HANNO KIRSCH & STEFAN OLSSON

Specific accounting rules for small and medium-sized entities

– The "IFRS for SMEs"-Standard of the IASB in comparison to the proposed Swedish accounting standards for SMEs

Introduction

On July, 8 th, 2009, the IASB published the standard *"IFRS for Small and Medium-sized Entities"* (in the following IFRS-SME). With the publication of this standard the IASB intends to set generally accepted high-quality accounting rules for the small and medium-sized entities (in the following SMEs) for their world-wide application. Therefore the IASB follows for the accounting of SMEs the same general concept as with the IFRS for the capital-market oriented entities.[1]

Although a lot of countries, as for example Sweden, traditionally have developed national regulations and national GAAP for the accounting of SMEs, the IASB remarked these developments and noted that its mission as set out in its constitution is not restricted to standards for entities that participate in public capital markets.[2] As also a lot of national standard-setters with near-unanimity plead for that the IASB should develop global standards for SMEs the IASB has undertaken this project.[3]

The Swedish GAAP has in recent years undergone major changes. The National Accounting Board (BFN) has sequently published new accounting standards for enterprises that are not subject to the IFRS-standards. On the 8th of June 2010 a draft for a new standard that compromises the major part of Swedish SMEs was published by the BFN, "Bokföringsnämndens vägledning. Upprättande av årsredovisning (K3)". The new standard is supposed to be used after the 31th of December 2011. To large extent, the text in the standard is borrowed from IFRS-SME and therefore implies the same accounting solutions. The division of the standard into different chapters is also the same. Nevertheless, there exist differences between the IFRS-SME and the draft for new Swedish standard that could not be described as minor. The Swedish draft is far from a mere translation of IFRS-SME.

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1 See Paul Pacter, IFRS für kleine und mittelgroße Unternehmen, in: Die Wirtschaftsprüfung 2007, pp. 327–332, here p. 329.

2 IFRS for SMEs. Basis for Conclusions, par. 17.

3 See IFRS for SMEs. Basis for Conclusions, par. 17.

In this article the key elements of the IASB standard "IFRS for SMEs" shall be compared with the draft for new accounting standards for SMEs in Sweden. Based on this comparison the article finishes with a preliminary assessment of the similarities and differences between the IFRS, IASB's accounting standards for SMEs and the draft for the new Swedish standard.

2 Scope

2.1 The IASB standard "IFRS for SMEs"

According to IFRS-SME 1.2 the IFRS-SME is intended for use by SMEs. SMEs are defined as entities that

– do not have public accountability, and
– publish general purpose financial statements for external users.

The term of public accountability itself is defined in IFRS-SME 1.3. According to this an entity has a public accountability if its debt or equity instruments are traded in a public market or the entity is in the process of issuing such instruments, or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, such as a bank, insurance entity, securities broker/dealer, pension funds, mutual fund or investment bank entity.

The IASB does not propose any quantitative criteria for the size of the entities which should apply the regulations of the IFRS-SME because the IASB is aware that its standards are used in over 100 countries. Due to the different economical conditions the IASB concluded that it is not feasible to develop quantified size tests that would be applicable and long-lasting in all of those countries.[4] Instead of this the IASB decided that the national jurisdictions or national standard-setters may prescribe quantified size tests based on the economic significance of entities.

Although the size of the entities is not decisive for the application of the IFRS-SME, nevertheless the IASB had to focus on entities for which the simplifications in recognition, measurement and disclosure in comparison to the full IFRS should mainly apply. According to the "Basis of Conclusions" which accompany the "Exposure Draft for IFRS for SMEs" (ED-SME) the Board decided to concentrate on a typical entity with about 50 employees.[5] In earlier stages of the project the IASB used also a size of 10 Mio. € net sales as an orientation guideline.[6] In this context the IASB discussed also the question if the IFRS-SME is also suited for very small entities (so-called micros) which employ at least only one employee. The IASB holds the IFRS-SME also for micros for suitable without any restrictions. External users such as

[4] See IFRS-SME. Basis for Conclusions. par 69.

[5] See ED-SME. Basis for Conclusions, par. 19.

[6] See Poll, Jens: Zum Stand des Projekts IFRS for SMEs, in: IRZ Zeitschrift für internationale Rechnungslegung 2006, pp. 83–86, here p. 84.

lenders, vendors, customers, rating agencies and employees need specific types of information but are not in a position to demand reports tailored to their particular information needs. So they must rely on general purpose financial statements. Moreover, as in many countries, the full IFRS are required for all or most limited liability companies, including micros, the IASB concluded that the IFRS-SME is therefore suitable also for micros.[7]

2.2 Swedish accounting rules for SMEs

In Sweden, the general accounting rules for companies that are not subject to the IFRS-regulation are given in the Annual Accounts Act.[8] Apart from this act, the Swedish accounting rules for SMEs to large extent emerges from so-called "good accounting practice", in English often unofficially called "Swedish GAAP". The good accounting practice for SMEs is mainly regulated in the accounting recommendations from the Swedish Accounting Standards Board (BFN).[9] Since the year of 2004, the BFN started a new approach in producing accounting recommendations.[10] Earlier recommendations were aiming at different subjects, for example "stock" or "non-current assets".[11] The new recommendations that are being prepared are aimed at special forms of enterprises, i. e. private firms, partnerships and limited companies of different sizes. In order to facilitate for the BFN, the legislator has modified several rules in the BFL and the ÅRL and given new classifications of enterprises of different sizes.[12] These classifications have commonly been described as the "four categories", which are subject to different accounting recommendations. "Category One" contains private firms with a turnover of maximum three millions SEK. The second category regards smaller limited companies. The scope of the third category is "larger" companies, but these are anyhow normally to be seen as SMEs. The dividing line between the smaller and larger companies was drawn at 50 employees a year, assets for 25 million SEK on the balance sheet or a turnover of 50 million SEK.[13] However, from November of 2010 and on, these numbers will be changed to 50 employees a year, assets for 40 million SEK on the balance sheet or a turnover of 80 million SEK.[14]

If two out of these three requirements have been fulfilled during the last two years the company is recognised as a larger company. It is interesting to

[7] See IFRS-SME. Basis for Conclusions. par. 71–73.

[8] Årsredovisningslag (1995:1554), ÅRL. In the Book-keeping Act (Bokföringslag, 1999:1078), BFL, general rules for bookkeeping in all kinds of enterprises are given.

[9] Bokföringsnämnden.

[10] See BFN Information: Ändrad inriktning på normgivningsarbetet, 2004-05-10, http://www.bfn.se/aktuellt/nyhetsmeddelande-lang.pdf.

[11] See for example BFNAR 2000:3 Bokföringsnämndens allmänna råd om redovisning av varulager, BFNAR 2001:3 Bokföringsnämndens allmänna råd om redovisning av materiella anläggningstillgångar.

[12] 1 chapt. 3 § ÅRL.

[13] 1 chapt. 3 § 4 p. ÅRL.

[14] Se prop. 2009/10:204, p. 85–87.

compare with the approximation of ED-SME for companies with around 50 employees. The forth category contains companies that have to establish consolidated financial statements according to the IFRS-regulation. This category is obvious not the main concern of the BFN, but the board still thinks there might be a demand for accounting recommendations concerning accounting in companies belonging to a group that sets up consolidated financial statements according to IFRS. However, accounting standards for this category are set up by the Swedish Financial Reporting Board.[15] These standards are mainly focused on the financial statements in the listed parents companies, but to some extent also on the consolidated statements in these companies.[16]

It is obvious that not all kind of enterprises are compromised in these four categories, for example private firms with a turnover above three million SEK or partnerships. The BFN is planning to adopt accounting standards for these categories later on. As far as this point, the BFN has adopted one accounting standard for Category One, concerning private firms.[17] A draft has been published for a standard for NGO, churches and similar with an annual turnover not more than three million SEK a year.[18] In Category 2, two standards have been published by the BFN, concerning smaller companies and economic associations.[19] As already mentioned, a draft for a standard for larger companies belonging to Category 3 was published in June 2010. The draft will be used as basis for the following discussion in this article.

3 Objectives of the financial statements of SMEs

3.1 The IASB Standard "IFRS for SMEs"

The primary objective of the SME financial statements is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in the position to demand reports tailored to meet their particular interests.[20] Beneath the information function the financial statements show also the results of the management's stewardship for the resources entrusted to it.[21] Therefore the financial statements have got also a control or accountability

15 Rådet för finansiell rapportering.

16 The main principle prescribed by the Swedish Financial Reporting Board is to use full IFRS as far as possible also in the parent companies, as long as IFRS is compatible with binding Swedish legislation.

17 BFNAR 2006:1 Bokföringsnämndens allmänna råd för enskilda näringsidkare som upprättar förenklat årsbokslut.

18 Bokföringsnämndens vägledning: Ideella föreningar och registrerade trossamfund som upprättar förenklat årsbokslut (2010-03-15).

19 BFNAR 2008:1 Bokföringsnämndens allmänna råd om årsredovisning i mindre aktiebolag, BFNAR 2009:1 Bokföringsnämndens allmänna råd om årsredovisning i mindre ekonomiska föreningar.

20 See IFRS-SME 2.2.

21 See IFRS-SME 2.3.

objective to fulfil.[22] The most important external user groups of the financial statements of SMEs are investors which are not represented in the management, creditors, banks, credit rating agencies, customers, vendors, employees and the local authorities.[23] The owners of SMEs which are in a management function and also the tax authorities are in a position of obtaining tailored financial information and are not solely dependent on the information of general purpose financial statements.

Although the objectives of the financial statements for SMEs are nearly identical[24] with the full IFRS the IASB discusses in the *IFRS-SME – Basis for Conclusions* the application of the IFRS-SME also for taxation purposes and for determining the distributable profit under national laws and regulations:

> "Tax authorities often look to financial statements as the starting point for determining taxable profit, and some have policies to minimise the adjustments to accounting profit or loss for the purpose of determining taxable profit."[25]

Unmentioned is in this statement that in a lot of countries the taxation is linked immediately to the financial statements according to local GAAP and not to financial statements prepared in accordance with international accounting standards.[26] Disregarding a close relationship between the determination of the taxable profit or the distributable income and the financial statements according to local GAAP, the IASB intends obviously to establish the IFRS-SME also as a general starting point for fulfilling these functions. For these functions reconciliations could be developed at a national level.[27]

3.2 Swedish accounting rules for SMEs

In Swedish accounting tradition, the close connection between the accounting rules and the taxation has definitely made an impact on the designing of the accounting standards for SMEs. Traditionally, the Swedish GAAP has to some extent been designed very similar to the tax rules.[28] The linkage between accounting and taxation in Sweden has in recent years been questioned and

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[22] Compare the discussions about the intended abolishment of the stewardship function: Barney, Investors fear stewardship under threat, in: Financial Times of July, 20 th, 2006, p. 12.

[23] See IFRS-SME. Basis for Conclusions. par. 80.

[24] The only difference is in the wording of the information objective. In the IFRS-SME-Standard the circle of users are characterised as "broad range" against the wording in the IAS-Framework.12 which mentions a "wide range". Insofar the number of users of the SME financial statements is more limited than the number of users of the full IFRS financial statements due to the different size of the entities. Nevertheless the substance of the objectives is identical.

[25] IFRS-SME. Basis for Conclusions. par 51 sent. 3.

[26] For example Sweden according to 14 chapt. 2 § IL or Germany according to § 5 sect. 1 EStG (so-called authoritative principle of financial accounting principles for taxation).

[27] See IFRS-SME – Basis for Conclusions. par 51 sent. 5 and Basis for Conclusions. par 52.

[28] Thorell, Per, Skattelag och affärssed, Uppsala 1984, p. 44. See for example the older standards RR 6:99 "Leasingavtal" or RR 10 "Entreprenader och liknande uppdrag" from the Accounting Council, which contain different accounting solutions regarding leasing and contracts in group and single financial statements, which is due to the close connection between the single statement and the company taxation.

an official committee has proposed a disconnection of the linkage.[29] A close relationship between accounting and taxation is usually supposed to lead to a great emphasis on the principles of *carefulness* and realisation and of measurement according to costs model. Measurement at fair value is equally supposed to be difficult to apply in a system based on such a relationship. Anyhow, in some cases measurement at fair value is already accepted in Swedish tax law.[30]

The major scope with the standard for "Category Two" is to simplify the accounting standards for the smaller companies that are affected by this recommendation. Of course, this is a component of a general trend towards simplification for business activities in the EU area. The draft is generally based on the principles of *carefulness* and realisation and of measurement according to a cost model. It must in this respect be emphasised that the ÅRL also is based on measurement to historical costs and that to this date only in few cases measurement at fair value has been accepted by the legislator.[31] A major part of the simplification is the aim to avoid options to choose between different accounting solutions. The standard for "Category Two" is supposed to be an almost complete standard where most answers could be found regarding accounting issues in smaller companies. These companies have anyhow the option to adopt the proposed "Category Three" standard in order to achieve a more qualitative accounting. They can still in many cases benefit of the simplifications made in the ÅRL regarding smaller companies.[32]

The draft for "Category Three" was originally to large extent intended to be based on older accounting standards from BFN and the standards from the now dissolved Accounting Council (Redovisningsrådet). The later where primarily aimed for companies subject to stock exchange prior to the adoption of IFRS, but could also be used by non listed companies.[33] Later, a scope was also added to consider the IFRS for SMEs standard.[34] A further ambition was to achieve a regulation that was short and user friendly. The draft contains 232 pages, but this is also including comments to the proposed standards. It must however be noted, that the possibility for the BFN to adopt a standard more or less influenced by the IFRS for SMEs standard eventually is limited by binding rules in the ÅRL, for example regarding measurement at fair value.[35]

29 SOU 2008:80.

30 See 17 chapt. 20 § IL.

31 4 chapt. 14 a § ÅRL.

32 "Bokföringsnämndens vägledning. Upprättande av årsredovisning (K3)", p. 15.

33 Until the adoption of the new standard for "Category Three", it is still possible for some SMEs to use the standards from the Accounting Council. See BFNAR 2000:2 Bokföringsnämndens allmänna råd om tillämpning av Redovisningsrådets rekommendationer och uttalanden.

34 Information 2007-04-11, published by BFN.

35 BFN remiss: Förslag till nytt allmänt råd med tillhörande vägledning.

4 Peculiarities of the set of financial statements

4.1 The IASB Standard for "IFRS for SMEs"

According to IFRS-SME 3.17 a complete set of financial statements shall include:

– a statement of financial position (balance sheet),
– a statement of comprehensive income (either a single statement of comprehensive income showing separately the profit or loss as a subtotal or a separate income statement and a separate statement of comprehensive income starting with the profit or loss and disclosing all income and expenses recognised in the other comprehensive income)
– a statement of changes in equity,
– a statement of cashflows, and
– notes, comprising a summary of significant accounting policies and other explanatory information.

Due to the qualitative characteristic of comparability an entity shall also present on the face of the financial statements, as a minimum, two of each of the required financial statements including the related notes.[36]

As a peculiarity of the SME financial statements can be characterised the possibility of combining the income statement and the statement of changes in equity to one combined statement of income and retained earnings if the changes to equity during the periods for which financial statements are presented arise only from profit or loss (no comprehensive income!), payment of dividends, correction of prior period errors, and changes in accounting policy.[37] As in comparison to the full IFRS the IFRS-SME accounting contains significant less possibilities of transactions recognised outside profit or loss[38] the condition for combining both statements will probably be fulfilled quite often in praxis.

Although the IFRS-SME mentions both, consolidated financial statements and separate financial statements, the IASB prescribes only the presentation of the consolidated financial statements. If an entity controls at least one subsidiary it has to present in general[39] consolidated financial statements.[40] The obligation to prepare consolidated financial statements applies independently of the size of the group of entities. A quite unique peculiarity of these consolidated financial statements is that only the parent entity and all of the subsidiaries must be consolidated. For the accounting of the jointly controlled entities and the associates the parent entity has got the option to measure the interests in these entities according to the equity method or at cost or to fair value.[41]

[36] See IFRS-SME 3.20.
[37] See IFRS-SME 3.18.
[38] Compare IFRS-SME. Basis for Conclusions 148.
[39] For the exception see IFRS-SME 9.3.
[40] See IFRS-SME 9.2–9.9.
[41] See IFRS-SME 14.4 and IFRS-SME 15.9.

4.2 Swedish accounting rules for SMEs

The requirements for the financial statements according to Swedish GAAP are set in the ÅRL, which is primarily based on the EC accounting directives. A financial statement for a smaller company is supposed to include a balance sheet, an income statement, notes and a *directors' report*.[42] The latter is compulsory according to EU law in larger companies, but should according to ÅRL be presented by all companies.[43] A larger company should also include a cash flow statement.[44] Small companies are therefore, according to Swedish law, not obligated to set up a cash flow statement that is compulsory according to "IFRS for SMEs".

There is not any requirement according to Swedish law for an SME to publish a statement of changes in equity.

Also according to the ÅRL, a company that has at least one subsidiary should set up consolidated financial statements. This is however not necessary for a parent in a group with a total size not bigger than a smaller company.[45]

There is not a definitive obligation to record all subsidiaries in the consolidated financial statement. A subsidiary which is of very small importance in terms of compliance with the demand for a fair and true view does not need to be accounted for in the consolidated statements.[46] In a corresponding way an associate could be omitted in the statements if it is in compliance with the fair and true view.[47] There is no option to measure the investments in a jointly controlled entity or an associate at fair value.

5 Peculiarities of the accounting policies for SMEs

In comparison to the ED-SME the IASB decided to reduce significantly the number and the extent of accounting options included in the IFRS-SME. Therefore the IASB establishes quite a lot of IFRS-SME specific accounting methods which deviate from the full IFRS. As mentioned above, the objectives and general accounting concepts are not deviating at all. The reason for establishing IFRS-SME specific accounting methods is in general to simplify the accounting in comparison to full IFRS. For example, according to IFRS-SME 18.14 SMEs are in general not allowed to capitalise expenditures for

[42] 2 chapt. 1 § ÅRL.
[43] Some information can, however, be omitted in a director's report in a small company, see 6 chapt. 1 § ÅRL.
[44] 2 chapt. 1 § ÅRL.
[45] 1 chapt. 3 § 5 p. ÅRL, 7 chapt. 3 § ÅRL.
[46] 7 chapt. 5 § ÅRL. In this paragraph there are also some other exemptions where subsidiaries do not have to be accounted for.
[47] 7 chapt. 25 § ÅRL.

both research and development activities as the IASB thinks that the necessary evidences for capitalisation are too burdensome for SMEs.[48] Although the IASB reduced the number and the complexity of disclosure requirements in the IFRS-SME in comparison to full IFRS, compared to Swedish accounting regulations they are nevertheless even quite more burdensome.

Comparable to the IFRS 1, also IFRS-SME 35 contains some additional accounting options in order to ease the transition to the IFRS-SME-accounting. In general these simplifications are much more far-reaching than the corresponding simplifications in full IFRS according to IFRS 1.

In the following the essay focuses on the accounting options in the ongoing IFRS-SME accounting and the most meaningful IFRS-SME specific accounting policies deviating from the full IFRS, compared to the proposal for new Swedish GAAP.

(1) Accounting options by explicit accounting options identical with full IFRS

To this group of accounting policy options belong:

- accounting choice between fifo method and average cost formula for inventories which are ordinarily interchangeable and not segregated for specific projects.[49] The same choice follows from Swedish accounting law.[50] The lifo method is not acceptable according to Swedish law.
- measurement of investments in separate financial statements at cost or fair value.[51]

(2) Accounting options by explicit accounting options divergent from full IFRS

IFRS-SME accounting choice	accounting in full IFRS	Accounting according to Swedish GAAP
Accounting of financial instruments: application of IFRS-SME 11 and 12 or IAS 39 (IFRS-SME 11.2 b)	IAS 39 and IFRS 7 (no comparable accounting option)	cost method (11 chapt. draft for "Category Three") or fair value (4 chapt 14 a § ÅRL.)

[48] See IFRS-SME. Basis for Conclusions 113. For further examples see topic 3 under this section.
[49] See IFRS-SME 13.17 and IAS 2.25.
[50] 4 chapt. 11 § ÅRL.
[51] See IFRS-SME 9.26 and IAS 27.37, IAS 28.35, IAS 31.46.

IFRS-SME accounting choice	accounting in full IFRS	Accounting according to Swedish GAAP
accounting for investments in associates and joint ventures: – cost model – equity method or – fair value through profit or loss (IFRS-SME 14.4 and 15.9)	consolidation of investments in associates (equity method; IAS 28.13) and in joint ventures (equity method or proportionate consolidation; IAS 31.20 and 31.38)	Equity method for associates (cost model acceptable under certain circum-stances (7 chapt. 25–29 §§ ÅRL). Equity method or proportionate consolidation for joint ventures (7 chapt. 25 § ÅRL).
(hidden) accounting choice: projected unit credit method for measuring the obligation and cost under a defined benefit plan: simplified calculation method is allowed (ignoring estimated future sales increases, future service of current employees and in-service mortality; IFRS-SME 28.19)	projected unit credit method IAS 19.64	projected unit credit method according to IAS 19 or draft for "Category Three", 28.15–28.18.
accounting treatment for actuarial gains or losses (IFRS-SME 28.24) – recognise all actuarial gains or losses in profit or loss or – recognise all actuarial gains or losses in other comprehensive income	IAS 19.92–19.93 D: in addition to the accounting choices in the IFRS-SME: cor-ridor method (IAS 19.92–19.93)	No equivalent.

Schedule 1: Accounting choices in the IFRS-SME accounting deviating from full IFRS compared with proposed Swedish GAAP.

Although the first three mentioned accounting choices deviating from the full IFRS may indicate an additional accounting policy potential nevertheless it has to bear in mind that these accounting policies include additional accounting options only for the reason in order to simplify the IFRS-SME accounting. For example, as the IFRS-SME does not prescribe a consolidation of joint ventures and associates it does of course not prohibit the equity method; furthermore also the fair value method or the cost model are as non-consolidation accounting methods allowed.

(3) Peculiar accounting policies divergent from full IFRS

	IFRS-SME accounting	**accounting in full IFRS**	**Accounting according to Swedish GAAP**
subsequent measurement of property, plant and equipment and intangibles	cost less accumulated depreciation and less impairment losses (IFRS-SME 17.15 and 18.18)	accounting option between cost model and revaluation model (IAS 16.29 and IAS 38.72)	cost less accumulated depreciation. (4 chapt. 3–4 §§ ÅRL)
subsequent measurement of investment property	in the case that the fair value can be measured reliably without undue cost or effort: measurement at fair value through profit or loss (IFRS-SME 16.7); otherwise cost model according to IFRS-SME 17	accounting option between the cost model and the revaluation model (IAS 40.30)	cost less accumulated depreciation. (4 chapt. 3–4 §§ ÅRL)*
borrowing costs	prohibition of capitalising borrowing costs (IFRS-SME 25.2)	capitalisation of borrowing costs only in the case of qualifying assets (IAS 23.8)	capitalisation of borrowing costs only in the case of qualifying assets (4 chapt. 3 § ÅRL, draft for "Category Three" 25.2)

* But information on fair value for each property should be given.

	IFRS-SME accounting	**accounting in full IFRS**	**Accounting according to Swedish GAAP**
internally generated intangible assets	prohibition of capitalising research and development costs unless the internally generated intangible asset forms part of another asset that meets the recognition criteria in the IFRS-SME (IFRS-SME 18.14)	capitalise the development costs, if the entity fulfills the capitalising criteria (IAS 38.57)	Choice between capitalising or cost model (draft for "Category Three", 18.5)
subsequent measurement of intangibles with an indefinite useful life	assume a useful life of 10 years (IFRS-SME 18.19 s. 1 and 18.20)	no regular amortisation, instead of – asset impairment test annually without the existence of an obvious impairment indicator (IAS 38.108) – annual review if the useful life is still indefinite (IAS 38.109)	Normally a useful life should be estimated to five years (4 chapt. 4 § ÅRL), only in rare cases the useful life of an intangible should exceed ten years (draft for "Category Three", 18.15)
goodwill acquired (initial measurement)	measuring of the non-controlling interests' at their share in the acquiree's identifiable net assets (IFRS-SME 19.24)	option for business combination: measure the non-controlling interests in the acquiree – at the fair value (full-goodwill-method) or – the non-controlling interests' share of the acquiree's identifiable net assets (IFRS-SME 3.19)	measuring of the non-controling interests' at their share in the acquiree's identifiable net assets (draft for "Category Three" 19.3)

	IFRS-SME accounting	**accounting in full IFRS**	**Accounting according to Swedish GAAP**
subse-quent measure-ment of goodwill acquired	assume a useful life of 10 years (IFRS-SME 19.23 a)	no regular amortisa-tion, instead of – asset impairment test annually with-out the existence of an obvious impair-ment indicator (IAS 36.90)	Normally a useful life should be estimated to five years (4 chapt. 4 § ÅRL), only in rare cases the useful life of an intan-gible should exceed ten years (draft for "Category Three", 19.17, 18.15)
deferred taxes	close oriented by the ED 2/2009 "Income tax"	IAS 12	Draft for "Cat-egory Three", chapter 29
non-cur-rent assets held for sale or disposal group	no special measure-ment provision in the IFRS-SME accounting; but plans to discon-tinue or to restruc-ture an operation are an indicator for an asset impairment (IFRS-SME 27.9 f)	measurement of a non-current asset classified as held for sale or a disposal group at the lower of its carrying amount and fair value less costs to sell (IFRS 5.15)	no special measurement provision in the draft, but non-current assets held for sale are an indica-tor for an asset impair-ment (draft for "Category Three", p. 180.)

	IFRS-SME accounting	accounting in full IFRS	Accounting according to Swedish GAAP
currency translation	in the consolidated financial statements: exchange differences arising on a monetary item in a foreign operation shall be recognised initially in the other comprehensive income and reported as a component of equity; no reclassification in the case of a later disposal of this foreign operation (IFRS-SME 30.13)	difference to the IFRS-SME accounting: The exchange difference initially recognised in the other comprehensive income has to be reclassified (it means has to be recognised in profit or loss) in the case of a disposal of the foreign operation (IAS 21.32 and 21.48)	reported as a component of equity, draft for "Category Three", 30.11

Schedule 2: IFRS-SME specific accounting policies deviating from full IFRS accounting compared with proposed Swedish GAAP.

The main reasons for the IFRS-SME specific accounting policies can be summarized as follows:

- the fair value as a measurement basis is only be used if it can be determined reliably without undue cost or effort on an ongoing basis (esp. subsequent measurement of property, plant and equipment, intangibles, investment property and non-controlling interests),
- regular amortisation for all intangibles including goodwill in order to avoid an annual review of the recoverable amount of these assets or a review if the useful life is still indefinite,
- prohibition of capitalising costs if otherwise the capitalisation would be dependent on extensive and burdensome evidences and documentations (no capitalisation of borrowing costs that are attributable to the acquisition, construction or production of a qualified asset or in general no capitalisation of research and development cost incurred for internally generated intangible assets),
- in general a simplification of the accounting due to cost-benefit considerations (e.g. no separate measurement provision for assets held for sale, no reclassification of a translation adjustment on disposal of the foreign

> operation, and application of the accounting concept of ED 2/2009 instead of IAS 12).[52]

Since full IFRS is not applicable in the single financial statements in Sweden, only a few accounting choices are explicit identical with full IFRS according to the draft for new Swedish GAAP. However, according to the ÅRL it is under some circumstances possible to measure financial instruments at fair value.[53] This kind of measurement is not possible for any other kind of assets in Swedish SMEs. The cost model will therefore also onwards have a strong position in Swedish accounting.

6 Conclusions

In the opposite to the preceding ED-SME the IASB has limited in the final IFRS-SME the number of accounting options in the IFRS-SME accounting. Furthermore the IASB developed some remarkable simplifications exclusively for the use of the SMEs and reduced the number and the complexity of the disclosures in comparison to the full IFRS. Thereby the IASB sacrificied also some accounting concepts to a certain, but remarkable extent (e.g. fiction that the useful life of all intangibles is limited). The only major source of accounting options for SMEs are the options and simplifications granted for setting-up the opening statement of financial position. Nevertheless the IASB's intention also for these simplifications is not to create extensive accounting policy options but rather to ease the transition to the IFRS-SME accounting. Therefore, due to the accounting options in the IFRS-SME opening financial statement of position, most probably, the financial statements of SMEs situated in different countries will only be comparable in a mid- or long-term run. As the primary user groups of the SME financial statements, especially the investors, credit lenders, banks or rating agencies, are expected to be mainly oriented to the national markets, this limitation seems to be quite more acceptable than in the case of capital market oriented entities.

Overall, the IASB acknowledged the criticism against the ED-SME and has prepared a quite attractive "stand alone"-standard for the accounting of the SMEs which will most probably also affect the discussion about the future of the financial statements according to national GAAP.

In a Swedish perspective, a complete adoption of IFRS-SME has not been discussed as a serious option. The draft for "Category Three", as described in this article, is as far as possible influenced by IFRS-SME. However, Swedish binding accounting law sets limitation to how far this influence can be taken. Especially, measurement to fair value is, apart from regarding finan-

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[52] The IASB uses the approach of the IASB's Exposure Draft Income Tax, published in March 2009, "which proposes a simplified replacement for IAS 12." (IFRS for SMEs. Basis for Conclusions. par 122).

[53] 4 chapt. 14 a § ÅRL.

cial instruments, not possible in Swedish SMEs. Also in other aspects the Financial Statements Act (ÅRL) hinders a total adoption of IFRS-SME in Sweden. As shown earlier this is the situation regarding the strong reliance of the cost model (4 chapt. 3–4 §§ ÅRL), the measurement of intangibles (4 chapt. 4 § ÅRL) and the accounting for investments in associates and joint ventures (7 chapt. 25–29 §§ ÅRL). Anyhow, compared to the Swedish GAAP that has been applied until now in SMEs the new draft represents a major change in the design of Swedish accounting. As described in this article, the Swedish GAAP has until now been consisting of a number of accounting standards, published by the BFN, which are aimed at specific accounting issues, for example accounting of income or cost, or accounting of non-current assets, stock or depreciations. From now on, most relevant accounting will be published in one standard.[54] This will of course facilitate for the users. More uncertain is what better value of information the new draft will have in an international perspective, since the draft does not correspond totally to the international standards.

Hanno Kirsch is a Professor in Business Administration and president of Fachhochschule Westküste in Heide, Germany. Stefan Olsson is a Professor in tax law, Karlstad Business School, Sweden.

[54] It must however be mentioned that the new draft does not compromise the relevant parts of the Financial Statements Act (ÅRL) itself. See further chapt. 1 of the draft for "Category Three".