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**Preliminary Views on Accounting
Standards for Small and Medium-sized Entities**

Comment by
Mrs Jane B Grant FCA

1a) Do you agree that full IFRSs should be considered suitable for all entities?

Yes.

Users of each and every set of financial statements have a right to expect that all financial statements are drawn up using identical qualitative and quantitative methods. There is no sustainable argument for treating similar transactions differently depending on the size of the entity.

IFRSs should be drafted so that the requirements for all sizes of entity are met.

It is futile to speculate on different categories of 'users' of financial statements and consequently promulgate discrete accounting standards. It must be possible to tailor individual standards for their use by all entities.

I feel strongly that the existence of the FRSSE in the UK damages the credibility of its accountancy profession by sanctioning the use of inconsistent accounting rules for different sizes of entity.

1b) Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? Definitely not.

1c) Do you agree that IASB Standards for SMEs should not be used by publicly listed entities ..even if national law ..were to permit this? Of course.

Do you also agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs?

No. It would be difficult to argue that the statement was inaccurate. Publicly listed entities should be required to add that their financial statements do not comply with full IFRSs, which would also be true.

2) Are the objectives of IASB Standards for SMEs, as set out in Preliminary View 2, appropriate?

I think most of the objectives outlined in Preliminary View 2 should be applied to the IFRSs themselves rather than to a new set of standards for entities without public accountability.

I disagree with the objective to "focus on meeting the needs of users of SME financial statements". As previously stated, differentiating 'users' of financial statements is futile and unnecessary for a standard-setting body.

3a) Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative 'size tests'?

I think the Board should define the characteristics of entities without public accountability and those characteristics should not prescribe quantitative 'size tests'.

The Board can then use the defined characteristics to apply supplements and disapplications to the individual IFRSs .

3b) Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones?

It will be difficult enough to distinguish between publicly accountable and not-publicly accountable. Any further sub-division is to be avoided.

3c) Do the two principles in Preliminary View 3.2, combined with the presumptive indicators of 'public accountability' in Preliminary View 3.3,

provide a workable definition and appropriate guidance for applying the concept of 'public accountability'?

Yes. I would alter paragraph 32b to include all entities including charities that hold assets in a fiduciary capacity, assets provided by persons other than the owners of the entity or where the business involves the collection of deposits, donations or subscriptions.

This definition would include numbers of smaller entities which collect, disburse or retain donor, member or customer monies and may not recognise themselves as having a public service responsibility.

3d) Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity's preparing its financial statements on the basis of IASB Standards for SMEs?

Not in the form suggested by paragraphs 33/34.

I consider that the supplements and disapplications for entities without public accountability should be included in full IFRSs and ought to be optional. Ideally, any member, creditor, employee or banker should be able to require a company to apply full IFRSs to their financial statements.

3e) Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial statements in accordance with full IFRSs to meet the requirements of its parent, venturer or investor; the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements?

Not as described in this question.

I agree compliance with full IFRSs for its separate financial statements should be mandatory for a subsidiary of a publicly accountable entity.

An associated company (without public accountability itself) which had prepared full IFRS financial statements solely for its investor should not be mandated to issue the same financial statements publicly.

The financial statements prepared for a joint venture are unlikely to be the full financial statements for the entity in any case and the same considerations as for associated companies above apply.

4) Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue?

Yes, in my ideal model, if the supplements and disapplications for entities without public accountability included in an IFRS are inappropriate, the full IFRS will apply automatically.

5a) Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to IFRSs?

The first option is the correct one.

In my version of the IFRSs, it will be obvious if a supplement or disapplication for entities without public accountability is unsuitable for use and the full IFRS will automatically take over.

5b) If an SME is permitted to revert to an IFRS, should it be a) required to revert to the IFRS in its entirety (a standard-by-standard approach); b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principle-by-principle approach); or c) required to revert to all the principles in the IFRS that are related to the treatment in the SME version of the IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground di,da,di,da....The Board wouldn't have this problem (which is barely explicable in simple English), if the individual IFRSs were properly drawn up including supplements and disapplications for entities without public accountability and applying the 'principles' to all entities.

The UK has had this same dilemma for years and the FRSSE has not been an unbridled success.

6) Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including interpretations), and then making modifications deemed appropriate?

See all above. The development of IASB work on the financial statements of entities without public accountability should start by specifically addressing the relevant issues in each individual IFRS (within each individual IFRS).

7a) Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost-benefit analyses?

There should be no modifications to concepts and principles.

7b) Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosures for SMEs?

Yes, I envisage disclosure and presentation modifications as the main requirement for entities without public accountability. It is not necessary to decide on the justification for reduced or increased disclosures; in the vast majority of cases, the requirements for the financial statements of entities without public accountability are blindingly obvious.

7c) Do you agree that, in developing standards for SMEs, the Board should presume that no modifications would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost-benefit analysis?

The recognition and measurement principles should apply to all entities issuing financial statements. Much standard setting has been beset by problems of identifying user needs. Why? A measurement principle establishes a measurement regardless of who is reading the financial statements.

8) Do you agree that IASB Standards for SMEs should be published in a separate printed volume? Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence?

The provisions from the full IFRSs applying to entities without public accountability will soon be collated in the commercial publishing world. The IASB does not need to start this project.

Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

Each individual IFRS should have its supplements and disapplications for entities without public accountability detailed within it. All Standards should have summaries and glossaries. Are 'objectives' distinct from principles?

I consider the experience of the FRSSE in the UK has been:

- a) either an increasing ignorance of full Standards where those applying the FRSSE do not refer back to the principles of full Standards; or
- b) the FRSSE has been abandoned 50-60%* of the ICAEW's accountants in practice as being a very poor substitute for full standards.

* ASB Discussion Paper 2001 "Review of the Financial Reporting Standard for Smaller Entities"

9) Are there any other matters related to how the Board should approach its project to develop Standards for SMEs that you would like to bring to the Board's attention?

When full accounting standards are properly drafted, with suitable supplements and disapplications for entities without public accountability, the debate about unnecessary burdens for smaller companies (and the lack of clarity for users of financial statements) will fall away.

To achieve this end, the members of IASB and its secretariat charged with drafting the IFRSs should include far more input from representatives of entities without public accountability and far less input from the representatives of listed companies and the international accounting firms.

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