

INTERNATIONAL FINANCIAL REPORTING STANDARD EXPOSURE DRAFT ON SMALL & MEDIUM ENTERPRISES (SME)

For Botswana, this standard is without doubt going to be the most important one, or rather the most relevant one of all IASs, or IFRSs that have ever been passed. This is so because the standard is going to become the financial reporting framework for the majority of entities in Botswana.

Why SME Standards are needed?

For the listed companies, the global standards are important for those companies listed in many different countries and having access to globalised financial markets.

Even for non listed companies, financial statements prepared in accordance with IFRSs are useful as they are understandable across international boundaries. They are particularly important for the following stakeholders:

- Banks rely on financial statements, in order to make lending decisions.
- Vendors use financial statements to evaluate the finances of buyers.
- Credit rating agencies use financial statements for their reports.
- Overseas customers, foreign venture capitalists and development institutions all need financial statements that are internationally acceptable.

Comparability is really the operative word but SME Standards go beyond that. The Standard will improve the quality of reporting compared to existing generally accepted accounting principles. It will ease the burden on SMEs where full IFRSs or full national GAAPs are currently required. It will facilitate education and training and also result in significant auditing efficiencies.

The standard once passed will be simplified, self-contained and accessible to preparers of financial statements in both developed and emerging markets.

Who is affected by IFRS for SMEs

Companies with a public accountability such as public companies, companies which are publicly traded and financial institutions can not benefit from the provisions of the IFRS for SMEs even if they qualify based on the size test. Just because they have public accountability and the need for investor protection, these companies are expected to continue to comply with the full International Financial Reporting Standards,

Size Test

The Standard will not go into the details of what constitutes a small medium enterprise but each jurisdiction will have to come up with its own guidelines to determine this fact and therefore use IFRS for SMEs. However, the IASB has focussed on a typical SME with about 50 employees in deciding the content of this standard.

The SME Reporting Framework

The standard promotes the preparation of general purpose financial statements for external users including non-manager owners, existing and potential lenders and creditors and credit rating agencies.

The auditor could then give an opinion on fair presentation (true/fair view) of financial position, results and cash flows.

Since the standard will be a stand alone document, in case there are questions which require answers not readily available, the SME may find answers in the IFRS for SMEs by analogy, or using what the IASB calls pervasive principles or it may look to full IFRSs if the answer cannot be found in the IFRS for SMEs. BUT THERE IS NO MANDATORY FALLBACK TO FULL IFRSs.

The standard is significantly simplified based on user needs and cost – benefit analysis. Consequently, some topics which are not relevant to SMEs are excluded; where a IFRS has options, the simpler option is adopted; there are recognition and measurement principles simplifications as well, and the drafting of the standard is also simplified.

Micro – SMEs (Tiny Companies)

The question to ask before deciding on whether micros could also use IFRS for SMEs is whether the micro enterprise prepares general purpose financial statements that present fairly, position, performance and cash flows. Again the answer to this should be determined by the jurisdictions themselves. The IASB's view is that the standard can be used for micros as well. They argue that full IFRSs are currently required for micros in about 25 countries and permitted in another 50. So why not use the standard for this category.

Way forward

It should be noted that this is still only an exposure draft. A standard is probably still a year or so away. This is the time to come forth with ideas and comments through the Botswana Institute of Accountants or even directly to the IASB before October 1, 2007. The different countries and jurisdictions have also been tasked with the responsibility to carryout field tests to test the Exposure Draft. Many

countries, even some in the ECSAFA region have taken up this challenge to carryout field tests in their own jurisdictions. The Audit firms in Botswana are requested to conduct voluntary field tests to see what areas would be problematic in practice once the Standard is released.

This paper is made from extracts from the presentation by Paul Pacter at the standard setters meeting in Namibia