



# Comparison of IFRS for SMEs and national GAAP of nine European countries

## ABOUT EFAA

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The European Federation of Accountants and Auditors for Small and Medium-sized Enterprises (EFAA) represents accountants and auditors providing professional services primarily to small and medium-sized enterprises (SMEs) both within the European Union and in Europe as a whole. Constituents are mainly practitioners from small and medium-sized practices (SMPs), including a significant number of sole practitioners. EFAA's members are, therefore, SMEs themselves and provide a range of professional services (eg audit, accounting, bookkeeping, tax and business advice) to SMEs.

# **Comparison of IFRS for SMEs and national GAAP of nine European countries**

The European Federation of Accountants and Auditors  
for Small and Medium-sized Enterprises



# 1. Introduction

EFAA commissioned a report in 2009 to identify the current differences between the various national Generally Accepted Accounting Principles (GAAP) and the accounting principles laid down in International Financial Reporting Standards (IFRS) for SMEs. IFRS for SMEs was published as a standard in July 2009 by the International Accounting Standards Board (IASB) and was designed for companies with no public accountability. These were defined as being those companies whose shares or debt were not listed on a public exchange or that were not financial institutions with fiduciary responsibilities. National jurisdictions would decide on the scope of the application of IFRS for SMEs, but inevitably it would be applied to a significant number and an extensive range of privately controlled enterprises.

This comparison collates the differences between the national GAAP of nine European Countries:

- UK
- Netherlands
- Germany
- France
- Spain
- Italy
- Norway
- Portugal, and
- Poland.

The report has been prepared to help assess the implications of the possible adoption of IFRS for SMEs in Europe. It looks at a substantial sample of the more significant requirements of IFRS for SMEs and highlights the potential differences.

This report is an addition to that produced by the European Financial Reporting Advisory Group (EFRAG) in November 2009. In its report, EFRAG responded to a request to give the European Commission advice detailing exactly which points in the IFRS for SMEs are incompatible with the European Union (EU) Accounting Directives.

EFRAG issued its advice on 2 May 2010, noting the following incompatibilities between the requirements within IFRS SMEs and those within the EU Accounting Directives.

- i. 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.
- ii. The requirement to measure non-basic financial instruments at fair value.
- iii. 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.

- iv. The requirement to recognise any negative goodwill immediately in profit or loss.
- v. 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.
- vi. The prohibition to reverse an impairment loss recognised for goodwill.

The EFRAG report considered only the incompatibilities that were evident between the accounting directives and the IFRS for SMEs.

This EFAA report aims to extend the EFRAG study on incompatibility by considering some of the practical differences that might exist between the national GAAP applied in the nine member states listed above and the IFRS for SMEs. This report investigates whether, beyond the items identified by EFRAG, there are further inconsistencies created either by the member state options in the Directives when they are transposed into national law, or by other requirements of national law or accounting standards.

The respondents were provided with a questionnaire that asked them to consider 74 different areas of the IFRS for SMEs and to identify the current method of accounting under their own national GAAP.

The 74 questions were split into eight sections:

- Accounting framework
- Financial statements
- Assets and liabilities
- Business combinations, consolidated financial statements and investments in associates and joint ventures
- Liabilities and equity
- Income and expenses
- Foreign currency translation, and
- Specialised activities.

Further investigation should provide additional information to highlight other differences between national GAAP and IFRS for SMEs.

## 2. Accounting framework

### 2.1 SCOPE

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The intended scope of IFRS for SMEs is all enterprises that do not have public accountability and publish general-purpose financial statements.

#### Summary

The scope of the application of the national accounting framework differs in all countries. Some countries already apply IFRS as an option for consolidated accounts of non-listed enterprises (whereas it is mandatory for listed enterprises), while others have already applied the broad principles of national GAAP.

National GAAP is still mandatory and covers a variety of enterprises regardless of their legal status. There may be some enterprises that do not fall into the scope of IFRS for SMEs because they have public accountability. Others are excluded from national GAAP because of specific provisions such as micro-sole traders in Germany and small enterprises and non-profit enterprises in Norway where they can use a simplified version of its national GAAP.

#### Impact

Even though the IASB is of the opinion that IFRS for SMEs is suitable for all enterprises regardless of size, it leaves it up to national jurisdictions to decide whether all enterprises are obliged to apply IFRS for SMEs or whether national jurisdictions should define their own limits for micro-enterprises and exempt these from the application.

There are clear variations across the sample in the application of national GAAP for micro-enterprises and non-profit organisations, which would need to be addressed on the application of IFRS for SMEs.

### 2.2 VALUATION

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The valuation requirement for IFRS for SMEs is that assets are generally valued at historical cost while investment property and biological assets have to be revalued at fair value. Certain financial instruments are also to be measured at fair value. All items are subject to impairment review.

#### Summary

Most of the countries listed above have a valuation system based on historical costs, which allows some limited use of fair value. In particular, most allow fair value accounting for certain financial instruments, albeit in some countries this is restricted to the accounting of banks and financial service providers. In one instance, Portugal, fair value accounting is only possible in respect of tangible assets.

#### Impact

The method of valuation is highly significant for company balance sheets, and a change in the method of valuation would affect all countries, with particular impact in those countries that do not already allow fair value to the extent that the IFRS for SMEs requires it (see section 4 below).

### 2.3 CONCEPTS

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IFRS for SMEs requires that an entity shall prepare its financial statements, except for cash flow information, using the accrual basis for accounting. The qualitative characteristics of information in financial statements are: understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, and a balance between benefit and cost.

#### Summary

All countries' GAAP is based on the same principles, although these may be weighted slightly differently in some cases. Two notable distinctions are in France, where the principle of substance over form is restricted to consolidated accounts, and in Italy, where this principle is forbidden in certain cases involving the presentation and measurement of financial leases.

#### Impact

There do not appear to be wide variations in concepts. The probable differences appear to concentrate on the principle of substance over form, which would affect companies in France and Italy. The impact could be significant and is further discussed in section 4.11.

## 2.4 FAIR PRESENTATION

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The application of IFRS for SMEs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows. Departure is only allowed in extremely rare circumstances when compliance would be so misleading that it conflicts with the objective that the financial statements are fairly presented.

### Summary

In accordance with the Fourth Directive, all EU countries apply the true and fair view rules either by relevant rules in their national GAAP or by allowing departure from national GAAP if necessary for a true and fair view, or by applying IFRS for SMEs. Some countries require additional disclosures in the accompanying notes.

### Impact

There do not appear to be wide variations in the concept of fair presentation.

## 2.5 FIRST-TIME ADOPTION

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IFRS for SMEs requires full retrospective application, with ten optional exemptions, one general exemption and five mandatory exemptions.

### Summary

Countries have different regulations regarding the possibility of retrospective application of new rules.

### Impact

Since retrospective application of IFRS for SMEs is provided for in the rules itself, this could provide for differences on application.

## 2.6 SELECTION OF ACCOUNTING POLICIES

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IFRS for SMEs requires that where it does not specifically address a transaction, management should use its judgement to provide information in the financial statements that is relevant for the needs of the users, and that is reliable.

### Summary

Most countries have similar provisions. Some countries require full disclosure in the accompanying notes of all major management valuation methods other than those regulated for in the respective GAAP.

### Impact

Negligible.

## 3. Financial statements

### 3.1 COMPONENTS OF FINANCIAL STATEMENTS

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IFRS for SMEs requires that a complete set of financial statements comprises: a statement of financial position; either a single statement of comprehensive income or a separate income statement and a separate statement of comprehensive income; a statement of changes in equity; a statement of cash flows; and explanatory notes comprising a summary of significant accounting policies. There is no prescribed format.

#### Summary

Components of the financial statements are broadly similar in the survey countries except for the cash flow statements (see section 3.6) where differences are evident with respect to the requirement to include a cash flow statement. In the Netherlands, Italy and Portugal, cash flow statements are not required, whereas in Germany and France they are required only for consolidated accounts or for enterprises listed in capital markets whose financial statements follow the IFRS format. The UK allows wholly owned subsidiaries and small companies an exemption (Spain allows an exemption for the latter) from the requirement to prepare a cash flow statement.

#### Impact

New mandatory cash flow statements would increase the costs of preparing financial statements but would also give more precise information to stakeholders (see section 3.6).

### 3.2 STATEMENT OF FINANCIAL POSITION

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IFRS for SMEs requires, as a minimum, that the statement of financial position shall include line items that present the following amounts: cash and cash equivalents, trade and other receivables, financial assets, inventories, property, plant and equipment, investment property, intangible assets, biological assets, investments in associates and jointly controlled enterprises, trade and other payables, financial liabilities, assets and liabilities for current and deferred tax, provisions, non-controlling interests and equity attributable to the owners of the parent. A current/non-current distinction is made of assets and liabilities.

#### Summary

There is no mandatory distinction between current and non-current assets in Germany and France whereas in Poland biological assets are not shown separately. Terminology may vary but the required items broadly mirror those in GAAP.

#### Impact

A more detailed distinction of financial positions should increase the information level of financial statements but is unlikely to lead to significant additional costs.

### 3.3 STATEMENT OF TOTAL COMPREHENSIVE INCOME AND INCOME STATEMENT

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IFRS for SMEs requires that an entity shall present its total comprehensive income in a single statement or in two statements as outlined in section 3.1 above. An income statement includes revenues, finance costs, shares in the results of joint ventures and associates (under the equity method), tax expenses, and discontinued operations. A comprehensive income statement includes a share in the other comprehensive income of joint ventures and associates, and any other comprehensive income. Separate disclosure in a statement or in the accompanying notes is required if material. Extraordinary items are not allowed.

#### Summary

Some countries require statements of comprehensive income and income statements that are broadly consistent with IFRS for SMEs and some countries do not require a comprehensive income statement.

In France, Germany, Norway, Portugal and Poland the statement of other comprehensive income does not exist.

#### Impact

The inclusion of comprehensive income statements leads to additional detailed information for potential users but can also increase the cost of the preparation of the financial statements.

### 3.4 STATEMENT OF CHANGES IN EQUITY

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IFRS for SMEs requires that an entity shall present a statement of changes in equity, showing total comprehensive income (both attributable to the owners of the parent and to non-controlling interests) and also for each component of equity,

- the effects attributable to changes in accounting policies and corrections of material prior-period errors,
- a reconciliation from the opening to the closing balance for profit, each item of other comprehensive income and the amount of investments by and distributions to owners;

#### Summary

In many countries a separate statement of changes in equity is not required although, where this is the case, equivalent statements are usually presented in the accompanying notes to the financial statements. Some countries limit the obligation for a separate statement to certain companies. For instance, in Germany, only enterprises listed on capital markets that require IFRS need produce a statement and in the Netherlands there is an exemption for small companies from doing so.



### Impact

The obligation to disclose any changes in equity would be introduced as a primary statement. There would be no impact in terms of additional information as this is already provided elsewhere within the financial statements.

## 3.5 STATEMENT OF INCOME AND RETAINED EARNINGS

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IFRS for SMEs requires that an entity shall present a statement reconciling the retained earnings at the beginning and at the end of each period. If changes in equity include only income, dividends and restatements, this statement may be merged with the income statement.

### Summary

Most countries have no separate statement of income and retained earnings, with changes in retained earnings usually being shown in the statement of equity or in the accompanying notes. In Poland and Spain the separate statement includes comprehensive income. Companies within the UK usually present a separate statement.

### Impact

The option provided by IFRS for SMEs should not have a major impact in terms of the provision of additional information.

## 3.6 STATEMENT OF CASH FLOWS

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IFRS for SMEs requires that the statement of cash flows must present information about changes in cash and cash equivalents, showing separately the changes arising from operating activities, investing activities and financing activities. A direct or indirect method may be used.

### Summary

Differences are evident with respect to the requirement to include a cash flow statement. In the Netherlands, Italy and Portugal, cash flow statements are not required, whereas in Germany and France they are required only for consolidated accounts or for enterprises listed on capital markets that require IFRS. The UK requires a statement of cash flows but does allow exemptions for wholly owned subsidiaries and for small companies. Spain also allows an exemption for small companies.

### Impact

The option provided by IFRS for SMEs should not have a major impact in terms of the provision of additional information.

## 3.7 CONSISTENT APPLICATION OF ACCOUNTING POLICIES

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IFRS for SMEs requires that an entity shall select and apply its accounting policies consistently for similar transactions.

### Summary

In all countries, GAAP requires that the choice of policies is consistently applied and similar transactions are accounted for in a similar manner. In Germany, exceptions in highly justified situations are possible, but require a related disclosure in the accompanying notes.

### Impact

There will be no impact since the principle is already established in all national GAAPs surveyed.

## 3.8 AMENDMENT TO IFRS FOR SMES: TRANSITION PROVISION

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IFRS for SMEs requires an amendment of IFRS: if no transition provision is in existence the same procedure as with a prior-period adjustment should be followed.

### Summary

Most of the countries apply the same full retrospective approach, which is consistent with IFRS for SMEs. Germany does not apply a retrospective approach, while the Netherlands and Italy have no provision regarding this topic in their GAAP.

### Impact

The comparability of information presented in subsequent years would be impaired on the adoption of IFRS for SMEs where a retrospective approach is not allowed. This would represent a general change in current practice in Germany.

### 3.9 A CHANGE IN AN ALLOWED OPTION IS SEEN AS A CHANGE IN ACCOUNTING POLICY

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IFRS for SMEs requires that a change in an allowed option is a change in accounting policy.

#### Summary

A change in an allowed option is seen as a change in accounting policy in all countries.

#### Impact

There will be no impact as all countries follow the procedure outlined by IFRS for SMEs.

### 3.10 DISCLOSURE OF CRITICAL ESTIMATES AND JUDGEMENTS

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IFRS for SMEs requires that financial statements should disclose critical estimates and judgements.

#### Summary

France and Portugal have similar regulations to IFRS for SMEs. The Netherlands requires a disclosure only when it is necessary to assess the financial position and result of the entity or the group, but Poland requires disclosure if critical estimates and judgements are related to the going concern assumption.

#### Impact

The requirement for disclosure would be an unfamiliar requirement in some countries and may lead to additional costs to the preparer of financial statements and to issues over comparability.

### 3.11 CHANGES IN ACCOUNTING ESTIMATES PROSPECTIVELY AND THE RELATIVE BALANCE SHEET ITEMS

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IFRS for SMEs requires that changes in accounting estimates should be recognised prospectively by including them in the profit or loss account and by adjusting the carrying value of the related asset, liability or equity item.

#### Summary

Most countries have similar regulations but some countries (the Netherlands and Germany) have no specific provision.

#### Impact

The impact would be determined by the extent to which those countries with no specific provision followed the IFRS for SMEs policy, if adopted.

### 3.12 CORRECTIONS OF PRIOR-PERIOD ERRORS RETROSPECTIVELY IF MATERIAL

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IFRS for SMEs requires that, to the extent practicable, an entity shall correct a material prior period error retrospectively.

#### Summary

Most countries have a regulation to correct prior-period errors retrospectively similar to that included within IFRS for SMEs. In France, the impact on prior periods would be presented with pro forma information in the notes and in the Netherlands a presentation in the notes is possible. Germany does not allow a retrospective correction, but only a correction in the current financial statements.

#### Impact

There may be an enormous impact for Germany since this would create the necessity to change, certify and republish the prior-period financial statements.

### 3.13 NOTES TO THE FINANCIAL STATEMENTS INCLUDE A STATEMENT OF COMPLIANCE WITH IFRS FOR SMES, ACCOUNTING POLICIES, ETC.

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IFRS for SMEs requires that notes to the financial statements shall include: a statement of compliance with IFRS for SMEs; accounting policies applied; critical estimates and judgements made within the financial statements; and supporting information for items presented in the primary statements in addition to changes in accounting policies and estimates and externally imposed capital requirements.

#### Summary

All countries have a legal requirement that the accompanying notes to the financial statements include information about the accounting basis on which the financial statements have been prepared. Other additional information that is required under national GAAP varies among the survey countries.

#### Impact

The impact would be minimal because each country, although having different rules, follows a similar requirement.

### 3.14 DISCLOSURE OF IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

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IFRS for SMEs requires an entity to disclose its immediate parent and ultimate controlling party.

#### Summary

All countries except Portugal have the requirement to disclose the immediate parent and ultimate controlling party.

#### Impact

The impact would be minimal with only Portugal having to insert additional information.

### 3.15 DISCLOSURE OF RELATED-PARTY TRANSACTIONS, AGGREGATED BY NATURE

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IFRS for SMEs requires disclosure of related-party transactions, aggregated by nature.

#### Summary

The disclosure of related-party transactions is mandatory in all countries except Portugal. In the Netherlands the detailed disclosure is limited to those enterprises in which there is a shareholding and for other transactions the only justification for disclosure is where the related-party transactions were not at arm's length. The UK and Italy allow exemptions from these disclosures for wholly owned subsidiaries.

#### Impact

The additional disclosure would be significant if such transactions were to be disclosed and would result in additional costs in the preparation of the financial statements. More information would, however, be disclosed to users of those financial statements.

### 3.16 ADJUSTING AND NON-ADJUSTING EVENTS

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IFRS for SMEs requires that adjusting events occurring between the end of the reporting period and the date on which the financial statements are authorised are those that provide evidence of conditions existing at the balance sheet date. Non-adjusting events (including dividends proposed or declared afterwards) lead only to disclosure.

#### Summary

Most companies have a regulation similar to IFRS for SMEs regarding adjusting and non-adjusting events. In Germany, strict knowledge at the balance sheet date is required for events to lead to an adjustment and the strict adoption of knowledge at the balance sheet date is mandatory. Nonetheless, foreseeable risks and losses occurring up to the balance sheet date lead to adjustments if they become known between the balance sheet date and the date of preparation of the financial statements. In the Netherlands, profit distributions may always lead to adjustments, and dividends proposed and declared after the year-end are included in current liabilities.

#### Impact

The impact will be minimal for adjusting and non-adjusting events as most countries have a similar regulation. Some differences may occur on the accounting treatment of proposed dividends.

### 3.17 DISCLOSURE OF THE DATE THAT FINANCIAL STATEMENTS WERE AUTHORISED FOR ISSUANCE AND WHO AUTHORISED THE FINANCIAL STATEMENTS

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IFRS for SMEs requires that an entity shall disclose the date that the statements were authorised for issuance and who authorised them.

#### Summary

The disclosure of the date that financial statements were authorised for issuance and who authorised them is mandatory in the UK, Italy and Poland. In the last of these, appropriate explanations in the notes are sufficient if the events do not change the conditions existing at the balance sheet date. In the Netherlands and Germany only the disclosure of the date of authorisation is required. France and Spain do not require any disclosure, although in Spain the signature of the Board is mandatory.

#### Impact

The impact will be negligible because the information will be readily available and easily disclosed.

### **3.18 DISCLOSURE IF OWNERS OR OTHER PERSONS HAVE THE POWER TO AMEND FINANCIAL STATEMENTS POST ISSUANCE**

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IFRS for SMEs requires that an entity must disclose any power that its owners or other persons have to amend its financial statements after issuance.

#### **Summary**

Only companies in Spain that apply IFRS for SMEs, and in the Netherlands, require disclosure of any power that the owners or other persons have to amend financial statements post issuance. All other countries' GAAP does not require such a disclosure.

#### **Impact**

This should not lead to a significant impact since the information required can be easily obtained.

## 4. Assets and liabilities

### 4.1 DEFINITIONS AND RECOGNITION CRITERIA FOR ASSETS AND LIABILITIES

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IFRS for SMEs requires that assets are recognised when having future economic benefits and liabilities and when there is a present obligation for an entity to act in a certain way, if it is probable that future economic benefits would flow to or flow from the entity and the relative cost or benefit can be measured reliably.

#### Summary

Most of the countries have definitions of assets and liabilities that are broadly similar to those in IFRS for SMEs. The exception is in Italy, where no general definition is provided in statute.

#### Impact

The significance of such general definitions is hard to predict. The definition would be important where there is no other form of accounting guidance for a specific item and in such cases preparers of financial statements would revert to these definitions and, indeed, other elements of the conceptual framework. The other significance of the definitions is when they throw up internal contradictions between themselves and some of the specific accounting requirements.

Norway highlighted the control element in its definition but this is included in the definition in the IFRS for SMEs.

### 4.2 INVENTORIES

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IFRS for SMEs requires that inventories be measured at the lower of cost (first in, first out (FIFO) or weighted average), including all direct purchase costs and the estimated selling price less costs to complete or sell.

#### Summary

The nine countries surveyed can be divided into two groups: those that use valuation principles that are comparable to IFRS for SMEs (UK, France, Spain, Portugal and Norway) and those where LIFO (last in, first out) is allowed as well (Netherlands, Germany, Italy and Poland).

#### Impact

Inventories are a material item in the financial statements of many businesses. Although in reality both LIFO and FIFO are only cost allocation methods, the use of LIFO, rather than FIFO, tends to produce material differences in reported profits and balance sheet values. In times of rising prices the use of LIFO tends to reduce profits and inventory values and so can be popular for tax purposes. In all the 'LIFO countries' this is an option, not a requirement. The impact of this difference would therefore depend on how many companies in these countries currently adopt the use of LIFO and would have to change their valuation methods.

### 4.3 INVESTMENT PROPERTY

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IFRS for SMEs requires that investment property whose fair value can be measured reliably is accounted for at fair value through profit or loss. Where fair value involves undue cost or effort or cannot be determined, it is accounted for as property, plant and equipment (PPE).

#### Summary

Most countries treat investment property in the same way as other PPE; that is, at amortised cost. There is a restricted use of fair value in Italy and Poland and a choice between the two methods is allowed in the Netherlands. The UK is consistent with IFRS for SMEs on the balance sheet but the treatment of the changes in fair value is very different.

#### Impact

Relatively few companies have investment properties; mostly those in insurance or property development. The impact would therefore depend on how much the fair value alternative is used. For the companies involved there could be a significant change, but quite a number may decide that 'fair values are not readily obtainable without undue cost and effort' and then they can revert to the PPE treatment under IFRS for SMEs.

### 4.4 PROPERTY, PLANT AND EQUIPMENT (PPE)

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IFRS for SMEs requires that PPE be measured at cost (including direct attributable expenses), less accumulated depreciation and any accumulated impairment losses.

#### Summary

The treatment in IFRS for SMEs would be broadly in line with that used in all the countries. There are revaluation options in five countries (UK, Netherlands, Italy, Portugal and Poland) and for any companies that have taken up the revaluation option there would be a clear change. There seems to be an option for expensing certain costs in France that might have to be capitalised under IFRS for SMEs.

#### Impact

The impact of the differences between countries depends on how much these options have been exercised. Revaluation has been used by a minority of companies in the UK and this affects not only the balance sheet values, but also the depreciation cost and the profit or loss on disposal.

There may be other, more detailed aspects of the accounting for PPE under IFRS for SMEs that may also give rise to differences, eg on subsequent expenditure and residual values.

#### 4.5 INTANGIBLES, OTHER THAN GOODWILL

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IFRS for SMEs requires intangible assets other than goodwill to be measured at cost. 'Cost' here includes direct attributable expenses, less accumulated amortisation and accumulated impairment losses. Internally generated brands, mastheads, customer lists, publishing titles and all expenditure for both research and development (R&D) are not recognised as an asset, but instead the cost of these activities should be expensed.

##### Summary

All countries could accommodate the treatment prescribed in IFRS for SMEs, with Germany being fully in line with IFRS for SMEs. All others have an option to capitalise R&D costs when certain conditions are met. In some countries, the capitalisation option goes wider to include other sorts of intangible assets, including start up costs (the Netherlands, Italy and Norway).

##### Impact

The potential differences arising from the adoption of IFRS for SMEs, depend on how extensively these capitalisation options have already been applied. Certain sectors, such as software, pharmaceuticals and engineering, are likely to be particularly affected.

#### 4.6 FINANCIAL INSTRUMENTS

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IFRS for SMEs requires basic financial instruments to be measured at amortised cost less impairment; financing transactions should be recognised at present value and other instruments at fair value. Hedge accounting is accounted for under basically the same bureaucratic requirements as in IAS 39.

##### Summary

There are significant differences between the accounting requirements in the various survey countries. A number are already in line with the basic accounting prescribed in IFRS for SMEs (the Netherlands, Spain, Norway, Portugal and Poland), but in the UK there is currently a lack of regulation in this area. Germany, France, and Italy do not use fair values and so could not accommodate IFRS for SMEs in this area.

##### Impact

Financial instruments as a whole are highly significant in terms of company balance sheets even outside the financial sector. In practice, the main areas of difference are likely to be the fair value accounting for derivatives and for listed equity investments for those countries and companies currently using other accounting conventions.

There may also be a reduction in hedge accounting where the 'bureaucratic' rules would have to be applied for the first time and there would probably be more detailed requirements in IFRS for SMEs in respect of financial instruments that may turn out to be sources of difference, eg applying market discount rates to financing transactions or to loans with below-market interest rates.

#### 4.7 IMPAIRMENT OF INVENTORY AND OF OTHER ASSETS

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IFRS for SMEs requires that impairment be recognised where the carrying amount of an asset exceeds its recoverable amount.

##### Summary

All countries broadly have similar requirements to IFRS for SMEs in this respect.

##### Impact

The impact will be negligible, although there may be differences in some of the elements of the calculation, eg discounting.

#### 4.8 PROVISIONS AND CONTINGENCIES

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IFRS for SMEs requires that provisions be recognised if, at the balance sheet date, an obligation exists, it is probable that economic benefits will be transferred, and the amount can be reliably recognised. The recognition of a contingent liability is only allowed in a business combination.

##### Summary

There are few variations here between countries in the general requirements to make provisions. Nonetheless, the details of the requirements are highly significant and the probability is that practice varies more than might be apparent. The Netherlands allows a provision to be made, even if an obligation may not exist. Germany and Italy refer to provisions for all risks, which would seem to go much further than other countries and than IFRS for SMEs.

On the more specific point of the recognition of contingent liabilities on a business combination, there is a clearer division. This should be permissible in the UK, the Netherlands and Germany but would not be possible in France, Portugal, Norway and Poland.

##### Impact

Provisions would be significant items in many, though perhaps not a majority of, companies' accounts. There seems to be some variance in the current accounting for these and so there will also be differences (probably reductions in the value of provisions) if companies changed to IFRS for SMEs. The effect of the recognition of contingent liabilities in business combinations would be of considerably less impact.

## 4.9 EMPLOYEE BENEFITS

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IFRS for SMEs has a general requirement that an entity shall recognise the cost of all employee benefits to which its employees have become entitled. Under a defined contribution plan, only the contribution of the entity shall be recognised. All other plans are defined benefit plans and the entity shall recognise its defined benefit liability.

### Summary

The answers provided seem to cover mostly retirement benefits in defined benefit (DB) or defined contribution (DC) schemes. In these areas alone there were significant differences in the treatment, both between the different countries and between current practice and IFRS for SMEs; this is most significant in France, where the recognition of the obligation is optional. Some differences concerned the calculation of the obligation (specific discount rates in Germany and Norway) or whether future salary increases had to be included (Germany) or excluded (the Netherlands).

On the more specific question of whether the option of accounting for actuarial gains and losses through the statement of other comprehensive income (OCI) is exercised, the countries are in two groups: those where there seems to be a problem with this option (the Netherlands, Germany, France, Italy and Norway) and those where it is already possible (the UK, and Portugal).

### Impact

This varies between jurisdictions and companies depending on whether DB schemes are material or not. In Italy DC schemes are more prevalent, with DB schemes being rarer in practice. Where there is a material DB obligation, then variations in the assumptions or the basis for the calculation tend to produce very significant differences in the numbers included in the accounts.

On the P&L or OCI issue, there is no balance sheet difference (the obligation would be reported in full) but there can be very significant differences in reported profits. For some companies, actuarial gains and losses can be so volatile and material that they can obscure the rest of the results of the business. For the UK there might be a new option (immediate recognition in P&L) provided by IFRS for SMEs, but this is not likely to be much taken up.

The extent of these differences could be explored further in a more detailed comparison of requirements, given the complexity of the subject, and there may also be variations outside DB schemes, eg in provisions of long-service schemes, healthcare or short-term bonuses.

## 4.10 INCOME TAXES

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IFRS for SMEs requires that an entity shall recognise a current liability for tax payable and a current asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period. Deferred tax assets and liabilities shall be recognised as a result of past transactions or events.

### Summary

All but one of the countries surveyed required deferred tax provisions to be made. The recognition of deferred tax is not mandatory in individual company accounts in France. Most of the other countries report that they are, in effect, in line with IFRS for SMEs, although there are some significant differences in the deferred tax models applied in the UK, Italy and Germany, which are generally more prudent, eg deferred tax assets are not commonly recognised.

### Impact

Deferred tax would often be a major balance sheet item and differences are likely to be significant in about half the survey countries. The effect would be most significant in France, depending on the extent of the application of the option not to provide for deferred tax.

## 4.11 LEASING

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IFRS for SMEs requires that finance leases be recognised if, at inception, substantially all the risks and rewards are transferred to the lessee. The lessee carries the leased asset at the lower of fair value and depreciated cost.

### Summary

Two countries (France and Italy) do not have separate recognition and capitalisation of finance leases. All the others have treatments broadly similar to those in IFRS for SMEs.

### Impact

Leasing is a widely used form of finance. The majority of leases are operating leases and so would be treated similarly throughout. The main differences between current practices and IFRS for SME, and hence the changes that would arise on finance leases, appear to be in France and Italy. Many listed companies have reportedly ensured that they have few finance leases by carefully writing the terms of the leases. Unlisted companies and SMEs may not have been so concerned and so may have more finance leases.

There may be some further significant differences in the accounting for operating leases, such as dealing with rent-free periods, other forms of incentives, depreciation or lessor accounting.



## 5. Business combinations, consolidated financial statements and investments in associates and joint ventures

### 5.1 BUSINESS COMBINATIONS

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IFRS for SMEs requires that business combinations be accounted for by applying the purchase method and (a) identifying the acquirer, (b) measuring the cost of the business combination, and (c) allocating the acquisition cost to the assets and liabilities acquired measured at fair value.

#### Summary

All the countries identify an acquirer when the purchase method is used. In most countries, the acquirer pays the cost of the combination.

Poland and France do not allow the recognition of contingent liabilities. Most countries allow the 'pooling of interest' method, under certain circumstances.

#### Impact

Most countries have broadly similar rules, except that the 'pooling of interest' method must be used under certain circumstances.

### 5.2 LIFETIME OF GOODWILL AND DEPRECIATION,

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IFRS for SMEs requires that the excess of acquisition cost over the fair value of the separable assets and liabilities is goodwill. If a reliable estimate of the useful economic life cannot be made then it is to be assumed to be ten years and amortised accordingly.

#### Summary

The presumed lifetime of goodwill varies between 5 years, 20 years and an indefinite period. Throughout the survey group, annual impairment testing is common.

#### Impact

Currently it is common to allow the lifetime to exceed 10 years and it is possible that countries would continue to do so. One would think that many would create estimates that define the lifetime as more than ten years to avoid material changes. The main issue here is the reliability of the estimates of the lifetime if one intends to use more than ten years.

The default period of ten years in IFRS for SMEs may be a realistic harmonisation across the countries.

### 5.3 NEGATIVE GOODWILL

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IFRS for SMEs requires that negative goodwill arises where the net fair value of assets and liabilities exceeds the acquisition cost. This is to be expensed directly to the profit and loss, where it still exists after re-assessment of the fair values of the assets and liabilities acquired.

#### Summary

Some countries demand reassessment of the fair value of assets first and it is assumed that this is a common practice. Spain and Portugal recognise negative goodwill immediately into the P&L. The UK and France recognise negative goodwill over the lifetime of the assets with which the negative goodwill is associated. Norway uses a five-year period of amortisation for the negative goodwill. In the Netherlands and Italy negative goodwill is recognised as a change in equity. Poland classifies negative goodwill as a liability and recognises it in the P&L in special circumstances. Germany does not recognise a balance sheet item of negative goodwill.

#### Impact

The reassessment process would probably be little different from now. The immediate P&L recognition would affect many countries that currently allow the negative goodwill to be spread over a number of years but, in the name of simplification, the impact seems positive.

### 5.4 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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IFRS for SMEs requires all subsidiaries to be included within consolidated financial statements, with uniform accounting dates and accounting policies.

#### Summary

Most countries require uniform accounting dates and accounting policies. Nonetheless, in certain countries not all subsidiaries are required to be consolidated. Typically, these subsidiaries have been bought or sold during the year and are immaterial to the financial statements. Some countries do not require consolidated accounts for small companies.

#### Impact

By its nature, IFRS for SMEs focuses on the consolidated financial statements. Hence, in countries that allow small companies not to prepare consolidated statements or allow for some subsidiaries not to be consolidated, IFRS for SMEs might have a significant impact and increase the burden of the work needed to prepare consolidated financial statements.



### 5.5 EXEMPTION FOR THE INTERMEDIATE HOLDING COMPANY FROM PREPARING CONSOLIDATED FINANCIAL STATEMENTS WHERE THE ULTIMATE OR ANOTHER HOLDING COMPANY PREPARES CONSOLIDATED FINANCIAL STATEMENTS

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IFRS for SMEs allows exemption for intermediate holding companies if the ultimate or intermediate holding company performs a consolidation based on IFRS for SMEs.

#### Summary

Most countries accept an exemption for intermediate holding companies, especially if the ultimate parent undertaking is within the EU zone. Some countries demand full IFRS at ultimate parent level, whereas other countries do not require any specific accounting standard to be used.

#### Impact

If the ultimate parent company uses accounting standards other than IFRS or IFRS for SMEs, this would result in a limitation in the use of the exemption compared with the current legislation for some countries. Nonetheless, it is probably quite common that the ultimate parent uses full IFRS, especially within the EU zone.

### 5.6 SPECIAL PURPOSE ENTERPRISES (SPEs)

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IFRS for SMEs requires SPEs to be consolidated if the substance of the relationship between the SPE and the entity indicates control.

#### Summary

Most countries that do have applicable regulation consider the control aspect in relation to the consolidation of SPEs. The UK focuses on risk and reward rather than on control. Germany uses the purchase method (fair value). The other countries in the survey do not have any specific regulation.

#### Impact

Countries without specific regulation would now have more specific rules in regard to the consolidation of SPEs, but the impact on most countries may be limited since the control aspect is dominant.

### 5.7 SEPARATE FINANCIAL STATEMENTS: SUBSIDIARIES, JOINT CONTROLLED INTEREST AND ASSOCIATES EITHER AT COST OR AT FAIR VALUE

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IFRS for SMEs requires separate financial statements. Subsidiaries, joint controlled enterprises and associates are accounted for either at cost or at fair value within an investor's financial statements.

#### Summary

The equity method is common as an alternative to cost and fair value, with the fair value option (allowed in Poland) not being commonly accepted or implemented.

#### Impact

Most countries would be affected by this, since fair value is introduced and the equity method is not allowed. The cost method is easy to implement and would probably be the most popular choice in the name of simplification.

### 5.8 COMBINED FINANCIAL STATEMENTS (ONE INVESTOR) ALLOWED IF ALL CONSOLIDATION REQUIREMENTS ARE FOLLOWED

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IFRS for SMEs allows combined financial statements (the financial statements of two or more enterprises controlled by a single investor) if all consolidation requirements are followed.

#### Summary

Most countries do not have specific rules for this situation.

#### Impact

Since this is only relevant if a company chooses to use this option, the impact on the countries considered here would probably be limited.

## 5.9 INVESTMENTS IN ASSOCIATES – GROUP FINANCIAL STATEMENTS

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IFRS for SMEs requires that associates be accounted for at cost (less impairment), using the equity method or fair value. Investments are classified as non-current investments.

### Summary

Five countries (the UK, the Netherlands, Portugal, Spain and Poland) require the equity method alone, three countries (France, Italy and Norway) allow either the cost or equity method and one country (Germany) requires cost.

All countries classify the investments as non-current assets.

### Impact

Since the standard allows all relevant different methods, the impact would be minimal, but the introduction of more options may influence national comparability.

## 5.10 INVESTMENTS IN JOINT VENTURES – JOINTLY CONTROLLED OPERATIONS

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IFRS for SMEs requires the venturer to recognise the assets and liabilities that it controls and its share of any joint venture cash or income.

### Summary

As with IFRS for SMEs, no countries have specific rules about joint controlled operations.

### Impact

The impact is low in this area.

## 5.11 INVESTMENTS IN JOINT VENTURES – JOINTLY CONTROLLED ASSETS

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IFRS for SMEs requires that joint controlled assets be accounted for by accounting for an entity's share in the assets and liabilities.

### Summary

Six countries do not have specific rules in this area. The UK and France have similar rules to those in IFRS for SMEs, and the Netherlands allows cost or the equity method.

### Impact

The impact is low in this area.

## 5.12 INVESTMENTS IN JOINT VENTURES – JOINTLY CONTROLLED ENTERPRISES

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IFRS for SMEs requires joint controlled enterprises to be accounted for at cost (less impairment), equity value or fair value.

### Summary

Proportional accounting is allowed in Germany, France, Italy and Norway. The other surveyed countries allow either cost or the equity method.

### Impact

The IFRS for SMEs would affect those countries that allow proportional accounting as an alternative, which is not allowed under IFRS for SMEs. The closest option allowed under IFRS for SMEs is the equity method.

## 6. Liabilities and equity

### 6.1 SUBSTANCE OR LEGAL FORM

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The overriding principle in IFRS for SMEs is that liabilities will be accounted for on the basis of substance over form.

#### Summary

Most countries follow the principle of substance over form (UK, Netherlands, Germany, Spain, Italy and Portugal), whereas France and Norway recognise assets and liabilities more the basis of legal form. Poland takes a position between liabilities based on substance and equity based on a legal form.

#### Impact

The impact is hard to interpret, as it is possible that the principle of substance over form is supported in theory but not always in practice.

### 6.2 ISSUANCE OF EQUITY SHARES

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IFRS for SMEs requires that equity shares be measured at fair value of cash, or other resources contributed, less transaction costs and any related tax benefit.

#### Summary

Most countries follow the same principle but there is some deviation in the detail. In so far as Norway and Portugal are concerned the transaction costs are set off separately. In France there is also an option for expensing the costs or recognising them as an asset and amortising them.

#### Impact

Differences do not appear to be important, as share issuance costs are not normally a significant factor for non-listed companies.

### 6.3 COMPOUND FINANCIAL INSTRUMENTS

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IFRS for SMEs requirement: Compound financial instruments are to be allocated between the liability and equity component on initial recognition.

#### Summary

Application is rather divided with practice in the UK, the Netherlands and Poland being the same as required by IFRS for SMEs. Spain has rules for compound financial instruments adapted to the requirements of IFRS. The matter is not included in the national GAAP of the remaining countries.

#### Impact

The impact, although dependent on interpretation, could be substantial. Where the national GAAP makes no reference, practice would follow the general accounting principles in the country. For instance, Norway would account for them based on the principle of substance over form while France would look to the legal form.

### 6.4 TREASURY SHARES

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IFRS for SMEs requires that the fair value of the consideration be deducted from equity. No gain or loss is to be recognised in the profit and loss on purchase, sale, issue or cancellation of treasury shares.

#### Summary

The application of current GAAP differs across the survey population. The UK, Germany, Portugal and Poland follow the same principles as in IFRS for SMEs. The Netherlands follows a similar principle except that a gain or loss is possible. France follows this principle in consolidated accounts, but in individual accounts the consideration is an asset. In Italy treasury shares are an asset and a specific reserve is formed and in Norway a separate line under subscribed capital is created or disclosed in the note or in the presentation of changes in equity. Spain does not contemplate this issue in SMEs.

#### Impact

Although very different treatments exist the overall impact is unlikely to be very material. Whether recognised as an asset or deducted from equity the impact is limited as treasury shares are unlikely to be common in SMEs.

### 6.5 NON-CONTROLLING INTERESTS

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IFRS for SMEs requires non-controlling interests to be presented in the consolidated financial statements in equity.

#### Summary

The survey countries' accounting treatments differ considerably, although in the Netherlands, France and Norway the same principles as in IFRS for SMEs are used. In certain jurisdictions this is not covered in national GAAP.

#### Impact

Non-controlling interests are likely to be rare in SMEs and so the impact of any change is unlikely to be significant.

## 7. Income and expenses

### 7.1 REVENUE FROM SALE OF GOODS

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IFRS for SMEs requires that revenue be recognised when, inter alia, the significant risks and rewards of ownership have been transferred to the buyer and it is probable that economic benefits would flow.

#### Summary

In most countries the recognition of revenue from goods and services is broadly similar to the definition in IFRS for SMEs, although certain countries have a wider definition than the IFRS for SMEs.

#### Impact

The significance of such general definitions for revenues can be hard to predict but in practice it seems unlikely that significant differences would arise. Nonetheless, there may be other more detailed aspects of revenue accounting that give rise to differences for recognition purposes.

### 7.2 REVENUES FROM SERVICES

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IFRS for SMEs requires that an entity shall recognise revenue by reference to the stage of completion of the transaction at the end of the reporting period.

#### Summary

Most countries recognise revenue from services based on the stage of completion method, although some offer an alternative method in that they can apply a final completion method. Germany does not allow for a stage of completion method; under German GAAP, the income can only be recognised when legal title has passed.

#### Impact

This is a significant item in the P&L for service companies. Under IFRS for SMEs German companies would have to move to account for services revenue on the stage of completion method. The costs could be significant for preparers of financial statements but comparability across Europe would be achieved in this area.

### 7.3 REVENUES FROM CONSTRUCTION CONTRACTS

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IFRS for SMEs requires that the revenue will be recognised on the stage of completion method if the outcome can be reliably estimated.

#### Summary

Most countries apply the stage of completion method in line with IFRS for SMEs, but some of them seem to be allowed to choose an option between completed contract and stage of completion methods. Germany and Portugal do not allow the stage of completion method.

#### Impact

Construction contracts are highly significant areas in terms of inventories and revenue in both listed and non-listed enterprises. Some differences are likely to arise in the detailed application of the stage of completion method as compared with IFRS for SMEs.

IFRS for SMEs would entail highly significant differences with current German and Portuguese national GAAP.

### 7.4 GOVERNMENT GRANTS

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IFRS for SMEs requires that government grants be accounted for as income as soon as the performance conditions are met.

#### Summary

In most of the survey countries, government grants linked to assets are deferred and taken into income to match the depreciation of those assets. There are two distinctions to note. In France, certain grants can be recognised as equity in consolidated accounts, and in Germany the deferral method is subject to formal assessment.

#### Impact

In practice the issue of accounting for government grants may be of significance only for SMEs located in developing areas. Most countries use similar accounting policies and seem to have only minor departures from IFRS for SMEs. The effect of inconsistencies would be most significant in France owing to the lack of comparability between individual and consolidated accounts.

Investigation into this area on the specific treatment of the different types of government grants would clarify this issue further.

### 7.5 DIVIDENDS

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IFRS for SMEs requires that an entity shall not recognise a dividend if the dividend was declared after the end of the reporting period.

#### Summary

All countries broadly have similar requirements to that of IFRS for SMEs, except for the Netherlands (see 3.16)

#### Impact

Negligible outside the Netherlands.

## 8. Foreign currencies translation

### 8.1 FUNCTIONAL CURRENCY

---

IFRS for SMEs requires each entity to identify its functional currency as being the currency of the primary economic environment in which that entity operates.

#### Summary

Most countries comply with the definition for functional currency in IFRS for SMEs, with the exception of Italy where it is not contemplated.

#### Impact

The significance of such definitions is a basis for the issuance of specific rules. The definition would be of importance where there is no other form of accounting guidance for a specific item, although no significant problems are expected in the application of the related rules. Most SMEs will account in their domestic currency and this will also be their functional currency for IFRS for SMEs.

### 8.2 PRESENTATION CURRENCY

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IFRS for SMEs allows that an entity may present its financial statements in any currency. Assets and liabilities are translated at the balance sheet dates. Income and expenses are translated at the exchange rates at the dates of the transaction.

#### Summary

This issue is not covered in the national GAAP of the following survey countries: UK, Germany, France and Italy.

#### Impact

Standard setters in the above countries should consider this topic to enable consistency between their national GAAPs and IFRS for SMEs, although the number of SMEs using a different currency for presenting their results is likely to be small.

### 8.3 HYPERINFLATION

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IFRS for SMEs requires enterprises operating in a hyperinflationary economy to prepare financial statements that have been adjusted for the effects of such hyperinflation.

#### Summary

In the survey countries, only the UK considers this issue in its national GAAP.

#### Impact

The national GAAPs in the survey countries (with the exception of the UK) should consider the above topic to enable consistency with IFRS for SMEs, but this is unlikely to be a significant issue for SMEs.

## 9. Specialist activities

The specialist activities section provides guidance on financial reporting by those SMEs involved in three types of specialised activities: agriculture, extracting activities, and service concessions.

### 9.1 AGRICULTURE

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IFRS for SMEs requires the biological asset or agricultural produce to be recognised at fair value, if fair value is readily available without undue cost or effort and it is probable that future economic benefits will flow to the entity. If fair value cannot be ascertained then cost less impairment should be used.

#### Summary

Most of the survey countries do not have specific standards or guidance on the accounting treatment of biological assets. Instead, these countries use their relevant accounting framework for the recognition and measurement of these assets. Where they do have specific standards, the use of fair value may not necessarily be an option (France).

#### Impact

The measurement of the fair value of biological assets may be difficult (owing to undue cost and effort, although the definition of this is debatable) and hence the option of cost less impairment may be used more than the principal rule of fair value prescribed under IFRS for SMEs.

In Norway this issue has already led to significant debate between the seafood industry and the financial supervisory authority, in regard to both the measurement and fair value of fish produced in fish farms. In this industry the only reliable and obtainable market prices for fish are for harvested fish, not for live fish. As a result, the fair value of harvested fish is used to estimate the fair value of non-farmed fish. The industry may argue that the measurement of fair value is not without undue cost or effort but the financial authorities may argue otherwise.

### 9.2 EXTRACTIVE INDUSTRIES

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IFRS for SMEs requires the entity to account for exploration costs under the same principles as those prescribed for PPE and intangible assets.

#### Summary

In this area, the countries are divided in two categories: those without any specific regulation on exploration costs and those that allow capitalising of some exploration costs (R&D), the latter being Germany, the Netherlands and the UK.

#### Impact

Allowing the exploration expenses through the P&L does not seem to have any material impact compared with the national GAAP. The line between exploration cost and capitalised R&D may create some issues, but this can be solved through further guidance within the oil industry.

### 9.3 SERVICE CONCESSION ARRANGEMENTS

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IFRS for SMEs requires financial assets to be recognised when the operator receives an unconditional contractual right in return for constructing or upgrading a public sector asset.

#### Summary

Most of the countries in the survey group (with the exception of the UK) do not have a specific standard or guidance on this issue.

#### Impact

Most countries use their relevant framework and hence the comparability across borders may increase after implementation of IFRS for SMEs.

UK GAAP covers this issue but some tangible assets may need to be reclassified as intangible assets according to IFRS for SMEs. Furthermore, the UK may have a different boundary between what is on the grantor's balance sheet and on the operator's balance sheet.

## 10. Conclusions

This study has examined the extent to which IFRS for SMEs corresponds to existing practice in nine countries around Europe. Of the 74 separate items that were considered, most have registered some differences in the current practice in Europe. In other words, there were not many cases where all the countries examined currently required the same treatment as that in IFRS for SMEs.

Indeed, there are a good number of cases where either all or some of the European countries and companies would have to do things significantly differently if they adopted the IFRS for SMEs. Such examples include: using fair value for certain assets, writing off development costs and all other internally developed intangibles, or disclosing all related-party transactions regardless of whether they were considered to be on an arm's length basis. Inevitably, these changes would mean increased costs, both in dealing with the changes themselves and, in some cases, for supplying more extensive or complex information. Nonetheless, it seems likely that there would also be gains in the amount and quality of the financial information available to users to weigh against the costs.

It is probable that some countries within Europe are already closer to the requirements of the IFRS for SMEs than others. This may influence the take-up of the IFRS for SMEs. This study has not, however, tried to measure this proximity in any way. The significance of the impact of the various similarities and differences would be difficult to assess but it is evident that each of these countries would face some significant changes to accounting if they were to adopt IFRS for SMEs.

The study also highlights a number of cases where there are optional treatments in IFRS for SMEs (for example, the measurement of investments in associates and joint ventures), one of which may be reasonably comparable to what is currently done. If the standard were adopted, countries would have to choose whether to narrow the options of the IFRS for SMEs in these cases to stay closest to existing national practice.

We have identified the incompatibilities in member states that are created by the options that are allowed within the EU's Fourth Directive. The EU may wish to consider not only the removal of incompatibilities between IFRS for SMEs and the member states' GAAP but also the removal of the options in the Fourth Directive, during its revision process, in order to achieve harmonisation. Member states should also reconsider the options that they have applied and consider the removal of incompatibilities to allow for the possibility for companies to use the IFRS for SMEs.

The study also identifies a number of cases where there are matters covered by IFRS for SMEs for which there may be no equivalent requirement in national GAAP, for example dealing with share-based payments. This may not act as an obstacle to a company's use of IFRS for SMEs, but the EU, in revising the directives, and the national authorities may wish to consider including some of these items in the regulations in future.

Apart from the differences from or similarities with IFRS for SMEs, this study provides extensive evidence of the different treatments that currently exist in financial reporting in Europe, despite the directives.

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