

Impact of Globalisation on Harmonisation of Financial Reporting for SMEs

*Ivana Mamić Sačer**

*Nikolina Smrekar**

*Katarina Žager**

Abstract: Small and medium-sized enterprises form a dominant part of the overall economy in most countries, both in developed and in transition or developing countries. Consequently, as a result of globalisation and the increasing role played by small and medium-sized enterprises, the need for harmonisation and standardisation of financial reporting is of particular importance for this segment of entrepreneurship. This paper focuses on financial reporting of small and medium-sized enterprises under the conditions of globalisation, and discusses recent international solutions in the field of financial reporting for small and medium-sized enterprises.

Keywords: globalisation, harmonisation, financial reporting, international accounting standards, SMEs

JEL Classification: M4, F3

Introduction

As is well known, big changes have been taking place on the global market over the last few decades. All-pervasive globalisation, in almost all spheres of social life, is spreading fast. We are witnessing harmonisation and standardisation in various areas. Currently, the harmonisation of accounting regulations for small and medium-sized enterprises (SMEs) has brought together different stakeholders. Although stronger emphasis has recently been laid on the development of small and medium-sized enterprises, some areas of their activities are not adequately and systematically regulated. One of these areas is financial reporting. Different countries have regulated

* Katarina Žager, Ivana Mamić Sačer and Nikolina Smrekar are at Faculty of Economics and Business, University of Zagreb, Zagreb, Croatia.

this field differently. In some countries, there are separate national accounting standards for small enterprises, while in most countries the same regulations are applied to small and medium-sized enterprises and to large listed companies. It goes without saying that the existence of different accounting solutions will create difficulties in the international exchange of business information.

This is why harmonisation of financial reporting for small and medium-sized enterprises has been high on the list of priorities, with the aim of creating global, international financial reporting standards adjusted to the needs of SMEs. New harmonised standards should satisfy the information needs of internal users and in particular of domestic and foreign investors and creditors. As small and medium-sized enterprises predominate in most economies, both in developed and transition countries, the adjusted harmonised standards will be of crucial importance. Since these enterprises increasingly participate in international trade, the standardisation and harmonisation of financial reporting for SMEs is a prerequisite for them to become recognised and will thus help them join the globalisation process.

Globalisation and SMEs

In the context of creating networks of companies on an international scale, the concept of globalisation is often mentioned as a synonym for linking different aspects of conducting business for large, small and medium-sized enterprises. There is no universal definition of globalisation, but it can generally be said that it is the ubiquitous process of linking economic, political, social and also cultural differences between countries. The literature started to make more frequent mention of globalisation at the end of the 20th century, although globalisation had begun decades before. The globalisation process impacts on all countries and all business enterprises, directly or indirectly. Small and medium-sized enterprises have to be particularly aware of the opportunities and limitations that the globalisation process entails. There is a huge number of such enterprises, as shown by numerous research studies. In most countries in the world, SMEs account for more than 95% of the total number of enterprises (in Croatia SMEs make up more than 99% of all enterprises). SMEs are thus of crucial importance for the overall economic development of a country since they significantly contribute to the creation of total gross domestic product and employ a large number of people. To illustrate how important SMEs¹ are for the labour market, for example, we can show the situation in the EU (Table 1).

Regarding the internationalisation of business operations, the strengths and limitations of SMEs have to be taken into account (Table 2). In small and medium-sized enterprises the ownership and managerial functions are often embodied in the same person, so their focus is not on the short-term goals of managers

or owners but on the long-term sustainable development of the entity. In small enterprises, in particular, there is a strong personal identification of a physical person (owner/manager) with the entity, and there is a clear vision of the continuity of business. Due to their size, SMEs can more quickly adapt to changes on the market and to new situations, and can redirect their business, if necessary, in accordance with consumer demand. Thus, there is greater mobility of SMEs on the market and a greater flexibility in contact with business partners.

Table 1: Number of enterprises and persons employed per enterprise, by size class, in the non-financial business economy, EU-27, 2007

VARIABLE	micro	small	medium-sized	SME	LARGE	TOTAL
number of enterprises	18,788,000	1,402,000	220,000	20,409,000	43,000	20,452,000
in percentages (%)	92	7	1	100	0	100
persons employed per enterprise	2	19	100	4	1,003	6

Source: Audretsch, D., et al. (2009) First Section of the Annual Report on EU Small and Medium-sized Enterprises. Zoetermeer: EIM Business & Policy Research, p.13. Retrieved on 24 June 2009 from <http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/spr_main_en.htm> quoted according to EIM on the basis of EUROSTAT

Besides the advantages, certain disadvantages or limitations exist in the business operations of SMEs. These primarily relate to accessing financial resources and consequently to problems of financing business projects, to their simple structure which frequently limits their international activities, to the small number of employees who work on a variety of tasks, which means they have to possess a wide range of technical knowledge and skills in the fields of management, marketing, accounting, finance and other areas. As for their international dealings, they have a lack of high quality staff able to engage in different activities, including research of international markets and potential competition, product promotion, selection of the location for business operations, etc. Regardless of these limitations, SMEs have clearly been increasing their participation in international activities which, among other things, requires the harmonisation and standardisation of financial reporting for this segment of entrepreneurship, too.

Table 2: Advantages and disadvantages of some characteristics of SMEs in relation to globalisation

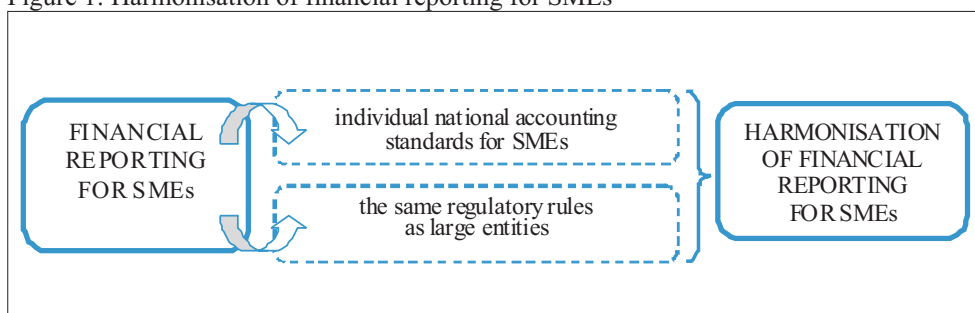
Characteristic	Advantages	Disadvantages
In Relation to Globalization		
Dependence on a limited number of people (often owners and managers are one and the same person)	<ul style="list-style-type: none"> • Long-term thinking, perspectives • Stability • No pressure for short-term success • High identification with the business, stable culture • High commitment 	<ul style="list-style-type: none"> • Static thinking, limited to the experiences and the knowledge of the owner(s) • Difficulties in adapting corporate culture to new situations and challenges • Potential conflicts between corporate objectives and personal objectives of the owner
Close relationships with customers and business partners	<ul style="list-style-type: none"> • Stable basis for further business • Ability to cooperate successfully for mutual advantage • Ability and willingness to enter partnerships 	<ul style="list-style-type: none"> • Risks in focusing too much on existing basis of business
Simple structures	<ul style="list-style-type: none"> • High flexibility and adaptability • Short reaction times • Cross-functional communication and cooperation within the organisation 	<ul style="list-style-type: none"> • In many cases not suitable for the complex planning and implementation of international activities • Low willingness to introduce more sophisticated structures
Small size	<ul style="list-style-type: none"> • Basis for specialisation, often successful with niche strategies 	<ul style="list-style-type: none"> • Limited resources (in terms of financial means and manpower): • Limited funds to finance investments and initial operating losses for new activities • Spendings for market research and market entry take a much higher proportion of total spendings in SMEs than in larger businesses • Limited number of staff to take on additional tasks • Lack of internationally experienced employees

Source: Recklies, D. (2001) Small and Medium-sized Enterprises and Globalization. Retrieved on 24 June 2009 from <www.themanager.org/Strategy/global.htm>

Harmonisation and Standardisation of Financial Reporting for Small and Medium-Sized enterprises

Globalisation and increased international activities have in recent years imposed the need for the harmonisation of accounting and financial reporting for small and medium-sized enterprises. It has been said that ‘Small and medium-sized enterprises (SMEs) are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialised countries, as well as in emerging and developing economies’.² Hence the recent focus on SMEs, particularly on the process of harmonisation of accounting regulations for SMEs. As we have already mentioned, this field is regulated in different ways depending on the country involved. In some countries separate national accounting standards exist for small enterprises, while in many other countries small and medium-sized enterprises apply the same regulations as large enterprises and those listed on the stock exchange (Figure 1).

Figure 1: Harmonisation of financial reporting for SMEs



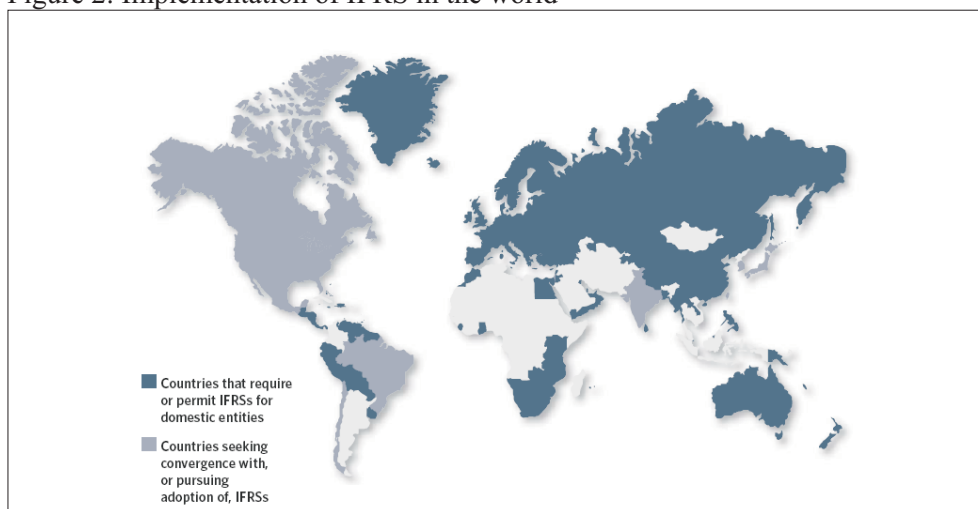
The concept of accounting regulations is frequently identified with financial reporting regulations. Some authors (Gulin, 2008) point out that differences exist in who regulates the accounting activities and also indicate that accounting regulations are frequently found in the area of tax regulation, while financial reporting regulation is found in the domain of company regulation.

Since on the global market there are different solutions for the same accounting matters, this inevitably causes problems in the international exchange of business information in which the comparability of financial statements becomes a crucial issue. Bearing in mind the pace of globalisation, the number of SMEs, and their importance in the economic growth of each country, different stakeholders are increasingly showing interest in the harmonisation and standardisation of accounting.

Objectives of Harmonisation of Financial Reporting of Small and Medium-Sized enterprises

One of the basic goals of the harmonisation of international regulations is to achieve closer comparability of financial reporting. A substantial contribution to harmonisation has been made by the IASB (International Accounting Standards Board) which began developing International Accounting Standards from as early as 1973. Today, these are known as the International Financial Reporting Standards. Most countries in the world now either implement them or are trying to achieve convergence towards them (Figure 2).

Figure 2: Implementation of IFRS in the world



Source: Deloitte. Retrieved on 16 August 2008 from <www.iasplus.com>

Recognising the complexity and the problems in implementing the full IFRS by small and medium-sized enterprises, the IASB began a project several years ago to develop standards of financial reporting that would be specifically designed for SMEs. The project was started primarily for the following reasons: ³

- Financial institutions make loans across borders and operate multinationally. In most jurisdictions, over half of all SMEs, including very small ones, have bank loans. Bankers rely on financial statements in making lending decisions and in establishing terms and interest rates.
- Vendors want to evaluate the financial health of buyers in other countries before they sell goods or services on credit.

- Credit rating agencies try to develop ratings uniformly across borders. Similarly, banks and other institutions that operate across borders often develop ratings in a manner similar to credit rating agencies. Reported financial figures are crucial to the rating process.
- Many SMEs have overseas suppliers and use a supplier's financial statements to assess the prospects of a viable long-term business relationship.
- Venture capital firms provide funding to SMEs across borders.
- Many SMEs have outside investors who are not involved in the day-to-day management of the entity. Global accounting standards for general purpose financial statements and the resulting comparability are especially important when those outside investors are located in a different jurisdiction from the entity and when they have interests in other SMEs.

Benefits and Limitations of Harmonising Financial Reporting For Smes

It is to be expected that the development and implementation of specific International Financial Reporting Standards for SMEs will bring numerous benefits. The new Standards will primarily facilitate the implementation of complex regulations in small enterprises, but the biggest benefit is expected in enabling the international comparability of financial information in the business operations of SMEs. However, certain limitations may arise in the implementation of the IFRS for SMEs. One of them is the criteria for SME classification.

Certain terminological problems arise in defining small and medium-sized enterprises. Different terms are frequently given to one and the same concept, which can create problems in understanding them. Here is a classification of small, medium-sized and large enterprises (Mamić Sačer, Sever, 2007) which shows that in literature and in the practice of different countries various terms are used to differentiate small and medium-sized enterprises from large enterprises:

- Small, medium-sized and large enterprises;
- Small, medium-sized and large companies;
- Publicly and non-publicly accountable enterprises (NPAEs).

It is precisely this last classification of publicly accountable enterprises and enterprises which are not publicly accountable which is taken as the basis for defining the scope of the IFRS Draft for SMEs. The first dilemma in classifying enterprises is selecting the classification criteria. Different countries have had different experiences. The chosen criteria most often differ in developed and in less developed countries due to the different economic situation and consequently due to the

different financial results in the business operations of the enterprises. Although in determining the size of the entity the emphasis is usually put on quantitative criteria (the number of employees, total assets and total revenue), certain countries, besides quantitative measures, use certain qualitative measures, e.g. market share, ownership structure, the existence of public accountability, legal status, presence on the capital markets, etc. Nevertheless, quantitative criteria are more often used and they also differ according to the definitions of the European Commission and the definition in the Fourth Directive of the EU (Table 3).

Table 3: Classification criteria for micro, small and medium-sized enterprises according to the definition of the European Commission and the EU Fourth Directive

Criterion	Micro enterprises		Small enterprises		Medium-sized enterprises	
	EU	Fourth Directive	EU	Fourth Directive	EU	Fourth Directive
Total assets up to	€2 m	-	€10 m	(does not exceed 2 out of 3 criteria for small enterprises) €4.4 m	€43 m	(exceeds criteria for small enterprises, but does not exceed 2 out of 3 criteria for large enterprises) €17.5 m
Total revenue up to	€2 m	-	€10 m	€8.8 m	€50 m	€35 m
Headcount	<10	-	<50	50	<250	250

Source: Definition of SMEs by the European Commission. Retrieved on 20 August 2008 from http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm, and the Directive of the Council of 14 June 2006 (Directive 2006/46/EC of the European Parliament and of the Council) which amends the Fourth EU Directive (78/660/EEC), Articles 11 and 27. Retrieved on 20 August 2008 from <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:32003L0038:EN:HTML>

Besides different legal frameworks in different countries, differences also arise on account of the level of economic development, and for cultural, political and other reasons. These relate to the environmental factors of SMEs which critically influence differentiated financial reporting. These factors can also represent an obstacle to harmonisation since the harmonisation of financial statements of SMEs requires the harmonisation of legal regulations for managing companies, tax regulations and financial markets (Balderelli, Demartini, Mošnja-Škare, 2007).

A lot has been done recently to lift the burden from SMEs in various fields of operations. These changes can be clearly seen in the area of financial reporting. Viewed from the cost-efficiency approach, it is quite evident that the costs of preparing financial statements in accordance with the existing comprehensive IFRS exceed their benefits. Due to the complexity of implementing the IFRS, the inadequate training of accountants in SMEs, and other limitations, national legislations offer different accounting solutions for the SME segment. It is for this reason that financial reporting significantly differs from country to country, thereby losing the desired comparability of financial statements. In order to prevent this, the IASB started a project in 2003 to work on new international accounting standards for SMEs which would ensure the simpler implementation of the IFRS and to ensure that the harmonisation of accounting practice continues globally.

The Role of International Institutions in Harmonisation of Financial Reporting for Small and Medium-Sized enterprises

Various international organisations are endeavouring to help improve the conditions of work for SMEs. Regarding the harmonisation and standardisation of financial reporting, an important role is played by the IASB, IFAC, UNCTAD and the European Union.

The Role of the IASB

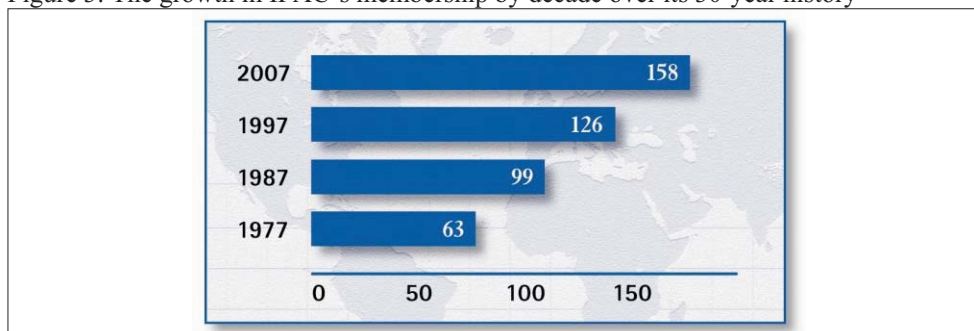
The International Accounting Standards Board (IASB) is an independent standard-setting body of the IASC (International Accounting Standards Committee Foundation) responsible for the development of the International Financial Reporting Standards (IFRS). The mission of the IASB is to serve public interest and to develop a single set of high quality, comprehensible international standards of financial reporting used for preparing financial statements of general purpose. Within its activities it encourages and supports various projects relevant for large, small and medium-sized enterprises. Although the IASB originally believed that the IFRS were appropriate for all enterprises regardless of their size, it later recognised the difficulties SMEs encountered in implementing them. Therefore, in 2003 a project was begun to develop new standards adapted to the specific needs of SMEs. There were two approaches in developing these standards: the 'top-down' approach and the 'bottom-up' approach. The 'top-down' approach aimed at simplifying the full set of IFRS, in other words 'leaving out' certain standards irrelevant to small and medium-sized enterprises, while the 'bottom-up' approach aimed at developing

completely new standards created specifically for the SME segment. The IASB decided on the ‘top-down’ approach to secure comparability and to enable SMEs to adapt to the new IFRS more easily. Such an approach also required fewer funds than would have been required to develop completely new standards. At the beginning of 2007, the IASB developed and published the Exposure Draft of self-contained IFRS for SMEs expected to be adopted by the end of 2009.

The Role of IFAC

The International Federation of Accountants (IFAC) is the best known and most important global organisation for the accounting profession. The main task of IFAC is to strengthen the accounting profession in the public interest and thus to contribute to the development of the entire international economy. IFAC today comprises 158 members and associates from 118 countries, representing more than 2.5 million accountants (Figure 3).⁴

Figure 3: The growth in IFAC’s membership by decade over its 30-year history



Source: <www.ifac.org/History/> Retrieved on 24 June 2009

Through its independent standard-setting boards, IFAC creates international standards in the fields of professional ethics, auditing, training and public sector accounting. IFAC performs a triple role:⁵

- (1) it sets high-quality international standards and promotes their implementation;
- (2) it enables and facilitates co-operation among different accounting bodies who are members of IFAC;
- (3) it serves as the voice of the international accounting profession in various fields of public interest.

Several committees work within IFAC, of which the most important for SMEs is the Small and Medium Practices Committee, which provides accounting and auditing services.

The role of UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) works in the fields of trade, development and investment. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting - ISAR is the UN group of experts established in 1982 to promote the harmonisation of accounting regulations.⁶ It should be noted here that it was the ISAR's experts who were among the first advocates of developing self-contained standards adapted to the specific needs of small and medium-sized enterprises. ISAR was also among the first to propose the directives for the development of the Financial Reporting Framework (Table 4). This proposal was used as the foundation for the standardisation of different accounting solutions around the globe.

Table 4: ISAR's Accounting Directives

	Classification of entities	Accounting and reporting requirements
Level 1	Entities that issue public securities or in which there is significant public interest	The application of the full set of IFRS
Level 2	Significant business enterprises that do not issue public securities and in which there is no significant public interest	The application of a condensed set of requirements; application of the standards which are of particular importance for SMEs
Level 3	Smallest entities, which are often owner-managed and have few employees	The application of a simple accruals-based accounting system

Source: Krylova, T. (2005) UNCTAD/ISAR Project on Accounting by SMEs, IFAC SMP/SME Consultative Conference, 10-11 March 2005, Prague, The Czech Republic. Retrieved on 24 June 2009 from <www.ifac.org/smp>

The Role of the European Commission

The European Commission represents the interest of the EU at the international level. It also actively participates in projects of encouraging various institutions around the world to exchange practical experience in different segments of SMEs' activities. In its endeavour to support small entrepreneurs, the European Council published the European Charter for SMEs in Lisbon, 2003.⁷ The purpose of the European Charter is to create a regulatory, administrative and fiscal framework adapted to the work of

small and medium-sized enterprises. The exchange of practical experience, of the so-called 'best practice' of different countries, should lead to improving conditions for doing business. Each year, EU member states determine through consensus several key activities which will have priority in a given period. For the 2006-2007 period, for example, the priority fields of work were 1) the cheaper and quicker setting up of enterprises; 2) improvements in electronic access (e-government); 3) taxation. The European Commission has also recognised the great importance of well-designed accounting systems for small and medium-sized enterprises as generators of important information for internal and external users. At the end of 2005, the Commission started a project to identify specific accounting systems of the smallest enterprises owned by one or two owners.⁸ The European Charter is one of the more successful instruments which helps candidate countries to establish a national policy for the development of small and medium-sized enterprises, helping them to become better prepared to enter the EU.

International Standards of Financial Reporting for Small and Medium-Sized enterprises

Objectives of the Project 'IFRS for Small and Medium-sized enterprises'

International accounting standards were developed to meet the need for the harmonisation of accounting systems of different countries. The benefits arising from their acceptance can be viewed from different perspectives. Firstly, through the acceptance of international standards, financial statements have become recognisable and more comprehensible, and thus represent a more reliable criterion for the decision-making of foreign investors. Secondly, their use requires thorough knowledge of the standards themselves and the continuous education of accountants. It can thus be said that this requirement has given a new dimension to the accounting profession and has raised it to a higher technical level. However, everyday accounting practice requires members to cope with given frameworks, and demands concrete solutions to concrete situations, and only in such conditions can all the problems of applying specific regulations be recognised. This problem is strongly manifested in the work of small and medium-sized enterprises.

Current practice has shown that the existing International Financial Reporting Standards, at more than 2,500 pages, are too complicated to apply in the SME segment, primarily because they are too general, full of alternatives, poorly translated and are thus difficult to understand for small and medium-sized businesses. The application of IFRS demands highly skilled accountants which SMEs cannot afford.

In support of the argument that IFRS are not adapted to the needs of SMEs, the following can be said (Mrša, 2004):

- the users of the financial statements of SMEs need less information than the users of public limited companies;
- financial statements of small enterprises are used primarily by the owner who is at the same time a director of the entity;
- the cost/benefit ratio of financial reporting is far less favourable in small businesses than in large companies;
- small businesses do not have a sufficient number of accountants;
- financial statements prepared according to the IFRS are primarily directed towards informing users on the capital markets.

As has previously been said, the idea of developing international standards specific for SMEs arose in 2003, and the process of creating them began with the publication of the document (June 2004) entitled Preliminary Views on Accounting Standards for Small and Medium-sized Entities. The document informed IASB experts of the state of affairs and of public opinion about the need to publish such standards. Much effort was put into reconciling the comments of the public and in improving the content. Tables 5 and 6 show some of the activities and efforts undertaken from 2003 until today.

Basic Features of the Exposure Draft of the IFRS for SMEs

As a result of numerous activities at the beginning of 2007, the draft was published, i.e. the Exposure Draft for SMEs, and was released for public comment. The Exposure Draft consists of three separate documents:

1. Exposure Draft of a Proposed IFRS for SMEs;
2. Draft Implementation Guidance IFRS for SMEs;
3. Basis for Conclusions on Exposure Draft.

After extensive public consultations, certain corrections of the proposal were made. The latest version of the structure (the names of the standards and the pertaining source), whose final adoption is expected by the end of 2009, are shown in Table 7. The Draft contains 38 thematically organised standards. At the end of the standards there is a Glossary of terms and a Table which links each individual standard to its source. The organisation of the IFRS for SMEs does not differ much from the comprehensive IFRS for large companies. The more significant differences

lie in the quantity, since the standard is 80% shorter (the number of pages was reduced from 2,500 to 254).

The difference between the IFRS and this new Exposure Draft can be seen in the omission of topics which are not relevant for a typical small entity. These primarily relate to insurance contracts, share payments, exploration and assessment of mineral resources, etc. Although some simplifications have been made, primarily in the choice of alternatives, basic rules for recognising and evaluating balance sheet positions have remained almost the same. This fact is of immense importance since the existence of such rules is a precondition for having globally comparable financial statements.

One of the potential problems in the implementation of these new standards is certainly the question of which small and medium-sized enterprises should implement them. The problem of defining the users of the standards is seen in the fact that until May 2008 the enterprises without public accountability were called small and medium-sized enterprises by the IASB, and after May 2008 they were called private enterprises or non-publicly accountable enterprises (NPAEs). However, since the name drew negative connotations and perceptions, suggesting that these companies had no public accountability, today the IASB again uses the original term of small and medium-sized enterprises (SMEs). The second point is that the Exposure Draft does not define quantitative criteria for determining the size of an entity (the number of employees, total revenue or assets) but defines small and medium-sized enterprises as those which:⁹

- do not have public accountability;
- publish general purpose financial statements for external users (for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies).
- The IASB defines in the Exposure Draft that an entity has public accountability if:
 - it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
 - it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity.

The basic intention of the IASB was to draw a stand-alone document to regulate the financial reporting of a typical entity of about 50 employees. This '50 employees' concept was the main guideline in determining the contents of the Exposure Draft. It should be noted that this is not a criterion to define the users of the Standards because

the Draft defines them in qualitative terms, and the legislation of every country has been given the freedom to set its own criteria. Countries which adopt the Standards will have the task of setting criteria themselves in order to define which entity fits the category of small and medium-sized enterprises, i.e. for whom it is mandatory to use the Standards. In this context, it is to be expected in the coming period that harmonised criteria for the classification of enterprises will be developed. The adoption and publication of the final version of the Standards is expected in the second half of 2009. The decision on adopting the Standards and its coming into force will be within the authority of each individual legislation.¹⁰ The adoption of the new IFRS for SMEs will have substantial consequences for financial reporting around the world.

Table 5: Review of undertaken activities and efforts in promoting the Exposure Draft

<p>Consultations</p> <p>The IASB's Director of Standards for SMEs has made presentations and participated in round tables or other meetings as follows:</p> <p style="margin-left: 40px;">84 conferences, round tables or other events in 36 countries</p> <p style="margin-left: 40px;">5 public meetings of the Standards Advisory Council</p> <p style="margin-left: 40px;">4 public meetings of World Standard-Setters.</p> <p>Of these events, 31 were before the first draft of the exposure draft was presented to the Board and the Working Group (January 2006).</p>
<p>Field testing</p> <p>The IASB launched a programme for field testing the proposals in the exposure draft. The testing seeks to assess the scope, impact and burden of the proposed IFRS for SMEs worldwide. It will help to identify aspects of the proposals that may need reconsideration. It focuses especially on the potential operation of the proposals in smaller companies and organisations in emerging economies and developing countries.</p>
<p>Languages</p> <p>For the first time an exposure draft has been published in English, French, German, Spanish, Polish and Romanian.</p>

Source: Insight - The Journal of the IASB and the IASC Foundation 'IFRS for SMEs - too little, too much or about right?' Retrieved on 24 June 2009 from
www.iasb.org/nr/rdonlyres/96a0433e-ec92-47c2-8c5b-a3a7f2cfae66/0/insight_q307.pdf

Conclusion

Global economic flows require the adjustment of business conditions in different segments of business activity. Information flows and financial reporting are just two areas which require attention. Although the process of accounting harmonisation and the standardisation of financial reporting began as early as in 1973 when the International Accounting Standards Board was established and when the

International Accounting Standards were issued, numerous problems and difficulties have been noticed during their implementation, particularly for small and medium-sized enterprises. Accounting experts are needed to follow and use them, but small and medium-sized enterprises cannot afford to engage such experts. It is for this reason that the accounting community has been discussing the need to develop different and simpler financial reporting solutions for small and medium-sized enterprises. The efforts have resulted in issuing a proposal of new International Financial Reporting Standards for Small and Medium-sized enterprises, which are expected to be adopted in the second half of 2009.

The new standards are expected to have a significant impact on SMEs' financial reporting, both in countries which have already developed their own national standards, and in those which so far have not specifically regulated this field in their national legislation. Regarding the implementation of the IFRS, two directions are possible: either the content of national standards will be harmonised with the new international solutions for SMEs, or the new IFRS for SMEs will be taken over in their entirety (the form and the content of the document, as was already the case with the existing IFRS). In any case, doing business in an environment of ever faster globalisation requires the adoption of international guidelines. The harmonisation and standardisation of accounting regulations is a prerequisite for financial statements to be recognised and compared around the world, which, in turn, is one of the crucial preconditions for joining European and global integration processes.

NOTES

¹ SMEs (small and medium-sized enterprises) are defined as enterprises in the non-financial business economy that employ less than 250 persons. This definition is used for statistical reasons. In the European definition of SMEs two additional criteria are added: annual turnover should be less than 50 million €, and balance sheet total should be less than 43 million € according to Commission Recommendation 2003/361/EC. Within the SME sector, the following size classes are distinguished: 1. micro enterprises (employing less than 10 persons), 2. small enterprises (employing at least 10 but less than 50 persons), 3. medium-sized enterprises (employing at least 50 but less than 250 persons).

² Financing SMEs and Entrepreneurs (2006) Organization for Economic Co-operation and Development. Retrieved on 24 June 2009 from <www.oecd.org/dataoecd/53/27/37704120.pdf>

³ Basis for Conclusions on Exposure Draft (2007) London: IASB, pp. 9-10. Retrieved on 24 June 2009 from <www.iasb.org>

⁴ <www.ifac.org/MediaCenter/?q=node/view/537>. Retrieved on 24 June 2009.

⁵ More on this at <www.ifac.org/History/>. Retrieved on 24 June 2009.

⁶ More on the aims and tasks of the ISAR at <<http://www.unctad.org/Templates/Page.asp?intItemID=2905&lang=1>>. Retrieved on 24 June 2009.

⁷ European Charter for Small Enterprises (2003) Lisbon: European Council. Retrieved on 20 August 2008 from <www.europa.eu.int/comm/enterprise/enterprise_policy/charter/index_en.htm>

⁸ Final Report of the Expert Group Accounting Systems For Small Enterprises - Recommendations and Good Practices (2008) European Commission. Retrieved on 24 June 2009 from <http://Ec.Europa.Eu/Enterprise/Entrepreneurship/Craft/Accounting/Accounting_En.Htm>

⁹ Summary of the project 'International Standards of Financial Reporting for Small and Medium-Sized Enterprises'. Retrieved on 24 June 2009 from <<http://www.iasb.org/Current+Projects/IASB+Projects/Small+and+Medium-sized+enterprises/Small+and+Medium-sized+enterprises.htm>>

¹⁰ Ibidem.

REFERENCES

- Audretsch, D. et al. (2009) First Section of the Annual Report on EU Small and Medium-sized Enterprises. Zoetermeer: EIM Business & Policy Research, p. 13. Retrieved on 24 June 2009 from <http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/spr_main_en.htm>
- Balderelli, M., Demartini, P., Mošnja-Škare, L. (2007) Application of Accounting Standards in Small and Medium Enterprises in Italy and Croatia: Challenges of International Harmonization, *Economic Research*, 20 (1), p. 11.
- Basis for Conclusions on Exposure Draft (2007) London: IASB, pp. 9-10. Retrieved on 24 June 2009 from <www.iasb.org>
- Deloitte. Retrieved on 16 August 2008 from <www.iasplus.com>
- Directive 2006/46/EC of the European Parliament and of the Council, which amends the Fourth EU Directive (78/660/EEC), Articles 11 and 27. Retrieved on 20 August 2008 from <<http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:32003L0038:EN:HTML>>
- Draft Implementation Guidance IFRS for Small and Medium-sized Entities (2007) London: IASB. Retrieved on 24 June 2009 from <www.iasb.org>
- Eurostat, key indicators for enterprises in the non-financial business economy (2005) EU27. Retrieved on 20 August 2008 from <<http://epp.eurostat.ec.europa.eu/>>
- European Charter for Small Enterprises (2003) Lisbon: European Council. Retrieved on 20 August 2008 from <www.europa.eu.int/comm/enterprise/enterprise_policy/charter/index_en.htm>
- Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities (2007) London: IASB. Retrieved on 24 June 2009 from <www.iasb.org>
- Final Report of the Expert Group Accounting Systems For Small Enterprises - Recommendations and Good Practices (2008) European Commission. Retrieved on 24 June 2009 from <http://Ec.Europa.Eu/Enterprise/Entrepreneurship/Craft/Accounting/Accounting_En.Htm>
- Financing SMEs and Entrepreneurs (2006) Organization for Economic Co-operation and Development. Retrieved on 24 June 2009 from <www.oecd.org/dataoecd/53/27/37704120.pdf>
- Gulin, D. (2008) Regulativa financijskog izvještavanja u Hrvatskoj. In: Gulin, D., ed. Zbornik radova 43. simpozija: Financije i računovodstvo u funkciji jačanja konkurentnosti hrvatskog gospodarstva, 05 – 07 June 2008, Pula. Zagreb: Hrvatska zajednica računovođa i financijskih djelatnika, pp. 89-95.

- INSIGHT - The Journal of the IASB and the IASC Foundation: 'IFRS for SMEs-too little, too much or about right?' Retrieved on 24 June 2009 from <www.iasb.org/NR/rdonlyres/96A0433E-EC92-47C2-8C5B-A3A7F2CFAE66/0/Insight_Q307.pdf>
- Klikovac, A., Volarević, H., (2007) Računovodstveni standardi za mala i srednja poduzeća – međunarodni ili nacionalni standardi. In: Mišić, A., ed., Zbornik radova II. Međunarodnog simpozija: Financije i računovodstvo u funkciji rasta BIH. Mostar: Fircon d.o.o., pp. 237-248.
- Krylova, T. (2005) UNCTAD/ISAR Project on Accounting by SMEs, IFAC SMP/SME Consultative Conference, 10-11 March 2005, Prague, Czech Republic. Retrieved on 24 June 2009 from <www.ifac.org/smp>
- Mamić Sačer, I., Sever, S. (2007) Standardi financijskog izvještavanja malih i srednjih poduzeća. Financije i porezi, Zagreb: TEB Poslovno savjetovanje d.o.o., No.6/07, pp. 3-11.
- Mamić Sačer, I., Tušek, B., Žager, L. (2008) Financial Accounting for SMEs in Croatia. MicroCAD 2008 International Scientific Conference, 20-21 March 2008. Miskolc: Innovation and Technology Transfer Centre, University of Miskolc, pp. 59-63.
- Mrša, J. (2004) Računovodstveni standardi za mala i srednje velika poduzeća. In: Gulin, D., ed., Zbornik radova XXXIX. Simpozija: Financijski i računovodstveni aspekti korporativnog upravljanja u profitnim i neprofitnim subjektima, June 2004, Pula. Hrvatska zajednica računovođa i financijskih djelatnika, Pula, pp. 270-276.
- Recklies, D. (2001) Small and Medium-sized Enterprises and Globalization. Retrieved on 24 June 2009 from <www.themanager.org/Strategy/global.htm>
- Report on the results of the open consultation on a Small Business Act for Europe. (2008) European Commission. Retrieved on 20 August 2008 from <www.ec.europa.eu/enterprise/sme>
- Smrekar, N. (2009) Utjecaj harmonizacije financijskog izvještavanja na razvoj malih i srednjih poduzeća, specijalistički poslijediplomski rad. Zagreb: Ekonomski fakultet.
- Veselica, V. (2007) Globalizacija i nova ekonomija. Zagreb: A. G. Matoš, Ekonomski fakultet, Hrvatsko društvo ekonomista, Inženjerski biro, Zavod za poslovna istraživanja, p 25.