

Response to the International Accounting Standards Board (IASB) discussion paper “Preliminary views on Accounting Standards for small and medium-sized entities”

The AAT is pleased to comment on the discussion paper and its impact for smaller entities. We have over 100,000 members, many of whom are employed in smaller entities. In particular we have approximately 1,800 members in public practice and virtually all of those provide accounting services to smaller entities.

The comments have been numbered using the numbering sequence used in the discussion paper.

- 1a) It should be possible for all entities, large or small, to adopt the full IFRS. Whether it is considered suitable, because of the practical aspect, for a small entity to adopt the IFRS is a decision that should be left for the entity to decide. A small entity may want to adopt the full IFRS as a prelude to a listing in a public securities market.
- 1b) We consider the convenience of a single stand-alone authoritative reference work containing all the IFRS specifically for SMEs, will significantly reduce failures to comply with accounting requirements and can see no disadvantage in such a document.

We do not think that the Board “should develop a separate set of financial reporting standards suitable for SMEs”. The problem we have is with the words “develop” and “separate”. This suggests two different standards.

The IFRS for SMEs should use the same principle and concepts (IAS 1 refers to ‘basis’) that are used for the full IFRS. The IFRS for SMEs should summarise and condense the full IFRS into a single comprehensive document.

- 1c) There are two issues here.

The first issue is publicly listed entities preparing their accounts using IFRS for SMEs. If the principles and concepts for the IFRS and the SME IFRS are the same then a publicly listed entity that complies with the SME standard for say depreciation, should by that very fact be complying with the full IFRS in respect of depreciation. A publicly listed entity should be able to prepare its accounts using a combination of SME IFRS and the full IFRS provided that it states that it has done so in the notes to the accounts.

The second issue is that of “national law and jurisdiction”. The IFRS would only become enforceable in a country where the national law requires it. Therefore, it is difficult to see how the Board could restrict the use of SME standards to entities that are not publicly listed entities.

- 2) The objectives do not specifically include the needs of the entity's management, other than to be included within "meeting the needs of users".

It is noted that in Preliminary view 2 (a) it uses the term "enforceable". As previously stated, the IFRS would only become enforceable in a country where the national law requires it.

- 3a) The IASB should describe the characteristics of the entities for which the standards are intended. Given that what is classed as a small company varies from country to country, then perhaps the IASB should suggest quantitative size tests rather than prescribe them.
- 3b) We agree that the Board should develop standards that would be suitable for all entities that do not have public accountability. While the size of the entity is a factor, it is recognised that a small limited company may depreciate its fixed assets in much the same way as a much larger limited company or a plc for that matter.
- 3c) The principle and indicators of public accountability in preliminary view 3.2 and 3.3 seem reasonable. However we would like to point out that the principles may not encompass charitable entities as they do not have investors and do not provide an essential public service (like utility suppliers). Similarly, charities may not be included in terms of financial interest or the economic criteria indicating public accountability.
- 3d) A shareholder would not be able to object on the basis of our previous suggestion in our response to question 1c, that an entity complying with the SME IFRS should, by that very fact, be complying with the IFRS.
- 4) It is helpful, useful and important for an accountant to be able to refer to a single stand-alone authoritative reference work in order to prepare accounts for SMEs. It follows that the accountant should not have to refer back to the full IFRS. Assuming that the stand-alone document contains a SME standard for every full IFRS and assuming that for every item that is recognised/measured in the full IFRS is matched by a similar item in the SME standard then this issue should not arise.
- 5a) An entity should be permitted to revert to an IFRS if the treatment differs on a particular standard contained within the stand-alone authoritative reference work.
- 5b) The principles should be the same in the SME IFRS and the full IFRS therefore we would suggest a standard-by-standard approach.
- 6) We strongly agree that the IFRS should be the starting point for developing SME standards. The principles and concepts must be rooted to the IFRS. The SME standards should be consolidated from those to maintain accuracy, increase clarity and most importantly to achieve brevity.

- 7a) We believe that there should not be any modification to the principles or accounting concepts.
- 7b) We agree that it is likely that disclosure and presentation modifications will be justified on the basis of user need or cost-benefit analysis.
- 7c) We agree that this is a logical approach to developing a standard that takes into account the recognition and measurement principles. While the approach is logical, this would not necessarily mean the resulting standards was logical and fit for purpose.
- 8a) A separate printed volume of the SME standards, where all the information is kept together, will assist the accountant in preparing the accounts. Therefore, it is essential that IASB standards for SMEs should be published in a separate printed volume.
- 8b) We do not feel strongly about the order of the standards. Perhaps it would be useful to the accountant to have the standards in the order in which they first cover an item in the balance sheet and then in the profit & loss account.
- 8c) We agree, and would add that it would be very useful that each SME standard should include a statement of its objective, a summary and a glossary of key terms. If the SME standards were to be published as a separate printed volume then perhaps it would be better to have single glossary rather than a glossary for each standard.
- 9) The sole practitioner and the small business are increasingly burdened with unnecessary bureaucracy and anything that is done to alleviate that burden is always welcomed. We look forward to seeing the first edition of the IASB standards for SMEs.

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