Accessed at 20.4.2013

Primary Paper Section: A

Secondary Paper Section: AH

¹¹ THE COUNCIL OF THE EUROPEAN UNION. 2013. *Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (Accounting Directive) (First reading) – Approval of the final compromise text*. [online]. Available at internet: <<http://register.consilium.europa.eu/pdf/en/13/st08/st08328.en13.pdf>>, Accessed at 20.4.2013