



The IFRS for  
SMEs accounting standard:  
perceptions and expectations  
across Europe

# ( Preface

In the history of international accounting standards, 2007 will come to be seen as a decisive moment in the recognition of IFRS <sup>(1)</sup> as the worldwide set of accounting standards. As such, the SEC <sup>(2)</sup>, the American regulator, both abandoned the obligation for foreign issuers listed on American markets to reconcile their published IFRS accounts with US GAAP <sup>(3)</sup> and initiated a debate on the possibility of allowing American issuers to opt for IFRS on their own markets. In addition, more than 100 countries have now adopted IFRS or planned a convergence programme with this set of accounting standards.

In order to meet the requirements of countries that would like all companies, whether large or small, listed or not, to benefit from the quality of international standards, without bearing the weight of the complexity of IFRS, the IASB <sup>(4)</sup> has decided to propose a standard that would be simpler to implement. The IFRS for Small and Medium-sized Entities (SMEs), published as a draft in February 2007, is likely to make the IASB be recognised to an even greater degree as THE worldwide accounting standard setter.

The study carried out by MAZARS, in partnership with the EFRAG <sup>(5)</sup>, with a sample of European SMEs belonging to the core target group of the future international standard, shows that the SMEs, in preparing their individual and consolidated accounts, wish to benefit from the accounting standards convergence movement. It is quite remarkable to note that these enterprises, whether small or medium-sized, consider that the benefits drawn from greater comparability, understandability and transparency outweigh the disadvantages resulting from such a global move towards worldwide accounting standards. It is just as remarkable to note that the enterprises questioned closely associate convergence and improvement in financial reporting.

The results of the survey provide validation of a number of recommendations that MAZARS and the EFRAG, as well as other commentators, expressed in their responses to the IASB. Let's hope that, in preparing of the definitive standard, the IASB knows how to draw upon the pathways towards simplification that the consultation process has been able to identify. To do this, the IASB must make recognition and measurement choices that most closely target the needs of the financial statements users of the enterprises at whom the future standard is aimed. This is the challenge that must be met by the future standard in order to enable it to satisfy the aspirations identified by the enterprises questioned in our survey and to have a chance to open doors throughout Europe.

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<sup>(1)</sup> International Financial Reporting Standards  
<sup>(2)</sup> Securities and Exchange Commission (US)  
<sup>(3)</sup> US Generally Accepted Accounting Principles  
<sup>(4)</sup> International Accounting Standards Board  
<sup>(5)</sup> European Financial Reporting Advisory Group

# ( Introduction

Over the last number of years, MAZARS has carried out a number of surveys on international accounting standards, focusing particularly on their adoption and on the manner in which they are perceived by the business community. Thus, in 2005, MAZARS carried out a survey which demonstrated that listed European groups were in favour of the IFRS accounting framework.

MAZARS, in partnership with the EFRAG, now wanted to focus its attention on small and medium-sized enterprises (SMEs), particularly as regards their attitude to the increased convergence of national accounting principles with international standards, the manner in which they would view the prospect of a common set of accounting standards in Europe and their degree of preparation for these possible developments.

The questionnaire used in the survey was prepared on the basis of work carried out by Prof. Dr Peter Kajüter, Chair of International Accounting at the University of Münster (Germany).

To this end, 1,500 SMEs were consulted in six European countries (France, Germany, Italy, the Netherlands, Spain and the UK).

The responses enable the expectations, hopes and fears of unlisted enterprises to be identified, in a context of globalisation and of harmonisation of accounting standards. The responses also enable these enterprises' ability to apply the provisions envisaged by the IASB in its draft international standard for unlisted enterprises to be evaluated.

Have a good read.

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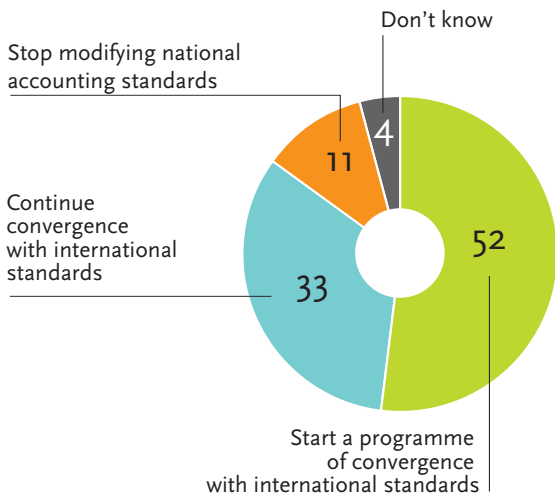


# Main findings of the survey

**((( A majority of European SMEs are very much in favour of adoption of a common set of accounting standards throughout Europe.**

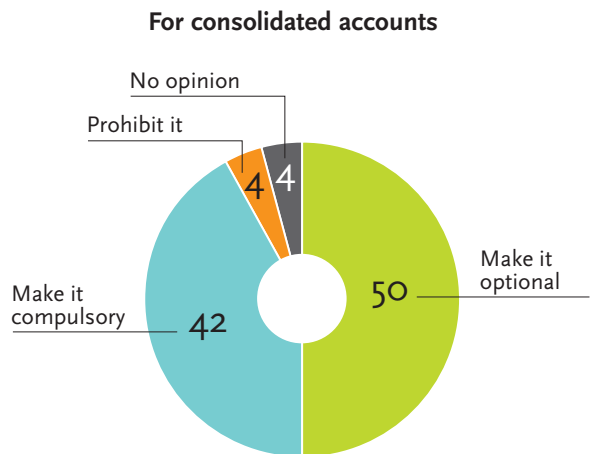
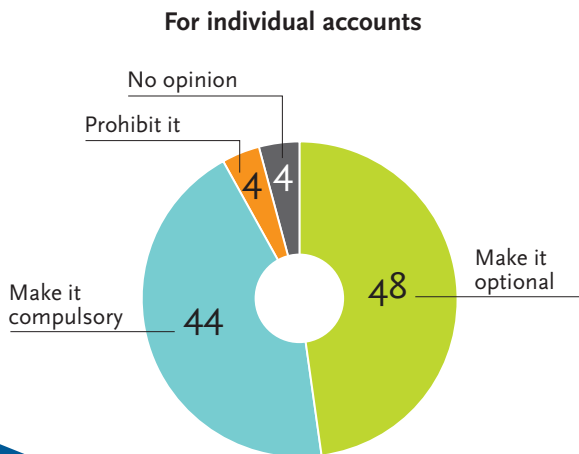
Most enterprises (more than 80% in each of the six countries) irrespective of their size, are in favour of convergence of their national accounting principles with international standards.

*Many national accounting standard setters have planned a convergence programme with IFRS. Do you feel that this convergence programme is appropriate for your national GAAP (applicable to individual accounts)?*



However their visibility regarding the status of such convergence is, in certain cases, partly out of line with the actual circumstances. Thus, in France and the UK, more than 30% of enterprises consider that convergence should be initiated whereas it is already well, even very well, underway. In the Netherlands and Germany, on the contrary, enterprises appear to be aware that the convergence process has already begun. Visibility is thus quite good in these two countries, even though the degree of progress towards convergence differs between them (well advanced in the Netherlands, still only beginning in Germany).

*Europe could adopt a common set of accounting standards while allowing Member States a broad degree of freedom in terms of application. In this case, what should your national legislator do in your view? (in %)*



Furthermore, a vast majority of European SMEs support the adoption of a common set of accounting standards, whether on an optional or mandatory basis. This is particularly the case among Italian, Spanish, Dutch and French SMEs.

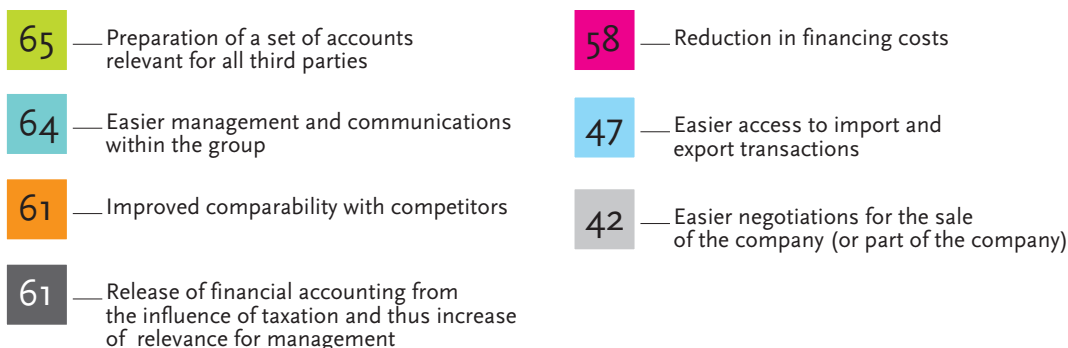
That being said, those in favour of a common set of accounting standards are almost evenly divided between SMEs in favour of mandatory adoption (this is the case in Italy, Spain and the Netherlands) and those who favour optional adoption. Unsurprisingly, most small enterprises (between 20 and 49 employees) are in favour of the latter approach. The others (more than 50 employees) are evenly divided between the mandatory and optional approaches to adoption.

While a consensus exists regarding a common set of accounting standards, enterprises' reasons for taking this view vary from one country to another. More than 60% of French, Italian and Spanish SMEs identify the necessity of breaking the link between tax rules and accounting and the possibility of being able to provide all external parties with a single set of accounts as being key advantages that they would expect to derive from convergence.

However, Spanish and Italian enterprises, in similar proportions, are also interested in the improvements in comparability with their competitors, and the reduction in financing costs, that would result from putting in place a common set of accounting standards. A majority of such enterprises also expect to see benefits in terms of the development of crossborder relations with foreign partners (customers, suppliers, commercial partners).

Two-thirds of British and German enterprises consider, for their part, that a common set of accounting standards would primarily improve management and internal communications within their business. A majority of SMEs in all countries also identify reductions in financing costs and an increased ability to benchmark competitors as benefits of convergence.

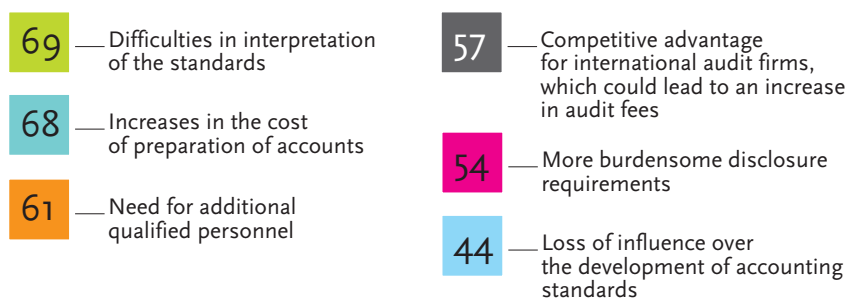
*Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe?  
(% citing)*



On the other hand, SMEs do not appear to be particularly motivated by the benefits that a common set of accounting standards could bring in terms of facilitating negotiation of disposals of businesses. Only Italian SMEs considered that the adoption of a common set of accounting standards would be positive in this regard (56%).

The SMEs most positive to the adoption of a common set of accounting standards (see above) are those which most clearly identify benefits from such adoption. This finding applies irrespective of the size of the enterprise.

*Please indicate which, if any, of the disadvantages listed below you would expect from the adoption of a common set of accounting standards in Europe? (% citing)*



This positive view regarding adoption of a common set of accounting standards does not however imply that SMEs are unaware of the potential disadvantages of convergence.

Thus, nearly 60% of Spanish SMEs and more than 2/3 of SMEs questioned in the five other countries consider that difficulties will arise in terms of interpretation and that the cost of preparation of accounting records and financial statements is likely to increase. German, Spanish and Dutch companies consider in particular that they would require greater numbers of qualified personnel. They, together with Italian enterprises, also mostly consider that costs of external audit and accounting would increase as convergence could favour the large international firms.

Beyond these matters perceptions differ, reflecting the status of the different accounting standard setting processes in the different countries. Thus, British and Dutch enterprises are the only ones of which a majority do not expect an undesirable increase in the level of published information. At the same time, German and British enterprises mostly fear the loss of influence that could result from choices in the area of accounting standards being taken at European level. It is not possible to say whether this relative lack of concern in the other countries results from greater confidence in European decision-making processes among SMEs in those countries or because they do not feel that French, Italian, Spanish and Dutch standard-setters currently pay enough attention to their points of view!

Finally, Latin countries worry most about having to make too much information available to the public (56% in France, 60% in Italy, 62% in Spain). The size of the enterprise does not have any particular impact on these findings.

## ■ WHERE DOES CORPORATE FINANCIAL REPORTING STAND TODAY?

### ((( Financial reporting that is primarily prepared for the tax authorities, banks and shareholders

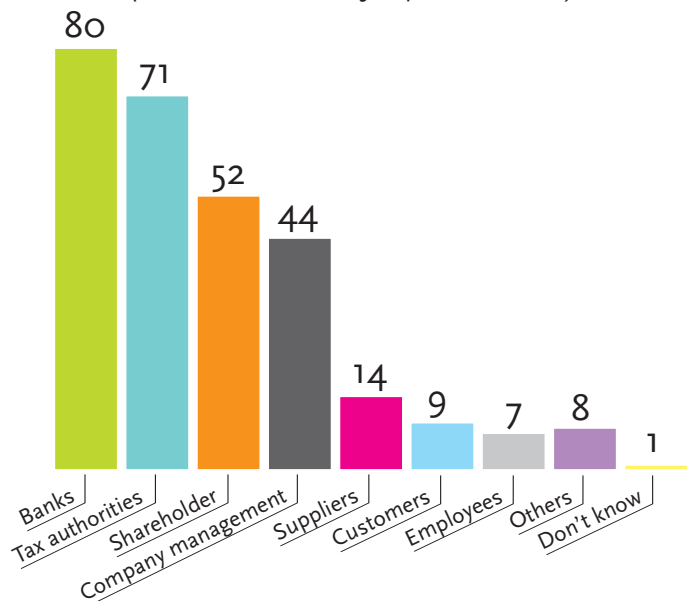
European SMEs share the viewpoint that their suppliers, customers and employees are, at most, marginal users of their financial reporting.

In all countries in the panel, the four main users of financial reporting are banks, tax authorities, shareholders and management. However very considerable differences exist between the various countries. In France, the Netherlands, Spain and Germany, the tax authorities are included in the three primary users of financial reporting by, respectively, 73%, 76%, 85% and 86% of enterprises in the survey. However, in the UK, only 47% of enterprises included the tax authorities as being one of the three primary users.

Furthermore banks, who were identified as the primary source of finance by SMEs in all six countries, are considered to be very important users, particularly in Italy, Germany and the UK where they were cited as the number 1 user. They are one of the three primary users in all six countries with a score of 92% in Italy, 86% in Germany, 85% in Spain, 81% in the Netherlands, 71% in the UK and 70% in France.

The size of the enterprise has a certain degree of influence on these perceptions. It affects the relative importance of banks and shareholders – banks remain the primary user for 84% of enterprises with less than 250 employees whereas this falls to 76% for enterprises with more than 250 employees. At the same time, preparation of accounts for shareholders becomes more important for the largest companies (58%), whereas shareholders are only included among the three primary users of accounts by 42% of enterprises with less than 50 employees.

Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



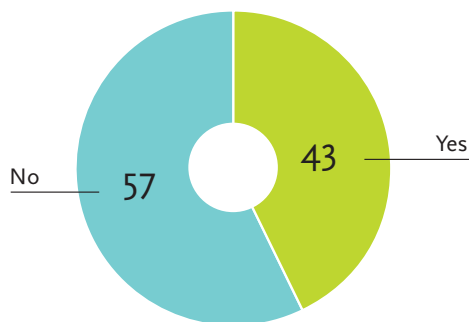
**((( In the majority of cases, the main banks/creditors request budgets and cash flow forecasts in addition to the annual financial statements.**

The level of financial information required by banks/creditors in addition to the annual financial statements varies from one country to another.

Only one quarter of French companies (26%) indicated that they had received such requests, however more than half of British (53%), German (52%) and Italian (50%) SMEs had received them. Most requests for additional information were for budgets and cash flow forecasts, except in France and Spain where the annual tax return is requested in priority (respectively 83 and 71%). Italian banks place the highest priority on cash flow statements (82%), in addition to requests

for budgets and cash flow forecasts. The SMEs indicated that, in general, the information requested is not specifically prepared for the third party but is already available in-house. The figures appear to confirm this declaration as the proportions declared are consistent with the budgetary and forecast practices reported, both by geographical origin and by size of enterprise.

*Do your entity's financial statement users (e.g., a bank) request that you provide them with information supplementing the published accounts (in %)*



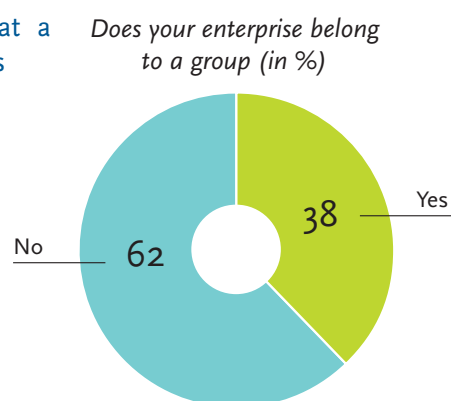
## ■ IS THE PROPOSED IFRS FOR SMES SUITABLE FOR EUROPEAN COMPANIES?

(( ( Thanks to the consultations carried out prior to publication of its exposure draft, the IASB seems, overall, to have correctly identified the accounting needs of SMEs. Certain adjustments would however appear to be necessary...

In the context of the consultations carried out prior to publication of its exposure draft, the IASB gathered information through responses to a discussion document and during round-table meetings. This enabled it to make appropriate adjustments to the scope of transactions to be reflected in the accounts.

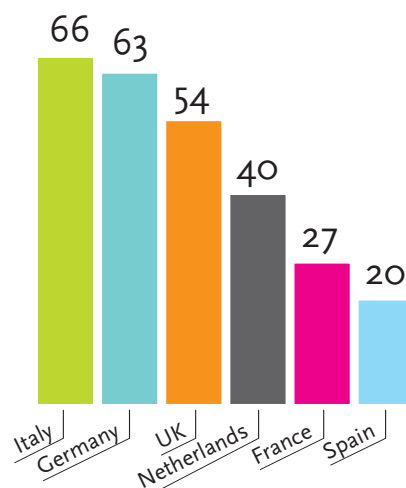
A first confirmation provided by our survey is that a significant proportion of SMEs are parent companies of groups (particularly in Spain, Italy and the UK) and must thus prepare consolidated accounts. The inclusion of provisions regarding consolidation and business combinations is thus entirely appropriate in a standard aimed at SMEs.

The survey also confirmed that, in certain countries, post-employment commitments are often made to workers, particularly in Germany (63%) but also in the UK (54%). It is thus necessary to provide for their accounting treatment.



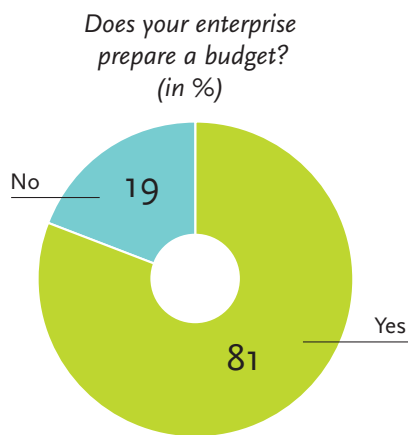
The above mentioned sample does not include any subsidiary of the surveyed companies

What is the relative importance of the post-employment benefits in the preparation of your accounts? (in %)



Third confirmation provided by our survey: a majority of SMEs undergo a budgetary process. As a result forecast data are available that would enable them to determine the value in use of their fixed assets for the purposes of an impairment test.

More than 80% of SMEs prepare budgets, however only a minority prepare medium term plans looking three or more years ahead (2-3%). Only 69% of SMEs with less than 50 employees prepare budgets as against 85% for other enterprises.

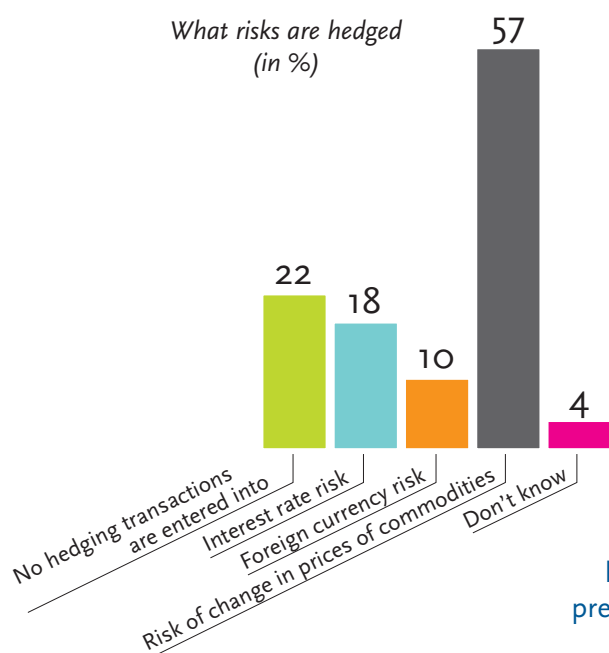


The quality of the budgetary process varies: 2/3 of French, Spanish and Dutch SMEs only perform a forecast for the year as a whole, without preparing a more detailed breakdown by month or by quarter, while half of British and German companies are more advanced in this area, particularly in terms of cash flow forecasts. British SMEs are notably different from their continental counterparts in that 2/3 of them update their forecasts each month or quarter whereas less than 60% of French and German SMEs perform adjustments at these intervals.

A primary basis, even if rudimentary, particularly in France, is thus available for the performance of impairment tests on fixed assets. The requirements of these tests should however be simplified (compared with existing IFRS), particularly in terms of the timeframe over which forecasts should be made as the great majority of enterprises have no budgetary figures looking three or more years into the future. The IASB's draft could thus be amended on this point in order to authorise SMEs to retain the value in use in impairment tests and not only the fair value.

The fourth confirmation provided by our survey is that 38% of French SMEs and up to 50% of Dutch SMEs have hedging policies. Interest rate risks are those which are hedged most often (1/4 of British and Dutch SMEs, 1/3 of Spanish ones), followed by currency risks (1/5 or more of British, Dutch, Spanish and Italian SMEs) and, lastly, risks of changes in commodities prices (about 10% in each country, except in Spain and the Netherlands). The most commonly used hedging instruments are forward sales and purchases, however swaps are also used. Options are used less often but the level of use remains significant (10% in France, 17% in the UK, 8% in Germany, 24% in Italy, 13% in Spain and 14% in the Netherlands). The draft standard would benefit from being (i) completed as regards hedging of risks of changes in commodity prices and (ii) amended in order to authorise hedge accounting where options are used as hedging instruments.

Lastly, the survey demonstrated that many SMEs buy assets under finance leases (1/3 of British and German SMEs and 40% of French ones) and that obtaining finance through selling receivables is far from marginal (about 10% in each country).

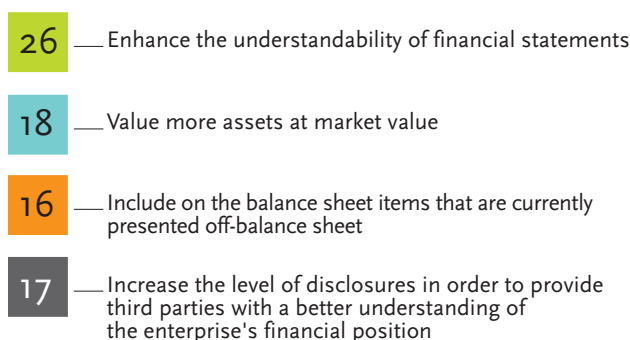


The future standard should take these different characteristics into account in order to ensure, firstly, that a portion of the financial debt of SMEs doesn't remain systematically off-balance sheet and, secondly, that the simplification currently being introduced to the conditions for derecognition in the context of sale of receivables does not harm the quality of the financial statements presented.

### ((( The changes contained in the draft IFRS for SMEs do not match certain expectations of European SMEs.

In spite of variations from one country to another, certain changes that could result from IFRS (greater use of market values, greater transparency of financial statements, etc) are changes that a small majority of SMEs would like to see being made in their national accounting framework.

*Do you feel that the national accounting standards currently applied to your accounts should be revised in order to:*  
(in %)



About 2/3rds of European SMEs, depending on the country (61% in Germany, 70% in France), consider that the presentation of financial statements under their national accounting framework requires improvement.

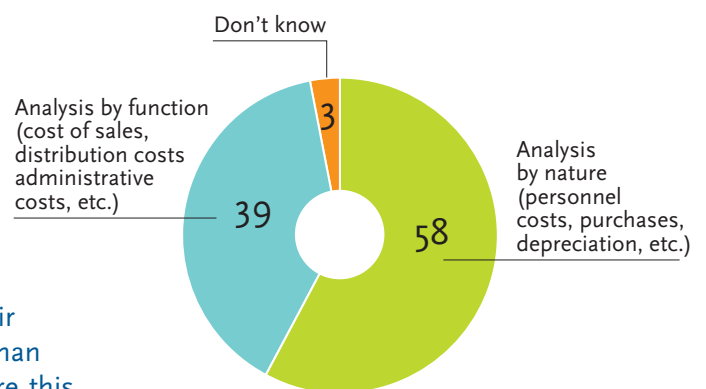
For a quarter of them, such improvements are essential. This proportion is similar irrespective of the size of the enterprise, with the smallest enterprises (those with less than 50 employees) declaring themselves to be slightly more of this viewpoint than the larger ones. The results of the survey do not allow us to differentiate as to whether the improvements sought are along the lines of greater standardisation or, on the contrary, along the lines of giving more latitude to management of the enterprise.

It is thus difficult to draw a lesson for the purposes of assessing the relevance of the IASB's proposals. However, the survey establishes that income statements presented by nature very often co-exist with income statements presented by function. The draft IFRS for SMEs thus corresponds to SMEs wishes by leaving them the choice as to how they present their income statement.

More than half of Italian (70%), British (59%), French (58%) and Spanish (53%) SMEs consider that more assets should be valued at fair value. Only 45% and 41% of German and Dutch SMEs, respectively, share this viewpoint. Smaller enterprises are more progressive in this respect than larger ones (58% of enterprises with less than 50 employees, 56% of enterprises with between 50 and 249 employees, and only 50% of enterprises with more than 250 employees).

As the IASB draft proposes giving enterprises the option of valuing a certain number of items, including intangible assets and property, plant and equipment, at fair value, the draft IFRS could be considered attractive from this point of view. However, the IASB draft requires that certain financial assets be stated at fair value – this applies in particular to investments for which a market price is published and to derivatives (swaps, options, forward contracts, etc.). This development would appear to go beyond the wishes of the most progressive SMEs as, while more than half of them are in favour, less than a quarter (except British ones, 28%) consider it to be essential.

*What income statement presentation format is used by your enterprise? (in %)*



Lastly, a majority of French and Italian SMEs would like to see more transparency in this area, with respectively 57% and 62% of enterprises surveyed wishing to see more disclosures in the notes and 52% and 57% considering that items that are currently included off-balance sheet should be recognised in the balance sheet. British and Spanish SMEs share this viewpoint to a lesser, but similar, extent.

However German and Dutch SMEs are considerably less in favour of this type of development (respectively, on the two points, 39% and 29% for German SMEs and 39% and 47% for Dutch SMEs). These positions are partly paradoxal in nature in that 56% of French SMEs, 60% of Italian ones and 62% of Spanish ones are broadly worried that the adoption of a common set of accounting standards will increase the level of disclosures to third parties.

To the extent that this type of assessment depends on the different national accounting standards currently in place in the countries surveyed, it is difficult to determine if the IASB's proposals will satisfy the wishes expressed. However, on the basis of the opinions given, it appears likely that SMEs will remain divided regarding these aspects of the draft IFRS for SMEs.

## ■ WHAT WOULD BE THE IMPACTS IF THE IFRS FOR SMES WERE TO BE ADOPTED?

### (( ( As in listed groups, adoption of IFRS for SMEs would affect the way that enterprises are managed

Accounting figures are used as the basis for management control in most of the companies surveyed. As a result, financial accounting information prepared in accordance with the future IFRS for SMEs would flow through the entire enterprise.

In their management indicators, SMEs are primarily interested in operating profit (particularly in France and to an even greater extent in Germany, Italy and the Netherlands) and sales (in the UK in particular). The more financial “return on investment” approach is adopted by nearly one third of British and Dutch SMEs, whereas only a small minority of French and German SMEs use it as an indicator (less than 10%). The size of the enterprise has no influence in this respect.

Adoption of a common set of accounting standards would probably have an impact on the definition of management indicators, particularly operating profit, because of developments in accounting standards in the area of presentation of the financial statements - particularly the income statement (for example, elimination of the category of extraordinary /exceptional items).

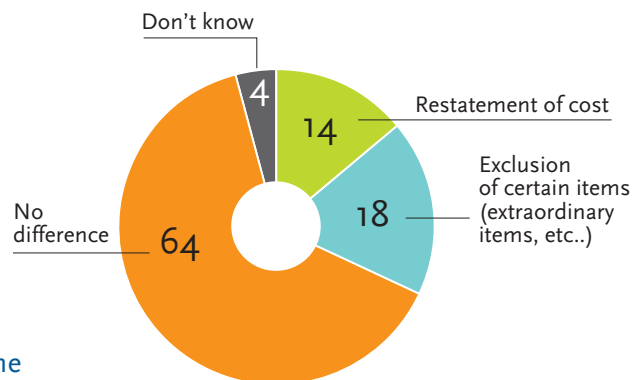
What are the key financial indicators used to manage your enterprise?  
(in %)

	Germany	UK	France	Italy	Spain	The Netherlands	
Operating profit	56	48	47	67	48	60	—
Sales	41	56	45	47	47	43	—
Net profit after tax	29	45	29	31	47	40	—
Return on investment	6	29	8	17	18	29	—
Other indicators	2	5	10	1	2	2	—
No specific indicator	1	1	1	—	—	—	—
No response	5	—	1	2	1	—	—

However:

- Most German SMEs (53%) adjust their accounting indicators for the purposes of management control (exclusion of non-recurring gains and losses for example), whereas only a minority of French and British SMEs (about one third), and even fewer Spanish ones (less than 20%) do this. Less than half of the SMEs in the survey have considered, or begun, making changes in this area.
- One third of SMEs have either no specific management accounting or maintain management accounting records that are completely separate from, and not reconciled with, the financial accounts. This proportion reaches 38% in Germany and 43% in the Netherlands. British and Italian SMEs declare themselves to be the most advanced in these areas. In addition, the size of the enterprises is a differentiating factor: 44% of SMEs with less than 50 employees have no management accounting system, whereas this proportion falls to 30% for those with 50 or more employees.

*Do differences exist between results prepared in accordance with national accounting standards and results prepared for management? If so, please state the nature of such differences:  
(in %)*



### **((( Training initiatives would need to be primarily directed at the enterprise's own staff...**

As such, almost all SMEs prepare their own individual entity accounts, particularly in Spain (98%), and more than half of the enterprises in the survey prepare their own consolidated accounts.

The proportion of SMEs with less than 50 employees that prepare their own accounts is however only 76%, compared with over 85% for other enterprises. Small enterprises are more likely to sub-contract out preparation of their consolidated accounts (21% versus 11% for other enterprises).

Most SMEs have an accounting staff of 2 to 5 persons. Unsurprisingly, the level of accounting staff varies with the size of the enterprise. For small enterprises, the adoption of a common set of accounting standards will probably, at least initially, increase the level of recourse to external service providers for assistance with preparation of individual and consolidated accounts.

It does not appear likely that the adoption of a common set of accounting standards will modify the practices of SMEs in this area.

In France in particular (54%), and to a lesser extent in the UK and in Germany (45%), the accounting function (or service provider) is responsible for the enterprise's management control function.

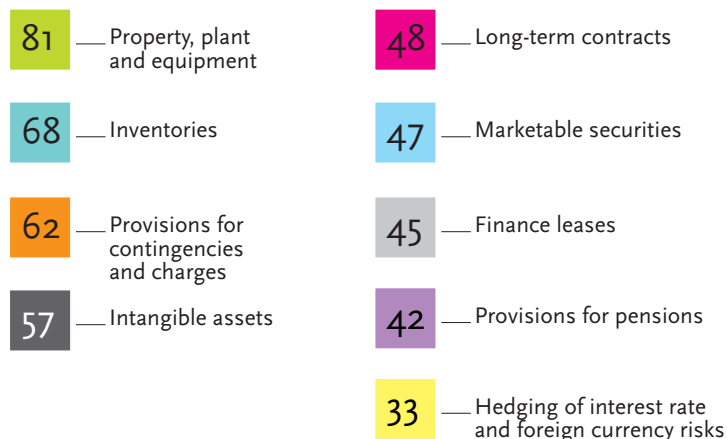
### ((( What would be the impacts on the accounts?)

In view of the convergence programmes currently in progress in the different countries, the draft IFRS for SMEs includes a greater or lesser degree of new developments for the SMEs depending on the country in question. Recognition in the balance sheet of assets and liabilities under finance leases, provisions for pensions and other post-employment benefits and financial instruments are areas in respect of which the different convergence programmes are progressing at a different pace, particularly as regards requirements for individual entity accounts.

In the area of accounting for fixed assets and inventories, national accounting standards have broadly been brought into convergence with IFRS standards. Germany is the only country not to have introduced IFRS-type principles in the areas of capitalisation of development expenditure and the component-based approach to accounting for property, plant and equipment. Progress in terms of convergence has been greatest in the UK and the Netherlands. The context created by such circumstances naturally weighs considerably on the viewpoints expressed by the SMEs in the different countries.

In general, SMEs consider themselves to be mainly concerned by the valuation of fixed assets and inventories, and particularly by the requirements in terms of impairment tests on these assets (more than 60% on average). Consistently with this viewpoint, these are the balance sheet captions that they declare to be the most significant.

*What is the relative importance of the following items in the preparation of your accounts?  
(% items considered to be important or very important)*



It is difficult to say whether the IASB's proposal to estimate any impairment of fixed assets on the basis of fair value will correspond to the needs of SMEs.

Apart from these initial requirements, most SMEs (except British ones) consider that the ability to capitalise development expenditure, the recognition of financial debt incurred under finance leases and the component approach to accounting for property, plant and equipment has or will have a significant impact on their accounts.

Accounting for commitments in respect of pensions and other post-employment benefits is also perceived as affecting a majority of SMEs, apart from British and Spanish ones (respectively 47% and 27% of the SMEs surveyed). The impact of these commitments, in terms of materiality compared with other balance sheet captions, is particularly small for French and Spanish SMEs. In actual fact, Italian SMEs, apart from the smallest ones, should be the least affected by this development even though two thirds of them indicate the opposite. Lastly, no more than one quarter of French, German and British SMEs and less than 40% of Italian, Spanish and Dutch SMEs consider that they will be affected by accounting for derivatives. Taking all countries together, 57% of SMEs indicate that they do not have a hedging policy regarding interest rate risks, foreign currency risks or commodity price risks.

Beyond these points, the responses given vary from one country to another. Most German, Italian and Spanish SMEs consider themselves to be mainly affected by accounting for long-term contracts on a percentage-of-completion basis. These requirements are already included in Italian accounting law whereas they are not yet really instituted in Germany.

These viewpoints vary little depending on the size of the enterprise. However, enterprises with less than 50 employees identify capitalisation of development expenditure and recognition of long-term contract revenues on a percentage-of-completion basis as having a potential impact to a greater extent than do their larger counterparts.

**((( Adopting a common set of accounting standards in Europe, irrespective of whether it was compulsory or optional, would require that the link that currently exists in most European countries between taxation and accounting be severed. Enterprises have mixed views of this prospect.**

At the present time, in most European countries, taxable profits are calculated on the basis of accounting profit, to which a certain number of adjustments are made. In order to limit the number of such adjustments, and to simplify the workload for enterprises, national accounting standards have retained, more or less, strong links with local taxation rules. If Europe were to adopt a common set of accounting standards, this link with local tax rules could no longer be maintained. Enterprises have mixed views of this prospect as:

- They are in favour of adoption of a common set of accounting standards that would better reflect their activity and thus be more useful for their day-to-day management and monitoring of their business;
- However they are concerned about the costs that would be generated by an increase in the number of adjustments required between accounting profit and taxable profit because of the tax policies of each of the member states.

Thus, while French SMEs consider that the main advantage of adoption of a common set of accounting standards in Europe is to sever the link between taxation and accounting, they are the least numerous (a small majority, 54%) to perceive the current influence of taxation on their accounting. This influence is much more strongly perceived in Germany (90%), the UK (85%), Italy (81%), the Netherlands (71%) and in Spain (68%).

Furthermore, UK and German SMEs very strongly approve the link between taxation and accounting, considering it to be a source of savings, however this doesn't stop a majority of them (56%) from viewing the breaking of the link between accounting and taxation as an advantage of the process of harmonisation of accounting standards throughout Europe. Conversely, nearly half of French SMEs, and more than one third of their Italian counterparts, who perceive the link between taxation and accounting consider that this link negatively impacts the usefulness of the accounts for management of the business. Only 11% of SMEs in the UK, 14% in Germany, 8% in Italy and 18% in the Netherlands share this viewpoint.

## AN INTERVIEW WITH STIG ENEVOLDSEN, CHAIRMAN OF EFRAG

### ((( Common standards would be beneficial to growth within the European Union

1- European SMEs appear to be overwhelmingly in favour of the convergence of their national accounting standards with international standards. How would you comment on that finding?

*I would be a bit surprised if that was the case, but I would certainly understand the position, when one thinks of the EU internal market, and the trading across borders in the internal market*

2- Our survey also shows that SMEs would welcome a common set of standards, as long as its implementation remains optional. Does this correspond to your own observations in real life?

*I do not have a firm opinion, but how does this conclusion tie-in with the first conclusion? I would have thought that convergence to international standards would not be optional. My understanding would be that wanting an option would probably be the preferred solution at the initial presentation of a new international standard. The move towards mandatory application may have to be the next step after that.*

3- How do you explain the fact that both banks and the tax administration seem to be the main recipients of SME's individual accounts?

*I am surprised, because my experience in Denmark is that financial statements for SMEs are widely used by customers and suppliers and other external users in addition to banks and the tax authorities. But we also have very high quality financial statements in Denmark, and it has been so for quite a few years. F/S are not tax accounts; tax figures are derived from the F/S via a sort of reconciliation.*

4- Do you personally believe that European SMEs are appropriately prepared for the adoption of a common set of accounting standards?

*I think it would be premature for many reasons to go for an international standard even as an option only, but in the longer term we should go for a common EU accounting platform. However, it would need time and efforts from EU politicians to get there. But it would probably be beneficial for the support of the internal market and therefore for overall EU growth.*

5- Do you think the IFRS for SMEs projects, as currently devised by the IASB, will appropriately meet SMEs' needs and expectations?

*I understand the question to be raised in an EU context, and I would refer to the EFRAG comments. Therefore, I would say that the IASB proposal would need to be simplified and shortened in order to meet EU needs for improved accounting. I also think that it could be better organised and presented along the lines proposed by EFRAG. There needs to be more measurement simplifications, and certainly also simplifications in relation to the disclosure requirements.*



Analysis by country

# France

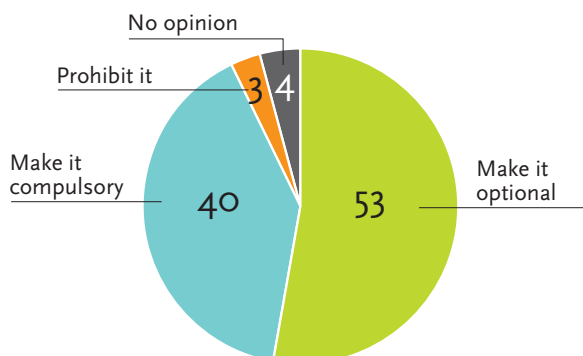
## ((( A clear and emphatic “yes”

85% of French SMEs declare themselves to be in favour of increased harmonisation of national accounting principles with international standards. That being said, the extent of their visibility as to the status of the convergence process would appear to be limited as 50% would like the harmonisation process to be continued and 35% would like it to start, even though, in fact, it is already well under way.

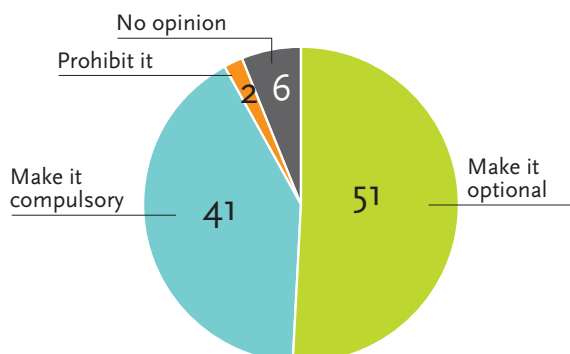
Questioned as to the possibility of adoption of a common set of accounting standards in the European Union, French SMEs go further as they are 93% favourable. 40% of them consider that application of these standards should be mandatory.

*Europe could adopt a common set of accounting standards while allowing Member States a broad degree of freedom in terms of application. In this case, what should your national legislator do in your view?*  
(in %)

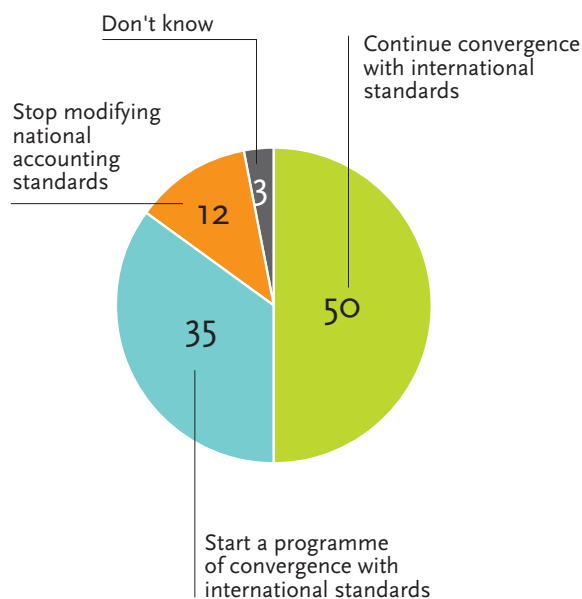
### For individual accounts



### For consolidated accounts



*Many national accounting standard setters have planned a convergence programme with IFRS. Do you feel that this convergence programme is appropriate for your national GAAP (applicable to individual accounts)?*  
(in %)



## ((( An improvement in financial reporting, subject to difficulties of interpretation

Among the advantages associated with the adoption of a common set of accounting standards, SMEs firstly identify the possibility of having a single set of financial statements that could be distributed to all external parties (70%). They further consider that it would enable the link between tax rules and accounting to be severed (68%) and would facilitate management and internal communications.

Among the main constraints they perceive, the most notable, for 76% of them, is concern regarding difficulties of interpretation. They are the only ones in Europe to express this concern to such a clear extent.

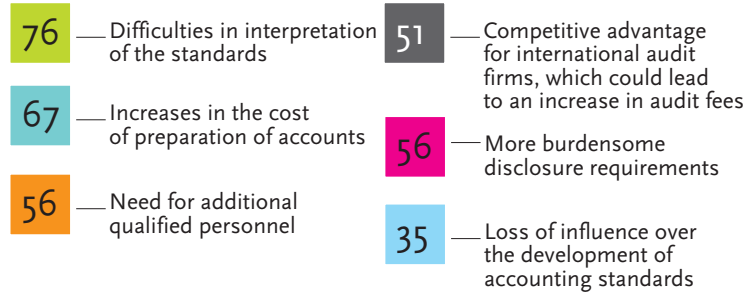
### ((( Financial reporting that is mainly prepared for the attention of the tax authorities

Contrary to their European neighbours, French SMEs declare that the tax authorities are the primary recipients of their financial reporting (73%), preceding banks and shareholders.

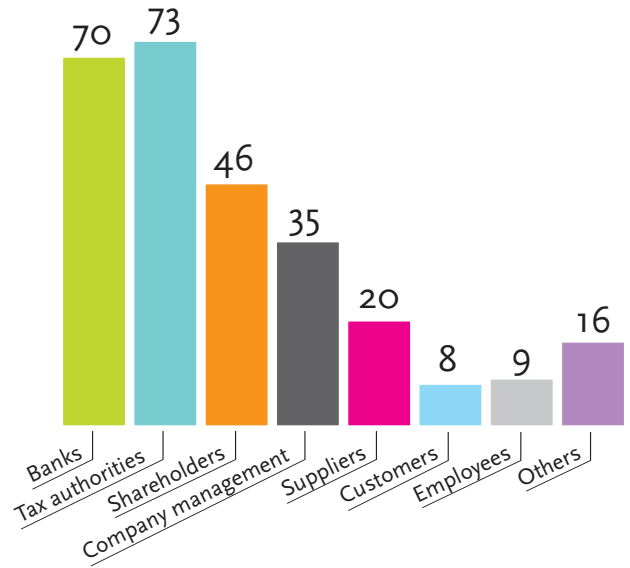
It should be noted that 70% of French SMEs surveyed declared that they obtain financing from banks, being a percentage slightly below the European average, and that only 26% of them declare that they have to provide their bank(s) with other documents in addition to their financial statements. French SMEs show a much lower score than their neighbours in this regard.

24 We can also note that, with their Italian counterparts, and to a lesser extent their British ones, French SMEs are the only ones that consider their suppliers to be significant recipients of their financial reporting.

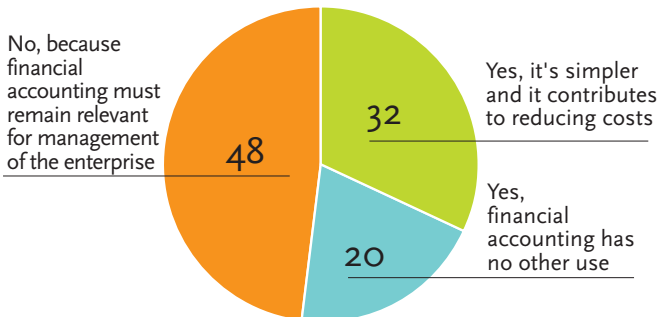
Please indicate which, if any, of the disadvantages listed below you would expect from the adoption of a common set of accounting standards in Europe (% of respondents citing each disadvantage)



Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



Is the influence of taxation on accounting standard setting desirable? (in %)



### ((( Tax rules-Accounting: the French exception

Only 54% of French SMEs questioned declare that they perceive the influence of tax rules on accounting. This is by far the smallest figure among all six countries in the panel.

Moreover, nearly half of SMEs who say that they perceive the link between tax rules and accounting consider that it has a negative effect as it prevents the use of financial accounting for the purposes of management of the business.

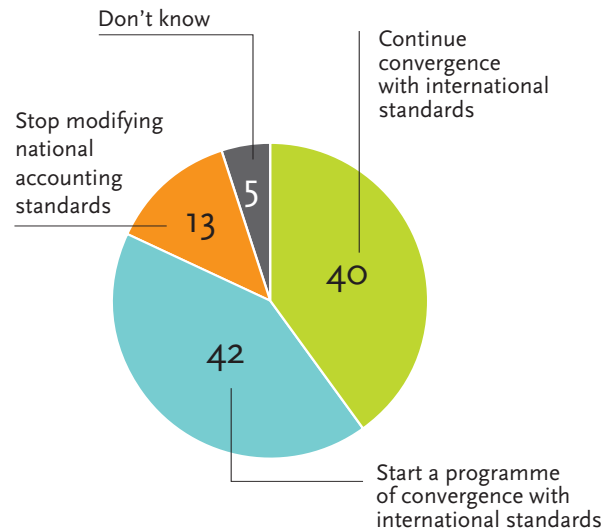
# Germany

## ((( SMEs are largely in favour of a common set of accounting standards

More than 80% of German SMEs surveyed stated that they were in favour of increased convergence of their national accounting principles with international standards, both for consolidated accounts (85%) and individual accounts (86%).

However, among the enterprises who declare themselves to be in favour of convergence, most consider that the application of international standards should be “optional” and not “mandatory”.

Many national accounting standard setters have planned a convergence programme with IFRS. Do you feel that this convergence programme is appropriate for your national GAAP (applicable to individual accounts)? (in %)



Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe (% of respondents citing each benefit)

- 53 — Preparation of a set of accounts relevant for all third parties
- 65 — Easier management and communications within the group
- 60 — Improved comparability with competitors
- 50 — Release of financial accounting from the influence of taxation (and thus increase of relevance for management)
- 56 — Reduction in financing costs
- 40 — Easier access to import and export transactions
- 31 — Easier negotiations for the sale of the company (or part of the company)

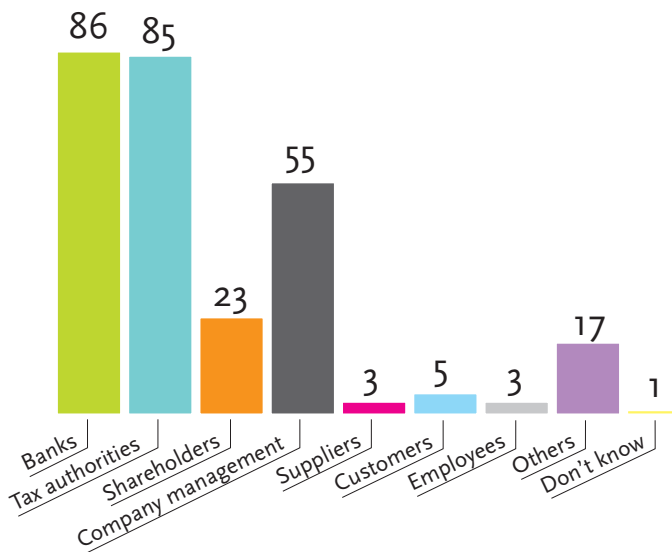
## ((( Advantages and disadvantages: facilitation of management, but additional costs

German SMEs firstly consider that the adoption of a common European set of accounting standards would be favourable for management effectiveness and internal communications (65%). They also feel that it would allow better comparability of financial statements with those of competitors (60%) and a reduction in finance costs.

Please indicate which, if any, of the disadvantages listed below you would expect from the adoption of a common set of accounting standards in Europe (% of respondents citing each disadvantage)

- 70 — Difficulties in interpretation of the standards
- 79 — Increases in the cost of preparation of accounts
- 77 — Need for additional qualified personnel
- 63 — Competitive advantage for international audit firms, which could lead to an increase in audit fees
- 52 — More burdensome disclosure requirements
- 56 — Loss of influence over the development of accounting standards

Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



### ((( Financial reporting that is primarily sent to banks and the tax authorities

The main recipients of financial reporting identified by German SMEs are banks (86%) and the tax authorities (85%). Management (55%) complete the top three. It should be noted that shareholders (23%) and, even more markedly, customers and employees are not priority recipients of financial reporting.

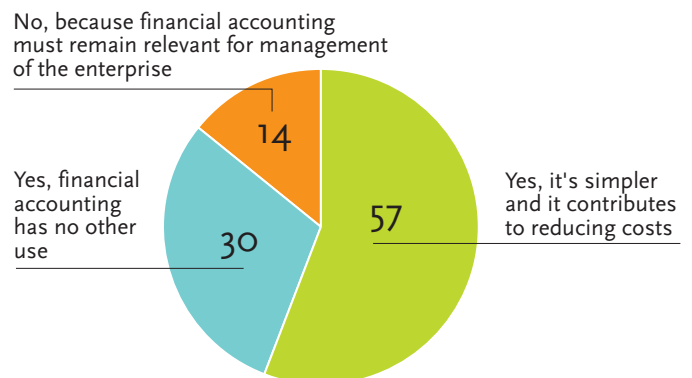
### ((( A paradoxal assessment of the importance of tax rules

90 % of SMEs surveyed in Germany declared that they strongly perceive the influence of tax rules on accounting. This was the highest score obtained on this point among all the countries in the panel. Furthermore, 87% of German SMEs consider that the link between tax rules and accounting is a positive point.

However, paradoxically, half of German SMEs consider that breaking the link between tax rules and accounting would be one of the advantages of the adoption of a common set of accounting standards in Europe. This would effectively enable the accounting function to prepare financial information that would be useful for management of the business.

However, 79% of SMEs surveyed considered that the application of a common set of standards would lead to an increase in the cost of preparation of accounts. Logically, 77% of them consider that it will probably be necessary to strengthen their accounting teams. Lastly, 70% of those who responded anticipate difficulties in the interpretation of the principles that will have to be applied.

Is the influence of taxation on accounting standard setting desirable? (in %)





**PROF. DR. PETER KAJÜTER**  
**CHAIR OF INTERNATIONAL ACCOUNTING**  
**UNIVERSITY OF MÜNSTER - GERMANY**

European SMEs appear to be overwhelmingly in favour of the convergence of their national accounting standards with international standards. How would you comment on that finding?

*Most of the EU member states have well developed national accounting standards. SMEs in these countries are used to these accounting systems and don't see a need for a radical change. However, in some European countries, like in France for example, national accounting standards have already been amended step-by-step to converge towards international standards in recent years. In Germany, this process has started in November 2007 when the German Ministry of Justice published a draft law for the modernisation of the German Commercial Code (HGB). Such an evolutionary approach considers national accounting traditions and is therefore preferred by SMEs in Europe.*

Our survey also shows that SMEs would welcome a common set of standards, as long as its implementation remains optional. Does this correspond to your own observations in real life?

*Optional adoption of IFRS for SMEs is indeed preferred to mandatory implementation as it provides more flexibility. SMEs could choose between different sets of accounting standards based on a cost-benefit-analysis. However, the preference for optional adoption could also signal that SMEs don't have a clear view on this issue and just want to avoid both mandatory implementation and prohibition.*

How do you explain the fact that both banks and the tax administration seem to be the main recipients of SME's individual accounts?

*Bank loans are the most frequent source of external financing of SMEs. This explains the importance of banks as users of SME financial statements. Tax authorities are an important recipient of individual accounts in those countries that have linked taxation to commercial accounts. This is the case in France and Germany, for example.*

Do you personally believe that European SMEs are appropriately prepared for the adoption of IFRS for SMEs?

*SMEs across Europe are not appropriately prepared for the adoption of IFRS for SMEs. They have only very little knowledge about IFRS in general. Only a few of them already apply them. Moreover, most SMEs in Europe have not even taken notice of the project "IFRS for SMEs".*

Do you think the IFRS for SMEs project, as currently devised by the IASB, will appropriately meet SMEs' needs and expectations?

*The IASB developed the ED IFRS for SMEs in a top-down approach based on the full IFRS. At a first glance, the IFRS for SMEs seem to be less complex and easier to handle than the full IFRS as the volume has been reduced significantly. A more detailed analysis reveals, however, that the ED IFRS for SMEs suggests only a few simplifications for recognition and measurement and still requires a comprehensive set of disclosures. Moreover, in the case of accounting choices, SMEs are required to look at the full IFRS if they want to assess the alternative accounting treatment. All in all, the current ED IFRS for SMEs does not sufficiently meet the specific needs of preparers and users of SME financial statements. It will be interesting to see how the IASB deals with the comments it received to the exposure draft and how the final standard will look like.*

# ( Italy

## ((( Enterprises that are very pro-European...

Similarly with, and in identical proportions to their Spanish counterparts, Italian SMEs strongly support the prospect of a common set of accounting standards in Europe. They are also the only ones, with Spanish and Dutch SMEs, to consider that the application of common standards should be mandatory for individual accounts (64%). They are however evenly divided (47% both in favour and against) as regards their application to consolidated accounts.

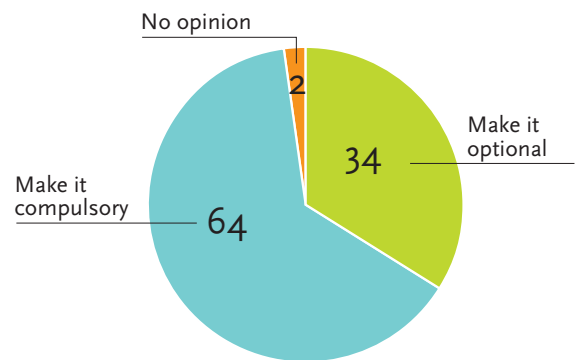
## ((( Many advantages of a common set of accounting standards...

... Consistently with their clear commitment in favour of European standards, Italian SMEs see many advantages in adoption: more than 70% of them consider that a common set of standards would improve the comparability of financial statements, would reduce costs, would enable a single set of financial statements to be distributed to all external parties and would enable the link between tax rules and accounting to be broken.

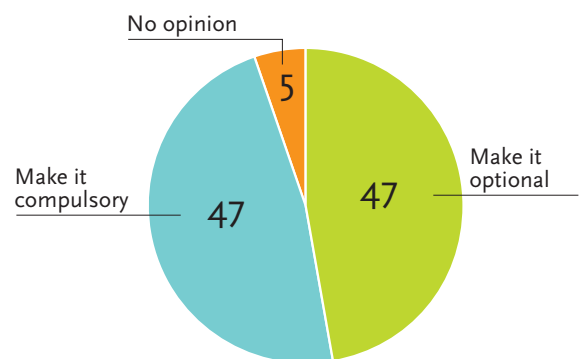
More than 60% of them also indicate that common standards would be beneficial in terms of cross-border relations (they are the only ones in Europe to insist on this point) and would facilitate management and internal communications. Lastly, more than 50% of Italian SMEs consider that a common set of accounting standards would make their business more attractive to potential purchasers. On this point, again, they are the only country in which a majority of SMEs expressed this opinion.

*Europe could adopt a common set of accounting standards while allowing Member States a broad degree of freedom in terms of application. In this case, what should your national legislator do in your view? (in %)*

### For individual accounts



### For consolidated accounts



Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe?  
(% of respondents citing each benefit)

- 74 — Preparation of a set of accounts relevant for all third parties
- 62 — Easier management and communications within the group
- 76 — Improved comparability with competitors
- 73 — Release of financial accounting from the influence of taxation (and thus increase of relevance for management)
- 74 — Reduction in financing costs
- 64 — Easier access to import and export transactions
- 56 — Easier negotiations for the sale of the company (or part of the company)

### ((( ...despite anticipating difficulties in terms of interpretation

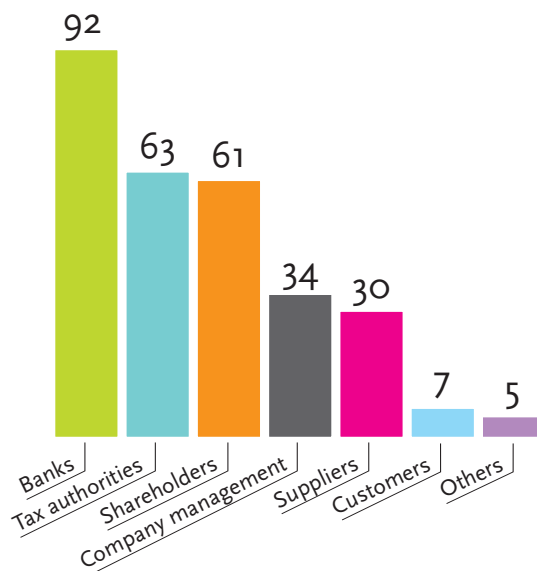
68% of Italian SMEs surveyed considered that putting in place a common set of accounting standards in Europe would lead to difficulties in interpreting the standards to be applied. This score is in line with the European average. 64% of them also indicate that risks exist as regards the cost of preparation of financial statements and, as for their Spanish counterparts, 60% of them are concerned that a common set of standards implies an increase in disclosure requirements.

We can also note that 61% of Italian SMEs surveyed fear an increase in audit costs directly linked to the adoption of common standards which will be of a nature to favour international audit firms. This opinion is shared, in similar proportions, by German and Dutch SMEs.

Please indicate which, if any, of the disadvantages listed below you would expect from the adoption of a common set of accounting standards in Europe?  
(% of respondents citing each disadvantage)

- 68 — Difficulties in interpretation of the standards
- 64 — Increases in the cost of preparation of accounts
- 54 — Need for additional qualified personnel
- 61 — Competitive advantage for international audit firms, which could lead to an increase in audit fees
- 60 — More burdensome disclosure requirements
- 41 — Loss of influence over the development of accounting standards

Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



### ((( Banks are the primary recipients of financial statements

As the primary source of finance for 84% of SMEs surveyed (the highest score in the panel), banks are, logically, the primary recipients of the financial statements: 92% of Italian SMEs declare that they send banks their financial statements in priority. Here again, this is the highest percentage of all the countries included in the survey.

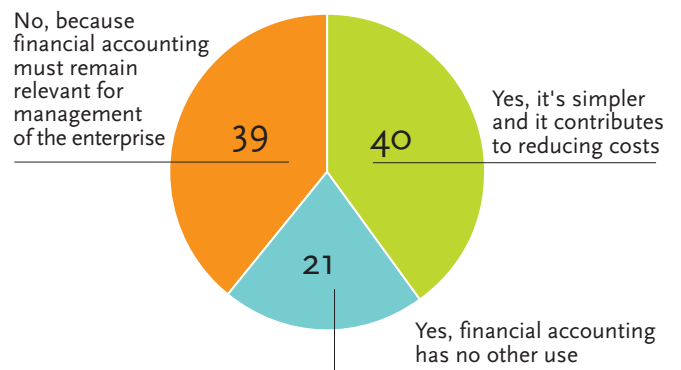
The other main recipients are the tax authorities (63%), shareholders (61%) and management (34%, being 10 points below the European average).

### ((( A “contrasted” assessment of the link between tax rules and accounting

After the Germans and British, the Italians are the most numerous in seeing a link between tax rules and accounting (81%).

However, contrary to their German and British counterparts, Italian SMEs have a less positive view of this link. While 39% of enterprises surveyed see this link as contributing to simplification and cost reduction, and if 21% consider that it defines the usefulness of accounting, 39% of Italian SMEs consider that the influence of tax rules on accounting has negative consequences. Only French SMEs are more numerous in expressing a similar opinion.

Is the influence of taxation on accounting standard setting desirable? (in %)



# The Netherlands

## ((( Strong support for harmonisation

Dutch SMEs declare themselves to be very much in favour of increased convergence between their national accounting principles and international standards. In Europe, they are the ones with the best visibility on the trend towards accounting harmonisation as 66% correctly consider that the convergence process is underway and should be continued whereas only 22% consider that this process should be initiated.

Dutch SMEs go even further as 95% of them – only Italy and Spain scored higher – are in favour of a common set of accounting standards. Among these, 45% consider that application of these standards should be optional for individual accounts and 50% consider that it should be mandatory. For consolidated accounts, supporters of the optional and mandatory solutions were evenly divided at 48% each.

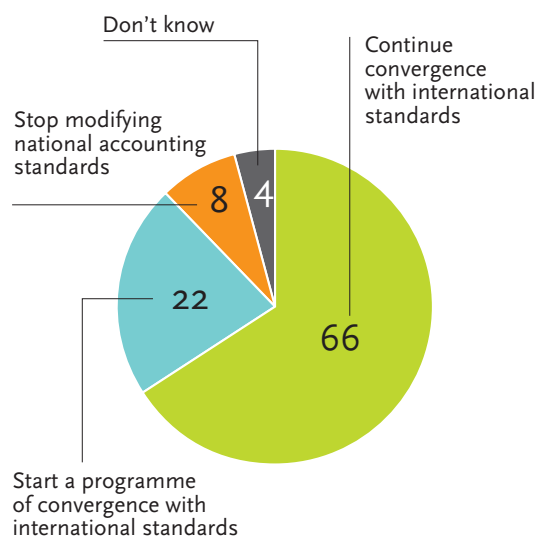
## ((( Three main advantages of a common set of accounting standards

Dutch SMEs consider that the main advantage of a common set of accounting standards would be to facilitate management and improve internal communications (59%). Immediately afterwards, at 58%, they consider that it would enable the link between tax rules and accounting to be broken.

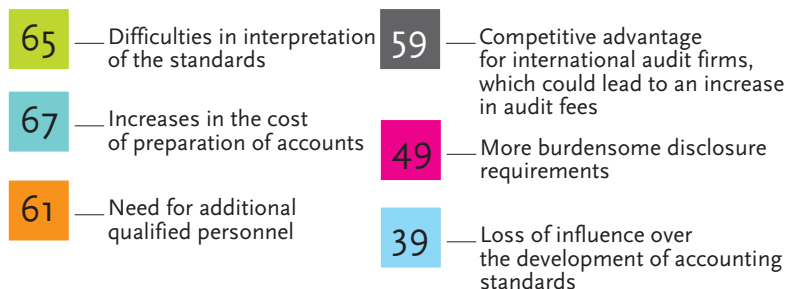
Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe? (% of respondents citing each benefit)

- 57 — Preparation of a set of accounts relevant for all third parties
- 59 — Easier management and communications within the group
- 52 — Improved comparability with competitors
- 58 — Release of financial accounting from the influence of taxation (and thus increase of relevance for management)
- 47 — Reduction in financing costs
- 42 — Easier access to import and export transactions
- 42 — Easier negotiations for the sale of the company (or part of the company)

Many national accounting standard setters have planned a convergence programme with IFRS. Do you feel that this convergence programme is appropriate for your national GAAP (applicable to individual accounts)? (in %)



Please indicate which, if any, of the disadvantages listed below you would expect from the adoption of a common set of accounting standards in Europe? (% of respondents citing each disadvantage)



### ((( Financial communications primarily for the attention of banks and the tax authorities

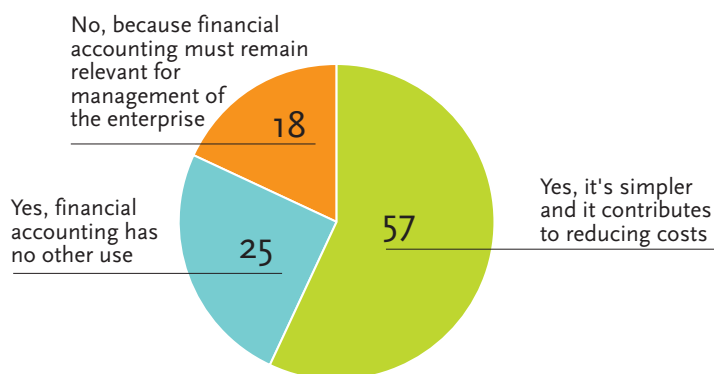
Dutch SMEs also obtain a score close to the European average regarding the principal recipients of their financial statements: 81% of them cite banks, which are, as elsewhere, their main source of finance (74%). The next most important recipients are the tax authorities (76%), shareholders (65%) and management (49%). Other users do not appear to receive particular attention: no other response was given by more than 7% of SMEs.

Lastly, as regards the relationship between tax rules and accounting, 71% of SMEs perceive its existence and 83% consider it to be positive.

### ((( In the European average

Increased costs are the constraint most often cited by Dutch SMEs (67%), before interpretation difficulties (65%) and the need to recruit qualified professionals (61%). For each of these three items, Dutch SMEs are very close to the European average. In fact, they do not diverge significantly from the average for any of the answers proposed.

Is the influence of taxation on accounting standard setting desirable? (in %)



## INTERVIEW WITH ANTOINE DELHEMMES, CHAIRMAN OF FRANCE PÉLAGIQUE

European SMEs appear to be overwhelmingly in favour of the convergence of their national accounting standards with international standards. How would you comment on that finding?

*This finding doesn't really surprise me. It would be in everybody's interest for SMEs to be more "aligned" in the area of accounting.*

*I run a French enterprise whose shares are held by a Dutch holding company and we sometimes have to ask ourselves "metaphysical" questions as to how we ought to present such or such an item in our accounts.*

*The area that particularly comes to mind is depreciation and amortisation, where the different accounting treatments present a genuine problem, even though the outlines of a harmonisation process are beginning to be seen, at least between France and the Netherlands*

Our survey also shows that SMEs would welcome a common set of standards, as long as its implementation remains optional. Does this correspond to what your own observations in real life?

*It seems to me that making application optional could create an additional degree of disparity. I believe that the best solution would be to set a final date for application, while giving enterprises who wish to apply these new standards early the right to do so. This is the way we worked for the euro and I believe it would be a good approach to follow.*

How do you explain the fact that both banks and the tax administration seem to be the main recipients of SMEs' individual accounts?

*I think this is only logical. The tax authorities are a "natural" recipient as taxes must be paid and, for SMEs, banks are a key source of finance.*

*As regards the other potential recipients, particularly customers and suppliers, I'm not sure that they can genuinely lay claim to a right to receive an enterprise's accounts. Maybe it's in my*

*interest to see the accounts of some of my strategic suppliers; however, in general, I don't believe that the publication of financial statements to the attention of all stakeholders would be a positive point for enterprises, where they are profitable.*

Do you personally believe that European SMEs are appropriately prepared for the adoption of a common set of accounting standards?

*I think that adoption of a common set of accounting standards is desirable. I don't however believe that this can be done over too short a period of time, and I believe that it is essential that the adoption timetable must be the same for everybody.*

*On the principle of the matter, however, it seems to me that a common set of standards would represent genuine progress, particularly as it would considerably facilitate access to information, in the context of cross-border mergers and acquisitions for example.*

If a common set of accounting standards were to be adopted by European SMEs, what should be the salient points in your opinion?

*I believe that there is one indispensable pre-condition to any accounting harmonisation: tax harmonisation, both as regards the manner in which the tax base is calculated and as regards the rates applicable in the different European countries. Without such necessary tax harmonisation, I think that any attempt to put in place a common set of accounting standards would be pointless.*

*I think that a single set of standards should enable accounting rules, procedures and frameworks to be simplified. If we want high-performing enterprises, it is essential that we let them concentrate on their business rather than having them tied up in ever more numerous regulatory constraints. Lastly, it would be appropriate for identical rules to be established for all the players in any given industry sector.*

# (Spain

## ((( SMEs are enthusiastic about the idea of a common set of accounting standards

96% of SMEs surveyed stated that they were in favour of the adoption of a common set of accounting standards in Europe.

From a similar very pro-European viewpoint, they consider that this common set of standards should be mandatorily applicable, both for consolidated accounts (57%) and for individual accounts (62%). Spanish SMEs are thus the most in favour of mandatory adoption, in preference to the optional solution.

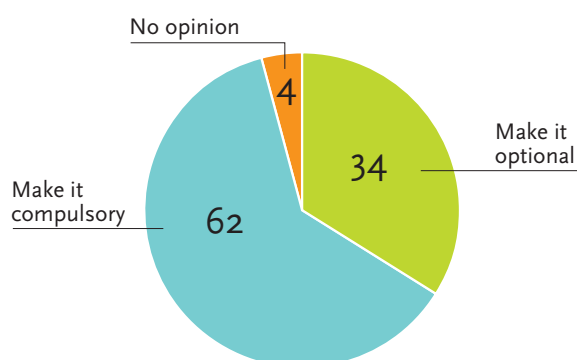
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Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe?  
(% of respondents citing each benefit)

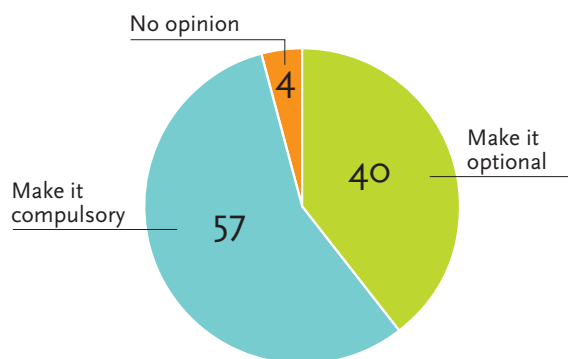
- 79 — Preparation of a set of accounts relevant for all third parties
- 68 — Easier management and communications within the group
- 72 — Improved comparability with competitors
- 62 — AppRelease of financial accounting from the influence of taxation (and thus increase of relevance for management)
- 67 — Reduction in financing costs
- 51 — Easier access to import and export transactions
- 47 — Easier negotiations for the sale of the company (or part of the company)

Europe could adopt a common set of accounting standards while allowing Member States a broad degree of freedom in terms of application. In this case, what should your national legislator do in your view?  
(in %)

### For individual accounts



### For consolidated accounts



## ((( A positive factor for reporting and for the comparability of financial statements

Questioned as to the advantages of a common set of accounting standards, Spanish SMEs firstly cited the possibility of having a single set of financial statements that could be distributed to all external parties (79%). 72% of them also considered that it would improve the comparability of financial statements and 67% considered that it would lead to a reduction in finance costs. It should also be noted that a large majority of Spanish SMEs see the adoption of common standards as facilitating management and internal communications as well as reducing the influence of tax rules on accounting.

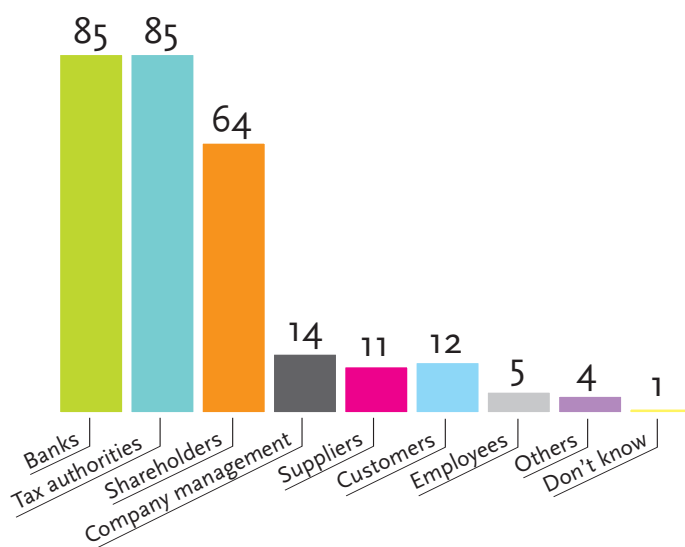
As regards the constraints that introduction of a common European set of accounting standards would impose, Spanish SMEs cite the cost of preparation of financial statements, the additional information to be produced, the increased need for qualified staff and difficulties of interpretation. It should however be noted that none of these items obtained a very high majority of responses, which is a sign that, for Spanish SMEs, the advantages of adoption greatly outweigh the constraints.

### ((( Banks, the tax authorities and shareholders are the primary recipients of financial reporting

85% of Spanish SMEs declare that they publish their accounts firstly for their banks and the tax authorities. Shareholders come next in order of priority (64% of enterprises). We note that only 14% of SMEs surveyed included management among the primary recipients of their financial statements. This was the lowest score among the countries in the panel.

The fact that banks top the list of recipients of financial reporting issued by SMEs would appear logical as, similarly with the other countries in the survey, they are the main provider of finance to Spanish SMEs.

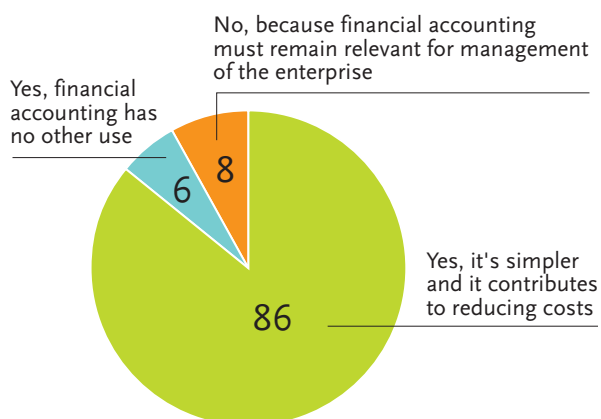
Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



### ((( A link between tax rules and accounting that is considered to be very positive

68% of Spanish SMEs (being a score lower than the average of the six countries) consider that there is a strong link between tax rules and the accounting policies that they use. However, among these enterprises, more than 90% (the highest score in the panel) consider that this is positive factor, which favours simplification and cost reduction.

Is the influence of taxation on accounting standard setting desirable?



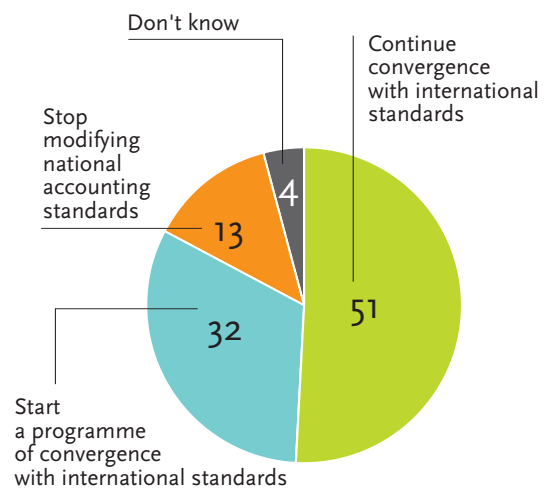
# The United Kingdom

## ((( In favour of common standards on an optional basis

British SMEs are not different from their European counterparts in that more than 80% of them are in favour of greater convergence of their national standards with international standards.

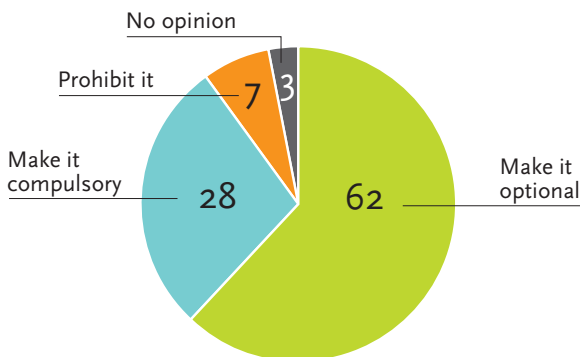
As for French SMEs, they appear to lack visibility regarding progress of the harmonisation process in their own country. As such, 51% of them consider that it should be continued and 32% consider that it hasn't really started yet, whereas, in fact, it has advanced the furthest.

Many national accounting standard setters have planned a convergence programme with IFRS. Do you feel that this convergence programme is appropriate for your national GAAP (applicable to individual accounts)? (in %)

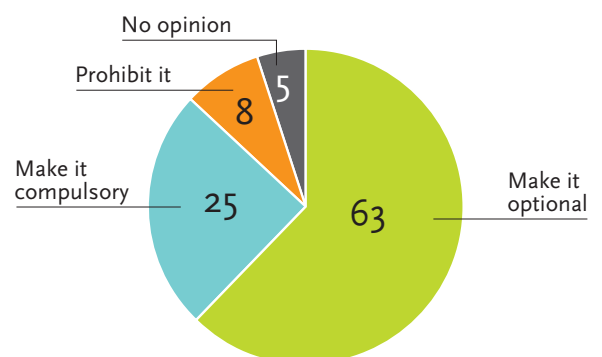


Europe could adopt a common set of accounting standards while allowing Member States a broad degree of freedom in terms of application. In this case, what should your national legislator do in your view? (in %)

For individual accounts



For consolidated accounts



Surprisingly, at first glance, 90% of British SMEs even consider that the adoption of a common set of accounting standards in Europe would be a positive step, both for individual accounts and consolidated accounts. However this overall result needs to be taken in context: for more than 60% of SMEs surveyed (the highest percentage on the panel), application of common European standards should only be optional, both for individual or consolidated accounts.

### ((( Facilitated management and better internal communications

As for their German counterparts, British SMEs consider that the foremost of the advantages of a common set of accounting standards would be facilitation of management and improved internal communications (66%). The next most important advantage, for 60% of SMEs, would be the ability to provide a single set of financial statements to all external parties and better comparability of accounts.

*Please indicate which, if any, of the benefits listed below you would expect from the adoption of a common set of accounting standards in Europe?  
(% of respondents citing each benefit)*

- 60 — Preparation of a set of accounts relevant for all third parties
- 66 — Easier management and communications within the group
- 60 — Improved comparability with competitors
- 56 — Release of financial accounting from the influence of taxation (and thus increase of relevance for management)
- 51 — Reduction in financing costs
- 49 — Easier access to import and export transactions
- 43 — Easier negotiations for the sale of the company (or part of the company)

### ((( Constraints related to costs and interpretation

Questioned as to the constraints inherent to the adoption of a common set of accounting standards, British SMEs focus in priority on two items: the increased cost of preparing financial statements (72%) and difficulties of interpretation (70%).

It is also interesting to note that they are the only ones, with their German counterparts, to cite (half of those surveyed) the risk of a loss of national influence on the preparation of accounting standards as a disadvantage.

### ((( Management are one of the principal recipients of the financial statements

As for other European enterprises, British SMEs identify banks as the primary recipients of their financial statements. However several aspects distinguish them from their continental counterparts: only 71% of British SMEs cite banks as recipients. This score, similar to that in France, is well below the European average (80%). It may be explained by the fact that only 58% of British SMEs state that they obtain financing from banks. Here, again, this score is 13% lower than the average of the six countries. Far in front of SMEs in other countries in the panel, 69% of British SMEs cite management as a major recipient of the accounts. This score is 25% higher than the average for the entire panel.

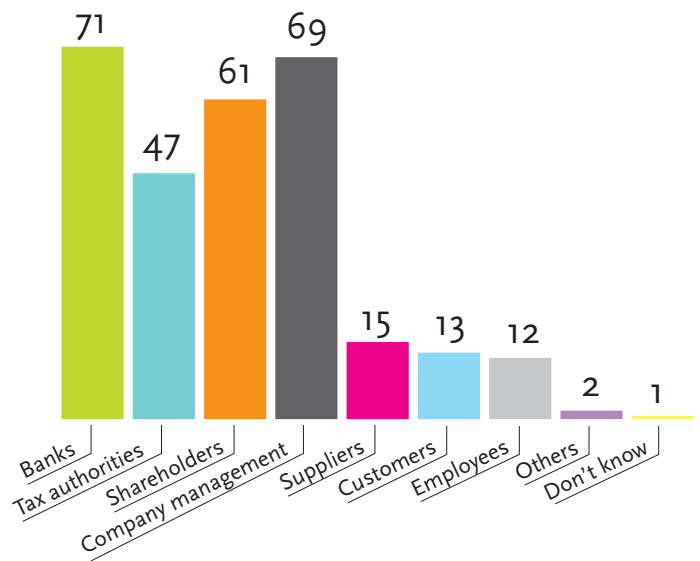
Conversely, only 47% of British SMEs declare that they send their accounts to the tax authorities. Here again British SMEs are markedly different as the European average is 71%.

Lastly, they are respectively 15%, 13% and 12% in citing their suppliers, customers and employees as recipients of their financial statements.

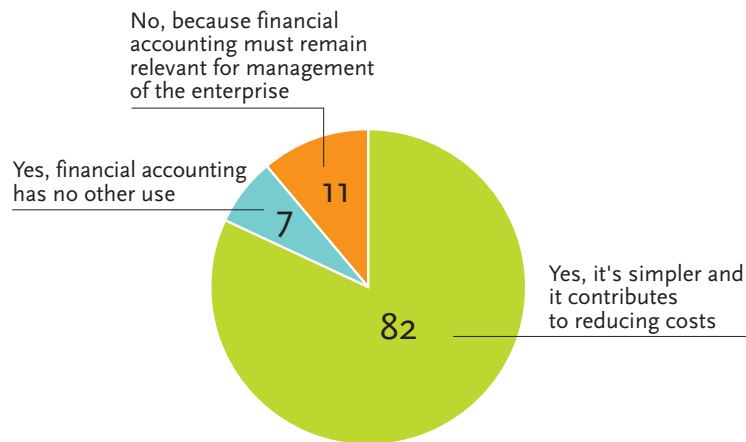
### ((( A relationship between tax rules and accounting that is perceived as being very positive

At 85%, only just behind their German counterparts, British SMEs perceive the influence of tax rules on accounting. They are also 89% to see the positive side of this for cost reasons. This is the second highest score after that of Spanish SMEs.

Please indicate the three main users of the enterprise's financial statements (cumulative number of respondents, in %).



Is the influence of taxation on accounting standard setting desirable? (in %)





## METHODOLOGY AND SAMPLING

The survey was administered by the market research company Opinion Way. Interviews were carried out by phone between September 4 and October 5, 2007.

All in all, 1, 593 companies were surveyed in 6 countries: France, Germany, Italy, the Netherlands, Spain and the United Kingdom. The phone interviews did last 30 minutes on average and were carried out in each country's language.

The number of companies surveyed in each country is as follows:

- France: 293
- Germany: 290
- Italy: 245
- The Netherlands: 245
- Spain: 230
- The United Kingdom: 290

Line of business

- Industry: 34%
- Service: 33%
- Wholesale: 33%

The above mentioned sample does not include any subsidiary of the surveyed companies.

Respondents' profiles range as follows:

- Director/Manager/Chief Accountant: 36%
- CFO/Finance Manager: 42%
- Administrative Director/Manager: 14%
- General Manager/ Deputy General Manager: 6%
- Chairman/CEO: 2%



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