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SME Differential Reporting Survey

Victoria Wise, Jeffrey Faux and Colleen Fisher outline changes to the definition of a ‘large’ entity and invite readers to participate in a survey to determine the relevance of IFRS to SMEs.

The Manukau Business School in Auckland, in conjunction with Melbourne’s Victoria University, is conducting a survey that considers the views of financial report preparers as to the relevance of International Financial Reporting Standards (IFRS) to small and medium-sized enterprises (SMEs). Those interested can access the survey through a link on the Institute’s website: http://www.icanz.co.nz/SMEsurvey

The increasing cost of compliance with technically sophisticated and challenging financial measurement and disclosure requirements is a matter of considerable concern to regulators. For instance, the Inland Revenue Department is working on a research project aimed at identifying ways to reduce compliance costs for SMEs.

The International Accounting Standards Board (IASB) is currently working on a project on financial reporting specifically for SMEs. The IASB project will not be dealing with quantitative criteria, but will consider qualitative criteria such as user dependency and public accountability as the basis for developing reporting standards for SMEs.

An issue of critical interest to SMEs is which financial reporting model the IASB will recommend. Will it be a separate set of standards for SMEs; will different measurement and disclosure clauses for SMEs be included within IFRS; will exemption from some (or all) components of some (or all) IFRS be granted; or will some other model for financial reporting be chosen by the IASB?

Comments on the IASB project closed in September 2004 and it is unlikely that the IASB will resolve the matter of financial reporting by SMEs for some time. In the meantime, national jurisdictions will continue to determine which, if any, entities of particular size or significance should be permitted or required to follow IASB standards.

In New Zealand, under the Financial Reporting Act 1993, small entities are considered exempt from financial reporting requirements. Exempt entities may, however, prepare financial statements in accordance with the Framework for Differential Reporting 1997 (the Framework) if they choose, as long as the prescribed requirements of the Governor-General by Order in Council are met.

A medium-sized entity qualifies for certain differential reporting exemption(s) if it does not have public accountability, and at balance date, all of its owners are members of the entity’s governing body; or the entity is not large. Large entities have no exemption from financial reporting standards. “Large” is defined in the Framework as an entity which exceeds any two of the following:

- total revenue of $5 million
- total assets of $2.5 million
- 20 employees.

However, the financial reporting regime, in New Zealand and globally, is changing rapidly. For financial reporting periods commencing on or after 1 January 2005, any New Zealand subsidiaries of Australian or European parent entities are required to adopt NZ IFRS.

The Financial Reporting Standards Board is reviewing the New Zealand criteria for differential reporting. It will consider an amendment to the criteria triggering differential reporting so that an entity will only be considered large if it exceeds two of the following:

- total income of $20 million
- total assets of $10 million
- 50 employees.

The review is contingent, however, on the outcome of the review by the Ministry of Economic Development.

References


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