

Comments about the Discussion Paper “Preliminary Views on Accounting Standards for Small and Medium-Sized Entities”.

The subject of this discussion consists mainly of establishing if **IASB** should publish accounting standards for Small and Medium-sized Entities. Then we will carry out an analysis in which will show the principal characteristics that in our opinion must be considered for the development of this process.

In Colombia, Small and Medium-sized Entities are an important sector in the economy due to their greater generating capacity of employment and wealth, representing 95% of the companies in the country and occupying 65% of employment. For this reason, we consider it very important that **IASB** issue or publish specific standards for these companies.

However, it is necessary to remember that Accounting is a universal concept and therefore these standards should not be separate or independent; on the contrary they must continue with the characteristics established in the standards already published:

- **Conceptual Framework:** Forms the comprehensive basis of international accounting standards.
- **Objectives, scope and definitions.**

Recognition, measurement and disclosure criteria will vary in accordance with the company's size.

From our point of view, before these standards are published, the following factors must be considered:

- **Definition of user's information needs:** These needs can be general or specific. Latter must in agreement with the information requirements of each user. The purpose of this process is to determine what the necessary disclosure conditions are to satisfy these needs.
- **Analysis of cost-benefit relationship:** It seeks to establish if it really is beneficial for a specific company to incur different costs related to the application of these standards.
- **Classification of entities:**
 - 1. In accordance with the levels established by UNCTAD:**
 - a) Level 1: Large entities that are registered on the stock market (**IFRS**).
 - b) Level 2: Small and Medium-sized Entities that are not registered on the stock market.

c) Level 3: The smallest entities. ⁽¹⁾

Based on this assumption, the standards for SMEs would have to be complied with by entities at Level two. In the case of the smallest entities, it would not be necessary to apply these standards; it would simply depend on the criteria of the administration of the company, provided their requirements are based on a Cash Accounting System.

2. International classification in accordance with the macroeconomic variables: **GDP (Gross Domestic Product) of each country.**

For the smallest companies, we consider that:

- It is necessary to educate personnel on matters related to international parameters: managerial projections to improve competitiveness.
- It is important to present information about competition market, economic trends, foreign investment and the needs of Accounting harmonization.
- The government must contribute in the preparation of this kind of companies for the adoption of international standards and different economic matters: incentive (training) and financial support.
- It is very important to improve the quality and presentation of financial information because this is a limiting factor in achieving a company's goals.
- The suggestion for this type of companies is record information in accordance with the **Cash Accounting System**.

As companies improve their financial position and performance, they may ascend within this classification. For this, is necessary establish how much is the value of the entity or a specific range.

The disclosure level for Small and Medium-sized Entities should not be the same as that for large companies, because these acquire public responsibility as they are registered on the stock market and therefore the level of detail must be much greater. On the other hand in the case of SMEs, we suggest some exceptions for example in the annual valuation of items of Property, Plant and Equipment.

The adoption of these standards must be progressive; each country has to decide what to do and how, in such way that it could give time for small companies to organize themselves, make the necessary changes, and carry out pertinent adjustments.

Obtaining better Accounting information would permit Small and Medium-sized Entities (SMEs) to be better administered and have easier access to financial support.

¹ In Colombia these companies have only one owner and their principal feature is that they do not have a defined legal structure.

When some problems occur in which the standards for Small and Medium-sized Entities cannot solve them, these companies have to consult in the information sources established in IFRS for each specific case, without abandoning the procedures mentioned in the standards for SMEs by **IASB**, taking into account that the main objective and general needs are to create a single Accounting structure with the aim that the financial information is comparable and understandable by any user of the above mentioned information.

It is necessary to identify the problem and how to solve it with the intention of **preserve the consistency of information**. In this case, it must look for the specific IFRS that can find a solution.

On the other hand, a SME must not abandon its standards completely. If in a given situation it decides to apply the treatment established by IFRS, it has to use an addition Accounting form, that is to say, that the main treatment of economic facts must be in accordance with the requirements established by standards for SMEs.

Based on the assumption that Small and Medium-sized Entities should apply international standards for SMEs, although they are not entities registered on the public stock market, it is necessary to comment how our country has developed jurisprudence regarding this.

In the case of Colombia, the national government enacted the law No. 590 in 2000 that contemplates the following aims:

- a) Promote the integral development of small and medium sized companies taking into account their aptitudes for the generation of employment, regional development, integration between economic sectors, productive utilization of limited capital, in view of the managerial capacity of the Colombian people.
- b) Stimulate the formation of a highly competitive market through the promotion of permanent creation and functioning of a greater number of small and medium sized companies (SMEs).
- c) Endeavour to obtain better conditions in an institutional environment for creation and operation of small and medium sized companies.
- d) Encourage the assignment of resources for small and medium sized companies, facilitating access to the market of goods and services, as well as the acquisition of raw materials, supplies, capital goods and equipment and the availability of their products and services at national and international level, formation of human resources, assistance for technological development and access to institucional financial markets.
- e) Further the permanent formulation, execution and evaluation of public policies which are favourable to the development and competitiveness of small and medium sized companies.

- f) Indicate criteria that should guide the action of State and strengthen coordination between its organizations; as well as between these and the private sector, in the development of small and medium sized companies.
- g) Assist in the development of management organizations, in the generation of schemes for business associations and strategic alliances between public and private entities to give support to small and medium sized companies.
- h) Support small and medium producers established in rural areas, stimulating the creation and strengthening of the smallest companies rural.
- i) Guarantee the right to free and loyal competition for the smallest companies.
- j) Create the basis an input system to carry out the capitalization of small and medium companies.

This law defines these kinds of entity as any unit of economic exploitation realized by a natural or juridical person, in managerial, agricultural, industrial, commercial and services activities that correspond to the following parameters:

| | Medium | Small | Smallest |
|--------------|--------------------------------|-----------------------------|------------------------|
| Personnel | 51-200 Employees | 11-50 Employees | <= 10 Employees |
| Total Assets | 5.001- 15.000 minimum wages | 501- 5.001 minimum wages | < 501 minimum wages |

Current minimum wage (2004): \$ 358.000 Colombian Pesos.

Note: For the classification of Small and Medium-sized Entities that present different combinations of parameters of personnel and total assets, it only the total assets must be taking into account.

To finish, from our point of view the standards for Small and Medium sized Entities must be published in the following way:

- Printed.
- In different languages.
- On a web page.
- Looking for an easier understanding we suggest continuing with the same numbering of current standards: SMEs-IAS 1 or SMEs IFRS 1.
- It must include the same points analysed in the current standards: Objective, scope, definitions, recognition, measurement, disclosure and effective date, besides a general summary of this topic and examples that illustrate the above mentioned content.