DG Internal Market and Services

Framework Contract for projects relating to Evaluation and Impact Assessment activities of Directorate General for Internal Market and Services

4th Company Law Directive and IFRS for SMEs

Final Report

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The 4th and 7th Company Law Directives provide a common set of accounting principles, prescribed layouts for the profit and loss account (P&L) and balance sheet and a set of minimum disclosures for limited liability companies. The 4th Company Law Directive deals with the annual accounts of companies[1]. The Commission Services are currently considering different options for revising the 4th Company Law Directive such as simplifying the layout of the profit and loss account and balance sheet and substantially reducing disclosure requirements especially for small companies. Large and medium-sized companies would be required to prepare a cash flow statement. The proposals may also need to take account of the International Financial Reporting Standard for Small and medium Sized Entities (IFRS for SMEs).

This study seeks to analyse aspects of the costs of some of these "proposed changes"[2]. The work for the study includes a survey of enterprises using the European Business Test Panel, a panel of enterprises set up by DG Internal Market and Services (DG MARKT). The number of companies included in the final analysis was 323, analysed by size as follows.

Table 1 - Number of companies in analysis

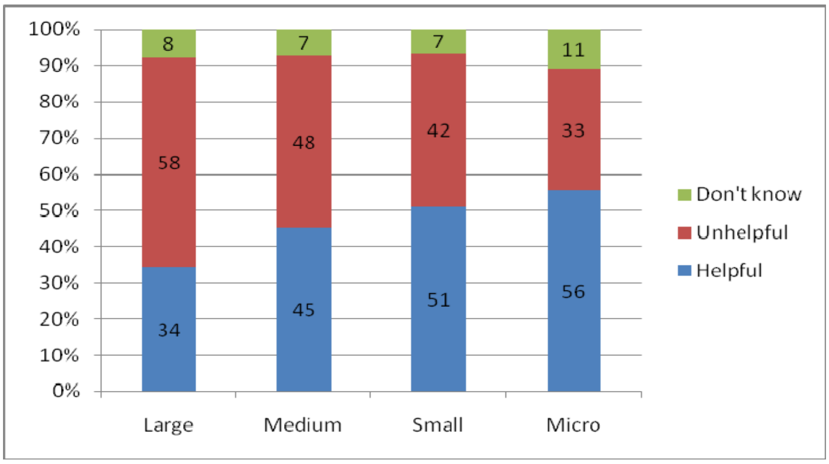
	Total	Large	Medium	Small	Micro
Total	323	76	60	100	87

As part of the study, we held interviews with banks, regulators, accounting companies and accounting associations, as well as carrying out a literature review. Fieldwork was carried out from March to July 2010.

2 Overall results

Companies in all size categories thought the above mentioned changes, taken as a whole, would be helpful. Small companies were more likely to find the changes helpful. Percentages are shown in the bars

Chart 1 - Looking at the proposed changes generally, how helpful will they be for your business



[1] Latest consolidated version:
http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1978L0660:20090716:EN:PDF

[2] The wording "proposed changes" refers only to changes analysed in this study. The final Commission proposal may propose other changes and may or may not contain the changes analysed in this study.

Summary

We asked how companies prepare their accounts. Smaller companies rely more on external advisers to carry out functions such as the preparation of accounts and tax returns, although all companies have internal time costs on these functions as well. Most enterprises carry out transaction recording, management accounting and cash flow forecasting in house.

3 Specific changes

The specific changes proposed[3], and summary comments for each of the changes, are:

Simplification of the required format for the balance sheet and profit and loss account[4] – 55% of medium sized companies and 81% of small companies would take advantage of this proposed relaxation although only 25% of medium sized companies and 50% of small companies thought that there would be time savings resulting. Banks said that one fixed format is preferred, rather than the ability to use different formats, although accountants generally supported a simplification of the required format.

Introduction of a cash flow statement for medium sized companies – 82% of medium sized companies already produce such a statement. All interviewees supported the introduction of such a statement for medium sized companies.

Delete the requirements for some companies to provide information on guarantees, commitments and other related items. - 61% of medium sized companies and 41% of small companies expected savings from this proposal. Banks were unanimous on the need to retain disclosures on guarantees and commitments. If they were not in the financial statements, companies would be asked to provide this information anyway. Other interviewees had similar views to banks.

Delete the requirements for some companies to provide information on certain specific analyses of income, in respect of extraordinary income and some geographical analyses. 43% of medium sized companies and 35% of small companies expected a saving. All the banks indicated that the distinction between normal and extraordinary income is important for assessing the ability of borrowers to service loans. Accountants said that in some member states the distinctions between normal and extraordinary income is already no longer present, or so blurred as to be absent in practice. An analysis of activity and geographical markets is not considered important for small firms because of the size of firms.

The relaxation of the requirement to report on deferred taxation or to set up appropriate provisions - 48% of medium sized companies and 43% of small companies expected a saving. Banks need this information to assess the effect of taxation on a business's ability to service loans. One bank suggested that loss of information on deferred tax would not be a major issue as regards SMEs because their taxation affairs may be less complex. Accountants thought it would be necessary to calculate this information anyway, but that disclosure may not be necessary.

[3] Some of the proposed changes are currently Member State options and therefore the current position is not uniform across the European Union. Please refer to Annex A for further information.
[4] Please refer to Section 3 for possible new formats.

Summary

Simplify valuation rules and move to a general position where most valuation is on the basis of cost with an option for fair value, and reduce disclosures on asset movements - 42% of medium sized companies and 40% of small companies expected a saving. In general the banks interviewed do not have a preference as to whether it is cost or fair value – this is dependent on the company in question and its circumstances. There is however a preference for a conservative valuation, whichever approach is used. Other groups preferred to use historical cost as a basis for asset values.

Include certain additional disclosures on transactions with related parties and the nature and business purpose of arrangements which are not shown in the balance sheet - 46% of medium sized companies and 35% of small companies could produce this information quickly from existing data. Interviewees considered this proposed disclosure helpful. There may be an argument for small firms to be exempt from this requirement, and it was suggested that it may be difficult to transpose in some member states as there are issues concerning the confidentiality of management information and ownership.

The removal of certain other disclosures – *this covers a detailed range of other disclosures such as separate disclosure of prepayments and deferred income****.*** 50% of medium sized companies and 44% of small companies expected a saving. Banks said that if these relaxations were introduced, companies would probably have to produce this information anyway for their banks. Accounting firms generally are not supportive of these proposed relaxations, although some suggest an exception can be made for small firms on a few items. They consider most of the information as important to analyse the accounts. They do not see the changes, if implemented, as saving firms a great deal of time.

4 IFRS for SMEs

Part of the study dealt with the possible introduction of IFRS for SMEs. We sought to quantify the implementation cost of the IFRS for SMEs and the annual costs of reporting according to IFRS for SMEs

Only 38% of respondents were aware of the standard. Those that said they were aware of the standard were asked further questions, including questions on how long it would take to prepare accounts using IFRS for SMEs. 27% of medium sized companies and 35% of small companies in this group said they could produce this information quickly from existing data. We asked about the balance between costs and benefits in adopting IFRS for SMEs. 123 companies answered this question and overall, enterprises considered there was a net benefit in adopting IFRS for SMEs.

There are different views as to the desirability of a move towards IFRS for SMEs among the stakeholders interviewed as part of the study. Some are supportive, but others point to increased costs and additional analysis, training of staff needed, and that there are other ways to work towards harmonisation.

5 Users of accounts

Banks are the most likely group to require information above what is in the statutory accounts, and are likely to continue to ask for additional information in excess of existing disclosures. Surprisingly, many companies thought that tax authorities often just needed statutory accounts, but many companies outsource their tax computations to their accountants. Customers and partners are less likely to require additional information.

Summary

Generally, large companies who analyse the accounts of other companies considered the changes unhelpful on balance. Smaller companies were more likely to consider the changes as helpful.

The banks and national banking associations interviewed do not consider the proposed changes to the current format to be helpful and they would cause a number of problems in analysing accounts. They say that the current directives have worked well for the last 30 years – they could be completed and modernised, but not simplified. Other users of accounts had similar comments but accountants were more supportive

6 Costs and savings

We now consider the cost effect of the proposed changes to the 4th Company law Directive on European SMEs as a whole. To calculate these estimates, we summarised the amount of time companies expected to save or use, as shown by the survey. We costed the time using cost rates from the survey and other sources and applied the results to the total number of companies affected by the Directive. We obtained estimates of the total cost of compliance with the Directive from other studies carried out for the Commission[5].

Using these sources, we can estimate that the percentage change in the cost of preparation of disclosures arising from each potential change is as follows. Thus, for micro enterprises the simplification of the layout of account might save 15% of the burden, whilst for small enterprises a requirement to disclose a cash flow statement might add 5% to the burden

Table 2 - % saving in total cost resulting from each potential change[6]

	Company size				
	Large	**Medium**	**Small**	**Micro**	**Total**
Simplification of accounts layout	0	5	6	15	11
Introduce a cash flow statement	0	-3	-5	-15	-10
Disclosure of guarantees and commitments	2	12	5	12	9
Income disclosures	1	6	4	9	6
Disclosure of deferred tax	2	6	6	14	11
Simplify valuation rules	2	4	5	5	5
Additional disclosures (eg related party)	-2	-9	-3	-4	-4
Other changes	2	7	5	6	5
IFRS for SMEs	-1	-6	-4	-13	-9

In addition, for those companies who need an audit, there will be corresponding changes to audit costs

[5] eg Ramboll, Study on administrative costs of the EU Company Law Acquis, 2007 accessed at http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf

[6] Negative amounts represent cost increases

Introduction 1

1.1 Introduction

This document sets out CSES's final report to provide information to assist a review of the 4th Company Law Directive in connection with its simplification and also the potential implementation of IFRS for SMEs.

1.2 Proposed changes to requirements

EU 4th and 7th Company Law Directives provide a common set of accounting principles, prescribed layouts for the profit and loss account (P&L) and balance sheet and a set of minimum disclosures for limited liability companies. The 4th Company Law Directive deals with the annual accounts of companies[7].

The Commission Services are currently considering different options for revising the 4th Company Law Directive such as simplifying the layout of the profit and loss account and balance sheet and substantially reducing disclosure requirements especially for small companies. Large and medium-sized companies would be required to prepare a cash flow statement. The proposals may also need to take account of the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs). A detailed summary of the existing 4th Company Law Directive disclosure requirements and the proposed changes is shown in Appendix A.

1.3 Objectives and Outputs of the Study

The objectives of the study, as set out in the terms of reference, are to analyse aspects of the costs of these proposed changes. There are a number of objectives identified in the terms of reference, including the following:

- *to evaluate the potential change in administrative burden associated with simplifying the balance sheet and profit and loss account layouts and requiring the preparation of a cash flow statement for medium-sized and large companies*
- *to assess the cost associated with the various currently required disclosures and evaluate the potential burden reduction the suggested reduced level of disclosures would bring.*
- *to quantify the implementation cost of the IFRS for SMEs and the annual costs of reporting according to IFRS for SMEs*

The study should provide data that the Commission will be able to take into account in a review and impact assessment of the proposed changes to the 4th Company Law Directive.

[7] Latest consolidated version: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1978L0660:20090716:EN:PDF

1.4 Structure of this report

This report contains the following sections

Section 1 – Summarises the objectives of the study and the main changes proposed to the 4th Company Law Directive
Section 2 – Outlines the methodology used and an overview of survey responses
Section 3 – Discusses the simplification of the required format for the balance sheet and profit and loss account
Section 4 – Discusses the proposed changes which will require the inclusion of a cash flow statement
Section 5 – Deals with other changes proposed to the 4th company Law Directive, including those in respect of guarantees and commitments, income disclosures, taxation and deferred tax, changes to valuation rules, additional disclosures and other changes
Section 6 – Deals with the introduction of IFRS for SMEs
Section 7 – Deals with the effect on users of accounts
Section 8 – Quantifies the effect of the proposed changes in the 4th Company Law Directive on European SMEs as a whole and provides an estimate of the remaining cost

In addition there are several appendices
Appendix A – Provides details of the changes proposed to the 4th Company Law Directive, and also contains details of the possible changes to valuation rules and a comparison of the current and possible new layouts for the profit and loss account and balance sheet
Appendix B – Contains a detailed analysis of the survey results
Appendix C – Contains estimates of the number of enterprises falling into each category of size for compliance with the 4th Company Law Directive
Appendix D – Contains cost rate estimates for internal and external accounting work
Appendix E Contains detailed cost calculations
Appendix F _ Contains the results of the literature survey
Appendix G – Interview list
Appendix H – Analytical issues, including the calculation of medians and means

Separately, a **national data supplement** contains detailed national data

Survey response 2

This section summarises the methodology used in the study, and the overall response to the survey

2.1 Methodological Approach

This report on the proposed changes to the 4th Company law directive and to IFRS for SMEs has been prepared using surveys and interviews, as well as a literature search. Fieldwork was carried out from March to July 2010.

The survey of enterprises in the EU uses the European Business Test Panel (EBTP),[8] a panel of enterprises set up by the European Commission (Directorate General Internal Market and Services). These enterprises have offered to respond to questions concerning new legislation or other initiatives. A questionnaire was prepared, tested and launched in all EU languages and completed on line. The main groups targeted for interview included banks, standard setters, public bodies, accounting associations and firms, other similar stakeholders. We also held telephone discussions with companies where necessary to clarify their responses to the questionnaire.

2.2 Survey response

This section of our report summarises the response to the survey of companies carried out under the EBTP. 375 companies responded to the survey but some of these either provided minimal information or had a legal structure which meant that they were not subject to the 4th Company Law Directive[9]. There were 325 usable responses from companies subject to the Directive, from the following countries

Table 2.1 – Analysis of respondents by country

Country	Number	Country	Number
AT - Austria	14	IT - Italy	15
BE - Belgium	10	LT - Lithuania	1
BG - Bulgaria	6	LU - Luxembourg	1
CY - Cyprus	1	LV - Latvia	1
CZ - Czech Republic	16	MT - Malta	1
DA - Denmark	31	NL - The Netherlands	27
DE - Germany	41	NO - Norway	5
EE - Estonia	7	PL - Poland	19
EL - Greece	4	PT - Portugal	15
ES - Spain	12	RO - Romania	8
FI - Finland	20	SI - Slovenia	3
FR - France	1	SK - Slovak Republic	1
HU - Hungary	18	SV - Sweden	5
IE - Ireland	13	UK - United Kingdom	29

Source: European Business Test Panel (EBTP) survey

[8] http://ec.europa.eu/yourvoice/ebtp/index_en.htm
[9] We telephoned a sample of companies who said they were not subject to the Directive and confirmed their status

We also grouped companies into large, medium, small and micro using the definitions in the Directive (or proposed in the case of micro companies). Two companies did not provide sufficient information to determine their size category, so the number of companies included in the final analysis was 323, analysed by size as follows.

Table 2.2 Number of companies in analysis

	Total	Large	Medium	Small	Micro
Total	323	76	60	100	87

Source: EBTP survey

Of these companies, 24% were subsidiaries of another company.

Table 2.3 – % of each group who are subsidiaries

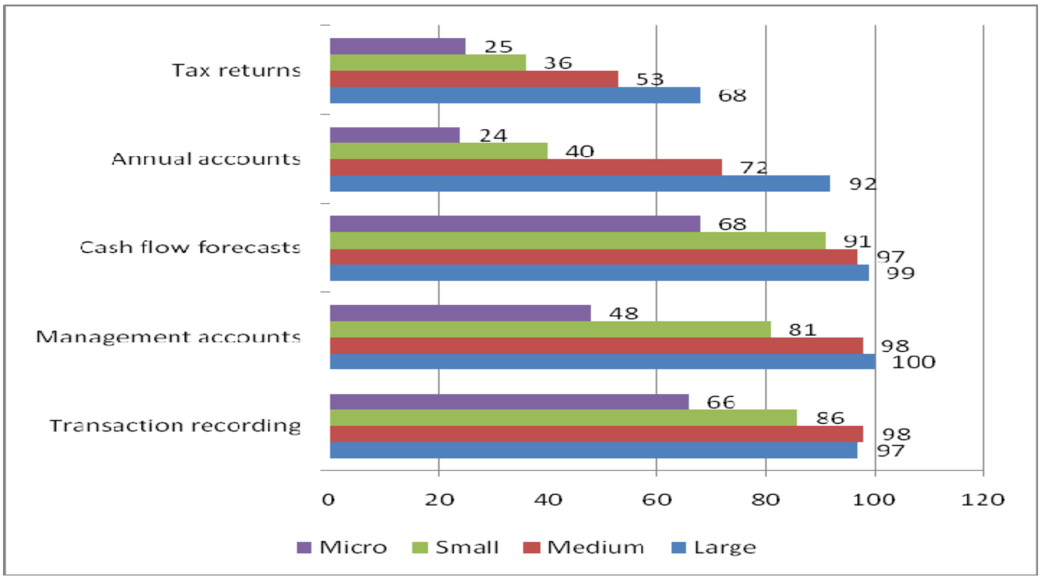
	Total	Large	Medium	Small	Micro
% of responses from subsidiaries	24	49	37	15	3

Source: EBTP survey

We also asked about the preparation of accounts by enterprises. Enterprises were asked to say whether their accounts were mainly prepared in house or externally for the following functions

- Transaction recording
- Preparation of management accounts
- Cash flow forecasts
- Preparation of annual statutory accounts
- Preparation of tax returns

Chart 2.1 – Percentage of companies carrying out functions in house



Source: EBTP survey. Percentages are shown at the end of each bar.

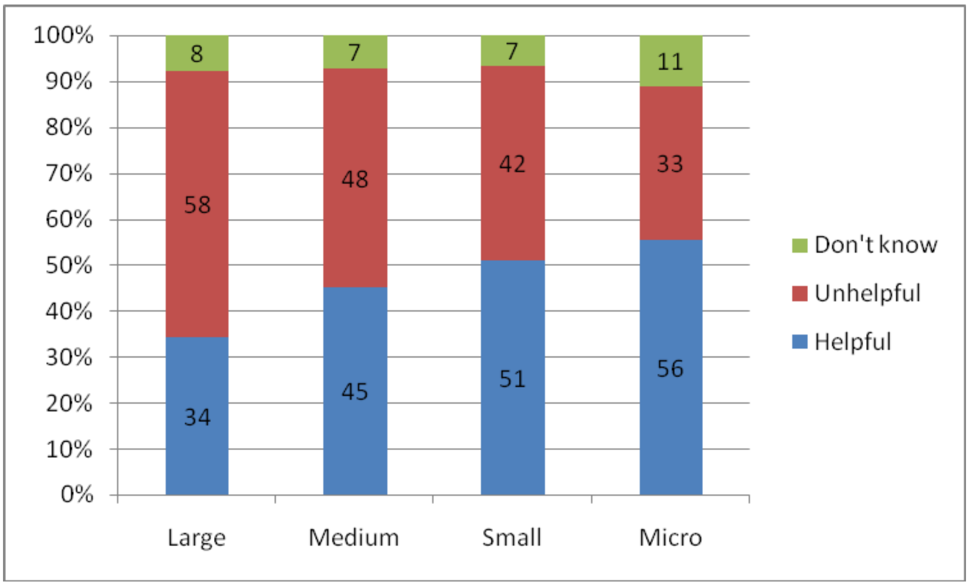
Unsurprisingly, smaller companies rely more on external advisers to carry out some functions, particularly the preparation of accounts and tax returns. Most enterprises carry out transaction recording, management accounting and cash flow forecasting in house, but

Survey response

the preparation of statutory accounts and tax returns and computations is often externalised. In arriving at the change in costs of various functions, smaller companies have a higher proportion of relatively more expensive external time. However, this study has sought to cost both the internal and external time used by smaller enterprises in the preparation of accounts.

Companies were also asked whether the proposed changes overall were seen as helpful.

Chart 2.2 - Looking at the proposed changes generally, how helpful will they be for your business



Percentages are shown in the chart bars. In all size categories, on balance companies thought the changes would be helpful. Small companies were more likely to find the changes helpful.

2.3 Methodological issues

This study has sought to identify the additional savings or costs that would accrue to a company if there were certain changes in the accounting disclosure requirements of the Directive. As such, the questions used to gather data have asked for the change in the amount of time spent by a company or its advisers, and changes in direct expenditure. This information has been requested both for the first year – when there might be set up expenditure – and for subsequent years. Company and professional adviser time has been costed using cost rates discussed later in this report

The resulting quantified costs or savings represent the marginal cost or saving from the change in the disclosure requirement. In other words, the cost or saving is the change in the cost of accounts preparation from the proposed change in the Directive. What the study has not done is to try to quantify the whole of the cost of the accounting system. The study has assumed that the basic accounting system remains unchanged and that all that changes is the final reporting requirement for statutory accounts. In practice, this may well be a small proportion of the total cost of accounting.

Survey response 2

In analysing the cost information provided by companies, it became apparent that a small number of companies said that there would be large costs or savings from some of the changes. These outlying values had a significant effect on the arithmetic mean of costs, so for analysis purposes the median of response has been used. Both mean and median values are shown in the detailed analysis in appendix B. Appendix H contains details of how medians were estimated.

Simplification of layout of accounts 3

This section considers the first of the proposed changes to the 4th Company Law Directive, the simplification of the required format for the balance sheet and profit and loss account.

3.1 Introduction

This section considers the first of the changes being suggested to the 4th Company Law Directive on annual accounts. It is suggested that simplification of the required format for the balance sheet and profit and loss account is needed.

The new formats require the following minimum information

Balance sheet:

- intangible assets
- investment property
- property, plant and equipment
- financial assets
- inventories
- trade and other receivables
- cash and cash equivalents
- issued capital and reserves
- provisions
- deferred tax liabilities and deferred tax assets (separately disclosed)
- financial liabilities
- liabilities and assets for current tax (separately disclosed)
- trade and other payables

Profit and loss account:

- net turnover
- cost of sales (including value adjustments)
- gross profit or loss
- distribution costs (including value adjustments)
- operating income
- income from investments
- interest receivable
- other value adjustments
- interest payable
- tax on profit or loss
- profit or loss for the financial year

A comparison of the current and possible new layouts is contained in Appendix A

Simplification of layout of accounts 3

3.2 Survey data – layout of accounts

In the survey, companies were first asked whether they would like to take advantage of a simplified format, and they were then asked if as a result they might make savings.

Table 3.1 – % of companies expecting to use simplified format and make savings

	Total	Large	Medium	Small	Micro
% expecting to take advantage	68	42	55	81	83
% expecting a saving	38	19	25	50	48

About 38% of enterprises surveyed said that there would be time and cost efficiency in the simplification of accounts. However 44% of enterprises thought that there would be no cost saving. Overall, the proportion of small and micro companies expecting savings is higher.

In order to estimate the amount of any savings, the survey asked about the change over cost of adopting the new layout, and also about any subsequent savings. The question was addressed to those companies who thought they could make savings. We asked separately how much internal time and how much external time, such as accountancy help, was needed.

The first question was in respect of the changeover cost – the additional cost in the first year. The median time needed for the changeover was as follows

Table 3.2 – Hours needed to prepare accounts in a new simplified format for the first time (median)

	All firms	Large	Medium	Small	Micro
Internal time	6.3	11.0	5.6	6.7	5.6
External time	4.7	0.5	4.0	5.1	4.8

Source: EBTP survey

Analysis of these responses suggests that where enterprises needed to take additional time to prepare accounts in a new simplified format, they would take an average[10] of 6.3 hours internal time and 4.7 hours of external time. However, 38% of enterprises expect savings from the simplified format. When looking at all enterprises as a whole, the additional time for all enterprises should be reduced to allow for this, as is done later in this report.

We also asked whether enterprises would incur any other expenditure in preparing accounts in a new simplified format. 67% of respondents do not think there will be any other expenditure other than the set up expenditure they might incur with setting up a system for simplifying the accounts preparation. There was no significant variation by size of company.

[10] In this table, and in subsequent tables, the average time is calculated using medians as explained earlier in the report

Simplification of layout of accounts 3

In subsequent years, it is likely that less time would be taken to prepare accounts than the initial set up year. As with the set up year, we asked about the time needed to prepare accounts in subsequent years. As before, this question was addressed only to enterprises who said that they would make savings

We asked separately how much internal time and how much external time, such as accountancy help, would be saved

Table 3.3 – Hours saved in preparing simplified accounts in subsequent years (median)

	All firms	Large	Medium	Small	Micro
Internal time	3.2	3.5	3.1	3.6	2.6
External time	3.0	2.5	4.0	2.9	3.0

Source: EBTP survey

The results of this question are presented above showing the saving in the number of hours that enterprises need to take to prepare a simplified set of accounts in subsequent years.

Analysis of these responses suggests that in subsequent years the median time saved by respondents would save 3 hours of internal time and 3 hours of external time each year. As before, later in the report we adjust these savings to take account of the fact that some companies do not expect savings from this relaxation.

3.3 Interviewee comments

Banks

Banks and Banking organisations from three major Member States suggested that the introduction of the new formats would cause a number of difficulties in analysis, for example between trade receivables and other receivables, and trade payables and other payables. It would become difficult to distinguish between different types of assets and liabilities: bonds, pensions etc. There is also a need to distinguish between short term and long term liabilities. Such information is important to analyse the financial position of companies from two points of view. In the first place to understand creditworthiness in terms of granting loans and ability to repay loans; and in the second place with a view to operating their "early warning" systems to identify companies in financial distress so that they can intervene early and initiate corrective action before the situation becomes acute or beyond remedy. These points were made throughout by banks as regards most of the proposed changes, but in particular as regards guarantees and commitments. Also, banks, especially central banks, also find such information useful from the point of view of analysing the state of the economy.

They suggest that the introduction of such relaxations would imply costly changes to the IT systems. There would also be costs associated with asking companies for further details required by customers if they do not appear in the layout (e.g. trade receivables and other receivables, often required by customers). In view of this, the proposed format would have a negative impact on the quality of the relations between banks and firms. The current

Simplification of layout of accounts

format, envisaged by the 4th Company Law Directive, is the best option at the moment. One fixed format is preferred, rather than the ability to use different formats.

Other banks, from some of the smaller member States, suggest that the proposed relaxations are already relatively in line with their national GAAP, and covers the key points although national laws may differ. If XBRL is added, new bank taxonomy and new lines will be needed.

Regulators
One regulator agreed that there are advantages in having increased flexibility in the format of accounts. However, a detailed format would still provide a useful indication to firms of how to structure their annual accounts. While not against a relaxation of formatting rules, they cannot judge whether it would in fact constitute a 'real' relaxation. The current forms already have certain flexibility.

Another suggested that the relaxation was proposed in principle, on the understanding that this was a minimum harmonisation and that the member states could propose their own more detailed formats. Trying to transpose very detailed formats in member states could be very difficult.

Accounting associations
These relaxations are generally seen as positive, but there is quite a diversity of views about the degree of prescription required for the presentation of the balance sheet. Some argue for a fixed format (for example to facilitate adoption of XBRL), others flexibility based on materiality and another view is to present some fixed line items, with some additional lines where more choice is possible.
A key point made is that there is a need to balance between the reduction of costs and accountability of small firms

Generally there is support for the relaxation proposed, with the following provisos raised by some interviewees: to be able to show costs by function or nature, and to show depreciation. There are also different views as regards the level of prescription for the format: a relatively fixed format (also in view of XBRL) and one with some prescribed minimum lines to which the firms should add as appropriate. The point was also made that some national statistical offices need more detailed information than required by accounting laws and that those requirements would still probably be included at national level.

Accounting firms
Accounting firms do not see any major implications or impacts on costs for clients as a result of these relaxations. It might save small firms a bit. Most time consuming might be the explanation of new terms to clients.
The information is already produced by software, so there is not a major cost issue. However, there would have to be provision for presentation both by function and by nature. There could be a limited time saving for SMEs.

Simplification of layout of accounts
3

3.4 Summary

The main findings of this section are that

- 68% of enterprises would take advantage of simplification of accounts to the format suggested in the changes to the 4th Company Law Directive, and 38% consider this would result in time or cost savings

- For those companies that think they will make savings, the median time needed to prepare a new simplified set of accounts in the first year is 6.3 hours of internal time and 4.7 hours of external time.

- In subsequent years, 3.2 hours of internal time and 3 hours of external time would be saved

- Banks were generally rather negative and considered that the proposed changes might make it more difficult to analyse accounts. Users have quite a wide range of opinion about these relaxations, but generally suggest that adopting them will have limited cost savings.

Cash Flow statements 4

This section considers the second of the proposed changes, the introduction of a cash flow statement for medium sized companies

4.1 Introduction

This section considers the second of the possible changes being suggested to the 4th Company Law Directive on annual accounts. It is suggested that medium sized enterprises should publish an annual cash flow statement including the following minimum information

- cash flows from operating activities
- cash flows from investing activities
- cash flows from financing activities
- net increase/decrease in cash and cash equivalents
- cash and cash equivalents at the beginning of the period
- cash and cash equivalents at the end of the period

Such a cash flow statement is already prepared by larger enterprises and a similar statement is a requirement of IFRS for SMEs. Most enterprises will, of course, already prepare cash flow forecast for internal operational purposes and for their bankers if they have borrowing facilities.

4.2 Survey data

In the survey, enterprises were first asked whether they already prepare a cash flow statement in a format relatively similar to the format now proposed.

Table 4.1 – Preparation of cash flow statement - Do you currently prepare a similar cash flow statement either for internal purposes or for publication?

	% by size of company				
	All	Large	Medium	Small	Micro
% preparing a cash flow statement already	64	91	82	49	45

Source: EBTP survey

64% of all enterprises in the sample, and 82% of medium sized enterprises, prepare similar a cash flow statement either for internal purposes or for publication. However, less than half of small or micro enterprises prepare such a statement

We then asked about the time needed to prepare the cash flow statement for the first time. We asked separately how much internal time and how much external time, such as accountancy help, was needed.

Table 4.2 – Time needed to prepare a cash flow statement for the first time
Please think about preparing an annual cash flow statement for publication in the format shown above for the first time. Please show the set up time that might be needed

	Median time – First year time hours				
	All	Large	Medium	Small	Micro
Internal time	7.8	10.7	7.6	7.1	6.4
External time	3.3	2.1	3.7	3.6	3.3

Source: EBTP survey

Cash Flow statements

4

The results of this question are presented above showing the number of hours that enterprises need to take to prepare a cash flow statement.

It will be seen that, generally, smaller enterprises think that it will take longer to prepare a cash flow statement largely because many do not do so at the moment. They are also likely to rely on their professional advisers. Medium sized enterprises, who are preparing a cash flow statement for publication for the first time, estimate that they will take 7.6 hours of internal time and 3.7 hours of professional advice. Of course, many companies (and 82% of medium sized companies) already prepare such a cash flow statement so the average time for all companies will be much less. We allow for this adjustment later in the report.

We also asked whether enterprises would incur any other expenditure in preparing a cash flow statement for the first time. Only 14% of respondents said that other expenditure would be needed and most were not able to quantify any additional costs. Of those that specifically mentioned other expenditure, the most common response was the need to obtain additional software to automate the preparation of a cash flow statement. Generally, smaller companies are more likely to incur additional costs

In subsequent years, it is likely that less time would be taken to prepare a cash flow statement then in the initial set up year. We asked about the time needed to prepare the cash flow statement in subsequent years.

Table 4.3 – Time needed to prepare a cash flow statement in subsequent years
Once the format is set up, how much time will be needed each year to prepare the annual cash flow statement?

	Median time – Annual time hours				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	4.1	4.6	4.8	3.7	3.5
External time	1.9	0.5	2.5	2.2	2.5

Source: EBTP survey

The time taken in subsequent years will be lower than in the first year, when set up time is needed, and overall about half the time will be needed in subsequent years. Medium companies will need 4.8 hours of internal time and 2.5 hours of external time, Again, later in the report we adjust these numbers to allow for companies who already produce cash flow statements.

4.3 Interviewee comments

We interviewed a number of groups who provided comments on the possibility of extending the requirement to produce a cash flow forecast. These comments are summarised below

Banks
Preparation of a cash flow statement is part of the standard procedure of applying for a loan. Some firms, typically the larger ones, are already required to have these. On the other hand small, and often medium sized firms, do not. Where there is no cash flow statement, banks can use software to generate cash flows and carry out more sophisticated analysis, or they ask firms to prepare the cash flow statements themselves. Some banks said that a

simplified cash flow statement could reduce useful information available, so may not be useful

Regulators and other public bodies
The cash flow statement is an important part of financial statements, but too much attention on them could detract from an assessment of the value of the company as a whole.

Accounting associations
The extension of the requirement to produce a cash flow forecast - is seen as helpful by all associations consulted. In most cases larger firms are required to prepare a cash flow statement already. It does not require high skills, and uses data that has been collected already, so should not imply major additional costs. For small firms it is seen as less important but still useful. It was pointed out that there are alternative ways to present a cash flow statement, and there should be guidance in which to use.

Accounting firms
Software can generate most of the cash flow statement, but small firms usually do not need it, or ask for it. In most member states they are exempt from producing a cash flow statement, although it would be easy from the data provided. Some small firms present a cash flow statement on a voluntary basis. Larger firms are often required by law to produce cash flow statements, and if not would generally develop one anyway for internal management purposes.

4.4 Summary

The main findings of this section are that

- 64% of all enterprises already prepare a cash flow forecast similar to the format suggested in the changes to the 4th Company Law Directive, including 82% of medium sized enterprises
- Medium sized enterprises, who may be required to prepare a cash flow statement for publication for the first time, estimate that they will take 7.6 hours of internal time and 3.7 hours of professional advice. This estimate is adjusted later in the report for those companies who already prepare such a statement
- In subsequent years medium companies will need 4.8 hours of internal time and 2.5 hours of external time.

Specific Disclosures
5

This section deals with other changes proposed to the 4th Company Law Directive, including those in respect of guarantees and commitments, income disclosures, taxation and deferred tax, changes to valuation rules, additional disclosures and other changes

5.1 Introduction

We have divided the remaining changes that we analysed into six groups and have asked enterprises to cost each of the groups of changes. The groups are:

- Guarantees and commitments
- Income disclosures,
- Taxation and deferred tax,
- Changes to valuation rules,
- Additional disclosures and
- Other changes

Most of the proposals seek to relax the requirements of the 4th Company Law Directive, although there is a group of additional disclosures that will require extra time. In each case, we have asked for the year 1 cost – the cost of adapting to the new regulations – and the subsequent cost or saving. This information is shown in this section of the report. We also asked for details of additional cash expenditure that might be incurred. Very few companies expected to incur such expenditure, so the detailed data is not contained in this section but may be found in the statistical annex. We have also provided a summary of interview comments from interested parties such as banks, regulators and accounting associations and firms.

5.2 Guarantees and commitments – proposed changes

This section considers the first of the proposed changes to the 4th Company Law Directive in respect of specific disclosures. One of the proposals is to delete the requirements for some companies to provide information on guarantees, commitments and other related items. To provide this information, companies often have to carry out a specific analysis. The disclosures which may be removed are:

- Information on guarantees
- An analysis of amounts payable after more than 5 years
- Details of amounts payable where valuable security had been given
- Commitments concerning pensions and affiliated undertakings
- Any other financial commitments not in the balance sheet if this information would be useful for analysing the financial position

5.2.1 Survey data - Guarantees and commitments

In the survey, enterprises were first asked whether the removal of these disclosures would save time or cost.

Specific Disclosures

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Table 5.1 – Simplification of Disclosures
Do you think that the removal of these disclosures might result in any time or cost saving to you?

	All	Large	Medium	Small	Micro
% expecting saving	47	56	63	41	36

Source: EBTP survey

47%of enterprises believe the removal of these disclosures would save time or cost. The survey also asked respondents who thought they would save time to estimate the annual saving in hours, for internal and external or adviser time.

Table 5.2 – Quantitative Estimation of time saved
If these changes are implemented, please estimate any annual saving in internal and external time.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.0	7.8	3.7	3.7	4.0
External time	3.1	2.9	3.4	3.3	2.7

Source: EBTP survey

Those small and medium companies expecting savings estimated those savings as 3.7 hours of internal time and just over 3 hours of external time. Of course, not all companies expect savings and in summarising the results later we allow for this.

We then asked whether enterprises would incur any one-off initial time or cost expenditure.

Table 5.3 – Time needed for one off changes
Please tell us if it will take any time to make one off changes to your systems because of the removal of these specific disclosures. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	0.9	0.2	0.8	1.8	1.6
External time	0.4	0.0	0.5	0.6	1.0

Source: EBTP survey

5.2.2 Interviewee comments - Guarantees and commitments

There is an almost unanimous view among those interviewed that these disclosures should not be removed. Comments from specific groups are as follows

Banks
All the banks spoken to were unanimous on the need to retain disclosures on guarantees and commitments. If they were not in the financial statements, companies would be asked to provide this information anyway. This may end up being more expensive if carried out as a one off exercise

Specific Disclosures 5

Regulators
Two regulators also wished to retain these disclosures. Not doing so would open up the possibility of too much risk. One regulator suggested that this relaxation might be acceptable in principle for small firms, on the understanding that member states will be allowed to implement nationally at a more detailed level.

Accounting associations
National accounting associations were unanimous that this information is important and should be retained. It is considered key from the point of view of evaluating the firm's situation, including SMEs. The view was also expressed that firms ought to have this information anyway from the point of view of good management, so disclosure should not be an additional burden

Accounting firms
All the accounting firms interviewed also agreed this information should not be removed. In the UK banks require disclosure of guarantees in the financial statements. There should not be a great deal of time saved for firms because they need to collect this information anyway. The relaxation might only be useful for companies that do not use bank finance.

5.3 Income disclosures – proposed changes

The next set of changes is in respect of income. A potential change is to delete the requirements for some companies to provide information on certain specific analyses of income. To provide this information, companies often have to carry out additional analysis. The disclosures which may be removed are as follows:

- Information on the amount and nature of extraordinary income (if material)
- An analysis of net turnover broken by categories of activity and geographical markets (if they differ substantially)

5.3.1 Survey data - Income disclosures

In the survey, enterprises were first asked whether the removal of these disclosures would result in any time and cost saving

Table 5.4 – Simplification of Disclosures
Do you think that the removal of these disclosures might result in any time or cost saving to you?

	All	Large	Medium	Small	Micro
% expecting saving	36	40	43	35	28

Source: EBTP survey

Almost 36 per cent of enterprises believe the removal of these disclosures will have a time and cost benefit, so in this case more companies considered there would be no cost saving.

The survey then asked respondents to quantitatively measure the time and cost saved, internally and externally.

Table 5.5 – Quantitative Estimation of time saved
If these changes are implemented, please estimate any annual saving in internal and external time.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	3.8	5.0	3.1	3.9	3.2
External time	2.3	1.6	2.5	2.3	2.7

Source: EBTP survey

Those small and medium companies that expected savings estimated them as 3 to 4 hours of internal time and just over 2 hours of external time

We also asked whether enterprises would incur any one-off initial time or cost expenditure.

Table 5.6 – Time needed for one off changes
Please tell us if it will take any time to make one off changes to your systems because of the removal of these disclosures. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	0.7	0.0	0.7	0.5	1.8
External time	0.0[11]	0.0	0.2	0.2	0.8

Source: EBTP survey

The one off costs are low – less than an hour for medium and small companies

5.3.2 Interviewee comments – income disclosures

Banks
All the banks indicated that they need the distinction between “normal” and extraordinary income (or “primary” and “other” income) as this is the basis on which financial ratios are calculated and important for assessing the ability of borrowers to service loans .The activity and geographical markets analysis is not considered that important for small firms. However, banks would expect that managers of companies would need this information anyway.

Regulators
One regulator suggested that the effect of such relaxations would be minimal. Another was strongly of the view that it should not be deleted: it is easy to keep and retain, and may have disproportionate effects on calculation of financial ratios such as ROI percentages.

[11] The median value for all companies is 0, because just over half (49 out of 99) the companies responding returned values of “none or negligible”. In some other size categories less then half returned a value of “none or negligible”. For example, of 30 small companies, 14 returned values of none or negligible.

Specific Disclosures 5

Accounting associations
In some member states the distinctions between *normal and extraordinary income* is already no longer present, or so blurred as to be absent in practice. Where this is not the case there are two views: either it should be dispensed with, or that the difference should be retained, as it is a useful way to distinguish between recurring and non-recurring revenues, and should be retained and shown, especially if *material*.
As regards the further *analysis of income*, the overall view is that for large and medium-sized firms, showing further analysis of income in terms of product lines or geographies is useful, but for smaller firms it is less useful and may reveal confidential information. Also, in the case of the small firm, there is usually a personal relationship with the user of the accounts which means that it is not as necessary to disclose more widely.

Accounting firms
One company said that the deletion of income-related requirements is unlikely to have a large impact on SME's. A suggestion was that it be deleted and made optional if material. However, several firms said that these relaxations would not save a great deal of time. They consider extraordinary income as very important.
The analysis of turnover by activity or geographical markets was not so important for small firms, but could be for medium and large firms. It would not save a great deal of time not to disclose this, as this information must be collected for VAT purposes anyway. The point was also raised that it was a competitive/ transparency issue, as much as anything else, as different member states had different reporting requirements in this respect.

5.4 Taxation and deferred tax

This section considers the next of the possible changes, the relaxation of the requirement to report on deferred taxation or to set up appropriate provisions

5.4.1 Survey data – deferred taxation

In the survey, enterprises were first asked whether the removal of these disclosures would save time and cost.

Table 5.7 – Simplification of Disclosures
Do you think that the removal of these disclosures might result in any time or cost saving to you?

	All	Large	Medium	Small	Micro
% expecting saving	43	51	48	43	34

Source: EBTP survey

Here, quite a significant number – approaching half of enterprises – expect savings if the requirement to report deferred tax is removed

The survey asked respondents to estimate the time and cost benefits, internally and externally. We first consider potential annual savings

Table 5.8 – Quantitative Estimation of time saved -If these changes are implemented, please estimate any annual saving in internal and external time.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	4.6	7.6	3.8	4.4	4.2
External time	3.5	4.0	1.5	3.5	3.8

Source: EBTP survey

Those enterprises expecting savings reported higher expectations of savings for this item – 3 to 4 hours of internal time for small and medium companies and 1 to 3 hours of external time

We also asked whether enterprises would incur any one-off initial time or cost expenditure.

Table 5.9 – Time needed for one off changes
Please tell us if it will take any time to make one off changes to your systems because of the removal of these disclosures. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	0.9	0.0	0.9	1.5	2.9
External time	0.3	0.0	0.0	0.8	1.8

Source: EBTP survey
There would also be significant amounts of one off change time incurred

5.4.2 Interviewee comments - deferred taxation

Banks
Banks need this information to assess the effect of taxation on a business's ability to service loans. One bank suggested that loss of information on deferred tax would not be a major issue as regards SMEs because their taxation affairs may be less complex
Regulators
One regulator considers the suggested relaxation with some scepticism as the specification of taxes and deferred taxes constitute an important piece of information. Another suggests that this is not really a relaxation - it suppresses the links between accounting and taxation, and is against their removal. It is suggested that the key issue is not disclosure but calculation.
Accounting associations
Generally the view is that these are fiscal, rather than accounting issues, so even if they are not shown in the accounts, they still need to be calculated anyway - so showing them in the accounts is not a major additional burden. Having said that, the overall view among interviewees is that tax information is useful to see, with the proviso that in some member states distortions are more important than others, and that deferred tax is not recognised in some member states. These last two items are also considered of less importance to SMEs.
Accounting firms
Accounting companies seem agreed that this detailed level of disclosure is not required for small firms. It can be simplified for them – all they want to know is if there is a carry-back or a credit (possibly with some information in the notes). This could save some time. For medium sized and large firms the view was that these relaxations should not be

implemented. The view was also expressed that the information is required for preparation of tax returns, so it might as well be kept.

5.5 Changes to valuation rules

It is proposed to simplify valuation rules and move to a general position where most valuation on the basis of cost with an option for fair value. It is also proposed that detailed disclosures of movement of assets will no longer be required. Details are shown in Appendix A.

5.5.1 Survey data – valuation rules

In the survey, enterprises were first asked whether the changes to valuation rules might result in cost savings

Table 5.10 – Simplification of Disclosures
Do you think that the removal of these disclosures might result in any time or cost saving to you?

	All	Large	Medium	Small	Micro
% expecting saving	38	49	42	40	25

Source: EBTP survey

Some 38% of enterprises believe that changes to valuation procedures will have a time and cost benefit, and an almost equal number did not.

The survey also asked respondents to quantitatively measure the time and cost benefits, internally and externally.

Table 5.11 – Quantitative Estimation of time saved
If these changes are implemented, please estimate any annual saving in internal and external time.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.0	9.8	3.8	3.4	2.8
External time	2.8	5.4	1.0	3.2	1.6

Source: EBTP survey

Analysis of these responses suggests that small and medium enterprises that thought they would save time estimated those savings as over three hours of internal time and 1 to 3 hours of external time.
We also asked whether enterprises would incur any one-off initial time or cost expenditure.

Table 5.12 – Time needed for one off changes -Please tell us if it will take any time to make one off changes to your systems because of the removal of these disclosures. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	1.0	0.8	0.8	0.7	1.8
External time	0.2	0.0	0.0	0.6	0.9

Source: EBTP survey

5.5.2 Interviewee comments – valuation rules

Banks
These relaxations might be problematic as banks require a detailed disclosure of asset movements. In general the banks interviewed do not have a preference as to whether it is cost or fair value – this is dependent on the company in question and its circumstances. There is a preference for a conservative valuation, whichever approach is used though.
Regulators
The overall view is that cost is preferred, but that in some cases fair value is justified, assuming that specification of fair value is trustworthy.
Accounting associations
Valuation is a complex area, but there is generally a preference for historical cost over fair value, especially for SMEs. Fair value may be relevant for certain types of assets, such as financial instruments, or even property and plant in some situations. Valuation has implications for the fiscal authorities, and even judicial authorities, as regards payment of dividends.
Accounting firms
Accountants prefer to work with cost rather than fair value, due to the subjectivity in valuation, especially in the current economic situation. It is often more reliable for small firms, and is cheaper to determine. The only issue is that the balance sheet may not then reflect reliable market values. For larger firms, or those trading and investing in financial instruments or other assets, fair value may be required.

5.6 Additional disclosures – proposed changes

It is proposed to include certain additional disclosures as shown below. To provide this information, companies may have to carry out specific analyses.

- Transactions with related parties. The amount and nature of these transactions, together with other information, must be shown. Transactions may be aggregated provided there is not distortion

- Nature and business purpose of arrangements which are not shown in the balance sheet and their financial impact, if material

5.6.1 Survey data – additional disclosures

In the survey, enterprises were first asked whether additional disclosures can be provided quickly.

Table 5.13 – Additional Disclosures
Do you think that it is possible to provide these disclosures quickly from existing information?

	All	Large	Medium	Small	Micro
% unable to provide information quickly	36	45	45	29	28

Source: EBTP survey

About 30% of all companies would be unable to provide this information quickly, although the proportion needing time is higher for small and medium companies

The survey also asked respondents to estimate the time and cost needed to prepare these disclosures, both internally and externally.

Table 5.14 – Quantitative Estimation of additional time needed
If these changes are implemented, please estimate any annual additional internal or external time each year.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.4	12.4	6.3	3.4	2.3
External time	2.4	3.5	2.5	2.7	1.0

Source: EBTP survey

Small and medium companies would incur 3 to 6 hours of internal time and 2 to 3 hours of external time.

We also asked whether enterprises would incur any one-off initial time or cost expenditure.

Table 5.15 – Time needed for one off changes

Please tell us if it will take any time to make one off changes to your systems because of the addition of these disclosures. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	1.2	0.8	1.6	0.9	1.6
External time	0.3	0.0	0.0	0.7	1.0

Source: EBTP survey

The results of this question show the number of hours that enterprises need to make one off changes to their systems because of removal of specific disclosures.

5.6.2 Interviewee comments – additional disclosures

Banks

In some member states this information is already asked for by law. Banks would ask for this information anyway, so these additional disclosures are considered generally helpful.

Regulators

These are considered important by all interviewed. One interviewee finds, in particular, disclosure of related parties important and suggests that the information should follow the requirements in IAS 24. Two indicate that related parties' disclosure is already present in their accounting (please do not change again), and another that it is already there in terms of Art 7 (a) (d). All also support disclosure on the nature of business arrangements.

Accounting associations

The accounting associations interviewed are supportive of these additional disclosures (*transactions with related parties* and *nature and business purpose of arrangements*), especially if material. It was mentioned that it is understood that there is already a directive dealing with the second point.

Accounting firms
This information is considered useful from the point of view of transfer pricing, data on margins, finding out where firms obtain their profits, etc. Banks are also keen to have this information. There may be an argument for small firms to be exempt from this requirement, and it may be very difficult to transpose in some member states as there are many issues concerning the confidentiality of management information, ownership, etc.

5.7 Other items– proposed changes

Finally, there are certain other changes which are proposed. Disclosures which could be removed include the following:

- Information on movements in share capital
- Participation certificates, convertible debentures, or similar securities rights
- Emoluments to administrative, managerial and supervisory bodies and commitments on pensions for former members of these bodies
- Advances and credit to members of administrative, managerial and supervisory bodies and commitments made on behalf of them
- Fees for audit, assurance, tax advisory, non-audit services
- Separate disclosure of prepayments and accrued income
- Separate disclosure of accruals and deferred income
- Average number of persons employed, by categories and the staff costs, if not disclosed in P&L

5.7.1 Survey data – other items

In the survey, enterprises were first asked about removal of disclosures.

Table 5.16 – Removal of Disclosures
Do you think that the removal of these disclosures might result in any time or cost saving to you?

	All	Large	Medium	Small	Micro
% expecting saving	46	61	50	44	34

Source: EBTP survey

Almost 46 per cent of enterprises think the removal of these disclosures, as listed above, will result in a cost saving. The proportion rises to 50% for medium companies

The survey also asked for respondents to estimate the amount of time to be saved

Table 5.17 – Quantitative estimation
If these changes are implemented, please estimate any annual saving in internal and external time.

	Median time saving – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.2	8.8	4.6	4.2	3.3
External time	2.1	3.3	1.6	2.5	1.0

Source: EBTP survey

Analysis of these responses suggests that the median saving is 5.2 hours internal time and 2 hours of external time.

Table 5.18 – Removal of disclosures effect for the first time

Please tell us if it will take any time to make one off changes to your systems because of the proposed changes. Please do not include the cost of general changes to the system.

	Median time – 0ne off changes				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	0.7	0.0	0.5	0.8	2.0
External time	0.1	0.0	0.1	0.6	0.8

Source: EBTP survey

The amount of time needed for one off system changes is relatively low

5.7.2 Interviewee comments – other items

Banks

Banks tend to ask for most of this information, and even if a specific item may not seem important, a movement in that item can be important. If these relaxations were introduced, companies would probably have to produce this information anyway for their banker(s).

Regulators

Generally all agree that the Information on the various elements listed should still be required. It would be problematic for the users of accounts if this information were not stated. Firms really should collect this information at least once a year anyway. One regulator said it might be acceptable for a few of these to go for smaller companies, but found it surprising that they are there as the information is not difficult to calculate or gather. Also, some needs to remain anyway due to the statutory requirements of the audit directive. It is also useful to gather employment data.

Accounting associations

Most associations interviewed felt that the majority of these disclosures could be dispensed with, especially as regards SMEs. However there were reservations. As regards changes in share capital, this was considered potentially important and was not expensive to prepare. Other points could, in some cases, also be material and require disclosure. Emoluments and advances could be important, particularly in the current financial climate and especially for creditors; as could the identity of auditors, assurers and advisors. Separate disclosure of prepayments and accrued income, and separate disclosure of accruals and deferred income, is also considered important in some member states. Average number staff employed and categories should not be that hard to provide, and might be asked for anyway by national statistical offices.

Accounting firms

Accounting firms generally are not supportive of these proposed relaxations, although in some instances some suggest an exception can be made for small firms on a few items. They consider most of the information as important to analyse the accounts. They do not see the changes, if implemented, as saving firms a great deal of time. Payroll analysis means that data on employment, categories of staff, and various emoluments should all be readily available.

5.8 Summary of time saved or needed

We can summarise the time needed, or saved for each of the groups of disclosures, in hours per year per enterprise. Of course, these time estimates apply only to those companies who thought they would need additional time or would save time. Later in the report, for the purposes of estimating overall savings, we adjust for those companies who think there will be no saving.

The annual savings hours are shown in table 5.19. Where additional time is needed this is shown as a negative amount

Table 5.19 - Summary of time saved or needed
Annual time change (hours)

	Internal time			External time		
	Medium	**Small**	**Micro**	**Medium**	**Small**	**Micro**
Guarantees and commitments	3.7	3.7	4.0	3.4	3.3	2.7
Income disclosures	3.1	3.9	3.2	2.5	2.3	2.7
Deferred tax	3.8	4.4	4.2	1.5	3.5	3.8
Valuation rules	3.8	3.4	2.8	1.0	3.2	1.6
Additional disclosures	-6.3	-3.4	-2.3	-2.5	-2.7	-1.0
Other changes	4.6	4.2	3.3	1.6	2.5	1.0

However, in most cases additional time will be needed to make changes to systems. This additional time is a one off amount. The amounts of additional time required are shown below

Set up time (hours)

	Internal time			External time		
	Medium	**Small**	**Micro**	**Medium**	**Small**	**Micro**
Guarantees and commitments	0.8	1.8	1.6	0.5	0.6	1.0
Income disclosures	0.7	0.5	1.8	0.2	0.2	0.8
Deferred tax	0.9	1.5	2.9	0.0	0.8	1.8
Valuation rules	0.8	0.7	1.8	0.0	0.6	0.9
Additional disclosures	-1.6	-0.9	-1.6	-0.0	-0.7	-1.0
Other changes	0.5	0.8	2.0	0.1	0.6	0.8

IFRS for SMEs

6

This section of our report deals with the introduction of IFRS for SMEs. The terms of reference for the study asked us to quantify the implementation cost of the IFRS for SMEs and the annual costs of reporting according to IFRS for SMEs

6.1 Introduction

International Financial Reporting Standards (IFRS) are accounting standards adopted by the International Accounting Standards Board (IASB). IFRS is increasingly being adopted on an international basis and recent developments have suggested increasing acceptance in the US. In order to be approved for use in the EU, standards must be endorsed by the Accounting Regulatory Committee (ARC), which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group. As a result IFRS as applied in the EU may differ slightly from that used elsewhere.

IFRS for SMEs is a self contained standard published in July 2009. It contains about 230 pages designed for the needs and capabilities of smaller businesses. Many of the principles of the full IFRS have been simplified and disclosure requirements significantly reduced. The IFRS for SMEs is separate from full IFRSs and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also for each jurisdiction to determine which entities should use the standard.
An IFRS fact sheet accompanying the standard indicated that the areas where disclosure requirements have been reduced include the following

- some topics in IFRSs are omitted because they are not relevant to typical SMEs
- some accounting policy options in full IFRSs are not allowed because a more simplified method is available to SMEs
- simplification of many of the recognition and measurement principles that are in full IFRSs
- substantially fewer disclosures
- simplified redrafting

In practice, many enterprises – and their accountants – are not yet fully aware of the contents of the standard. This lack of awareness is reflected in the survey results and in the interviews we have carried out

6.2 Survey analysis

Some companies already use the full version of IFRS. Typically, they are larger companies, or subsidiaries of companies who prepare consolidated accounts using IFRS. Some 44% of large companies responding to the survey used IFRS but amongst micro companies this percentage fell to 8%. Most of the medium, small and micro companies using IFRS are subsidiaries of larger companies.

Table 6.1 - % of companies already using IFRS

	Total	Large	Medium	Small	Micro
% of responses using full IFRS	23	44	27	15	8

Respondents were first asked whether they were aware of the special standard for SMEs, International Financial Reporting Standard for small and medium sized entities (IFRS for SMEs)

IFRS for SMEs

Table 6.2 - Awareness
Are you aware of the International Financial Reporting Standard for small and medium sized entities (IFRS for SMEs)?

	All	Large	Medium	Small	Micro
All respondents	38	45	43	37	28
Users of IFRS	57	47	63	69	67
Non users of IFRS	34	44	27	33	27

Only 38% of respondents were aware of the standard. Amongst users of (full) IFRS, the awareness of IFRS for SMEs was 57% but amongst non users the awareness was only 34%. Those that said they were aware of the standard were asked further questions, including questions on how long it would take to prepare accounts using IFRS for SMEs. A total of 123 companies said they were aware of IFRS for SMEs, split approximately equally between the four size groups.

The enterprises that were aware of IFRs for SMEs were asked whether it was possible to implement the standard quickly using existing accounting systems. In this and subsequent tables we have included responses for all sizes of companies although it will be appreciated that some large companies will use IFRS rather than IFRS for SMEs. Nevertheless, for the sake of completeness data for all sizes of company is included.

Table 6.3 - Implementation
Do you think that it would be possible to implement the IFRS for SMEs quickly from existing information/systems?

	All	Large	Medium	Small	Micro
% able to implement quickly	46	31	50	54	48
Users of IFRS	62	44	80	67	75
Non users of IFRS	37	21	31	48	44

Opinion was quite evenly split, with 46% saying that it would be possible to implement IFRS quickly using existing systems.

Enterprises were then asked questions on the additional annual or set up time to implement IFRS for SMEs, and also on any time saved. They were asked both about any annual additional internal or external time needed to prepare annual accounts, and also any saving in internal or external time. A relatively small number of companies, 65 in total, gave a response to this question. We have added the results of those companies who expected costs and those who expected savings. The combined table provides a median estimate of the net additional annual time companies think they would need to prepare annual accounts under IFRS for SMEs

Table 6.4 – Annual costs

If the IFRS for SMEs were to be allowed under the Directives, please estimate any annual additional internal or external time needed to prepare annual accounts, net of savings

	Median annual time needed – hours per year				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.3	6.0	7.0	4.0	4.0
External time	2.6	2.5	2.5	3.0	2.5

Overall, companies said that they would need an additional 5 hours of internal time and 3 hours of external time each year if IFRS for SMEs were to be adopted.

Because of the relatively low numbers of companies responding to this question, it is not possible to provide a meaningful analysis of all size groups of companies between those who are already users of IFRS and those who are not. It appears that those companies who have not implemented IFRS think they will take slightly longer to implement the standard compared to those who already use IFRS.

We also asked about one off changes needed to systems to deal with IFRS for SMEs. 57 enterprises provided some information as follows

Table 6.5 – Systems changes

Please tell us if it will take any time to make one off changes to your systems because of IFRS for SMEs. Please do not include the cost of general changes to the system.

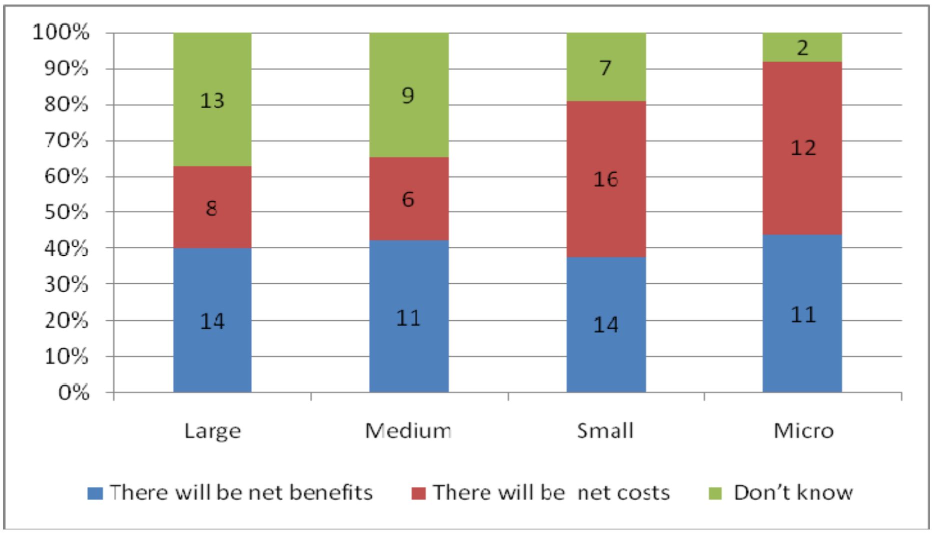
	Median annual set up time – hours				
	All	**Large**	**Medium**	**Small**	**Micro**
Internal time	5.7	5.0	10.3	5.0	3.4
External time	3.8	3.5	8.0	3.8	3.3

The median costs to enterprises of systems changes would be 5.7 hours of internal time and 3.8 hours of external time. There is some suggestion that medium sized companies may take longer, but this should be treated with caution because of the relatively small sample.

We also asked about any other set up expenditure other than professional fees. 28 enterprises responded that there would be additional costs, and mainly mentioned software costs, but could not provide a consistent estimate

Finally we asked about the balance between costs and benefits in adopting IFRS for SMEs. 123 companies answered this question and overall, enterprises considered there was a net benefit in adopting IFRS for SMEs.

Chart 6.1 -Companies expecting net benefits or costs from the introduction of IFRS for SMEs



The chart above shows that the percentage of companies expecting net benefits does not vary materially by size of company. But smaller companies are more likely to expect net costs from the introduction of IFRS for SMEs. The actual numbers of respondents are shown on the chart and given the relatively small response; only a general picture can be drawn

We analysed the data used in the chart above. Overall, 44% of current users of IFRS saw a benefit in IFRS for SMEs, whilst 25% did not see a benefit. Amongst those who do not now use IFRS, the percentage seeing a benefit in IFRS for SMEs drops to 41% and those not expecting a benefit rises to 37%. So, unsurprisingly, current users of IFRS are more likely to see benefit in IFRS for SMEs – but the difference between the two groups is not large

6.3 Interview feedback

A summary of comments by interviewees is shown below

Banks

The banks interviewed did not think the introduction of IFRS for SMEs would be helpful.

Regulators

As regards IFRS for SMEs, it was said that probably only very few companies would choose IFRS for SMEs. The Directive ought to be adapted so that companies can use the same accounting principles as if they were following IFRS for SMEs. One regulator suggested (excluding the EFRAG differences identified with IFRS for SMEs) the proposals do overall not seem out of line with IFRS for SMEs. However, they would like more information.

Accounting associations

It is agreed that there is a need for more reform and simplification in the presentation of financial information. This should be done slowly and with thorough analysis. The relaxations proposed are seen as generally compatible with IFRS for SMEs, but there are different views as to the desirability of a move towards IFRS for SMEs among the associations interviewed. Some are supportive, but others point to increased costs and additional analysis, training of staff needed, and that there are other ways to work towards harmonisation – including an additional standard will mean that there are even more standards in the EU, especially if there is the option of preparing accounts in terms of fiscal requirements.

Accounting firms
In a couple of member states accounting firms were of the view that IFRS for SMEs could be implemented relatively quickly, with for example a year to six months preparation and then an intensive “change-over” period of, ranging from a week to a few months, depending on their clients. In most others it is considered a challenge due to the resource implications and costs in terms of training and preparation required, that would need to be done over a few years.

There would be a one-off increase in demand for accountants’ services with the change-over, and also subsequently to operate IFRS for SMEs, but at a much reduced level.

Concern was expressed by some that where IFRS for SMEs was unclear and as a consequence clarification was sought, there would be a tendency to refer to “full” IFRS, and over time IFRS for SMEs might become increasingly complex and drift towards “full” IFRS. The view was also expressed that IFRS for SMEs was really useful for analysis and comparison of companies from an international point of view, and that in reality only some 10% of SMEs actually do cross border activities, and of those comparability of accounts would only be an issue for a very small share. So the value of IFRS for SMEs was questioned from this point of view.

6.4 Summary

- Only 38% of respondents to the survey were aware of IFRS for SMEs, reflecting the limited level of awareness amongst enterprises and their advisers. Awareness is higher amongst existing users of IFRS, especially small (69%) and micro companies (67%) who currently use IFRS.
- Those enterprises that were aware of IFRS for SMEs said that they would need on average 6 hours of internal time and 4 hours of external time to adjust their systems. There would also be software costs, but these could not be quantified.
- On an ongoing basis, about twice as many enterprises thought there would be additional costs as those who thought there would be savings. Overall, companies would spend an additional 5 hours per year of internal time and 3 hours of external time
- Overall, larger companies see net benefits from the introduction of IFRS for SMEs, whereas the reverse is true for smaller companies. Current users of IFRS are slightly more likely to see benefit in the introduction of IFRS for SMEs than those who do not now use IFRS.

Use of accounts 7

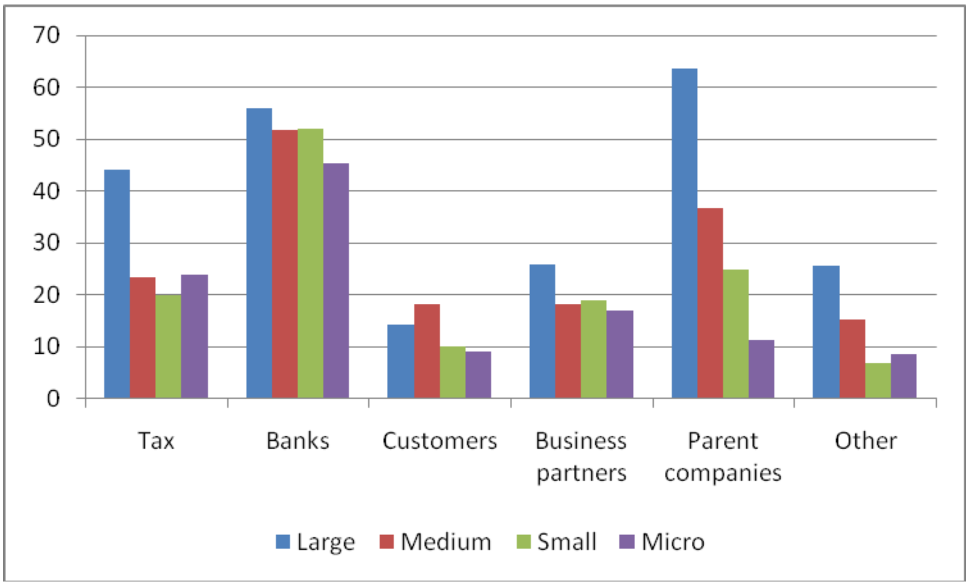
This section of our report deals with other comments, including the effect on users of accounts.

7.1 Survey results

As part of the survey, we asked enterprises to say whether they considered that stakeholders who used their accounts required mainly statutory accounts, or required further information

The chart below shows the percentage of companies who say that various stakeholders need more information than the information contained in statutory accounts.

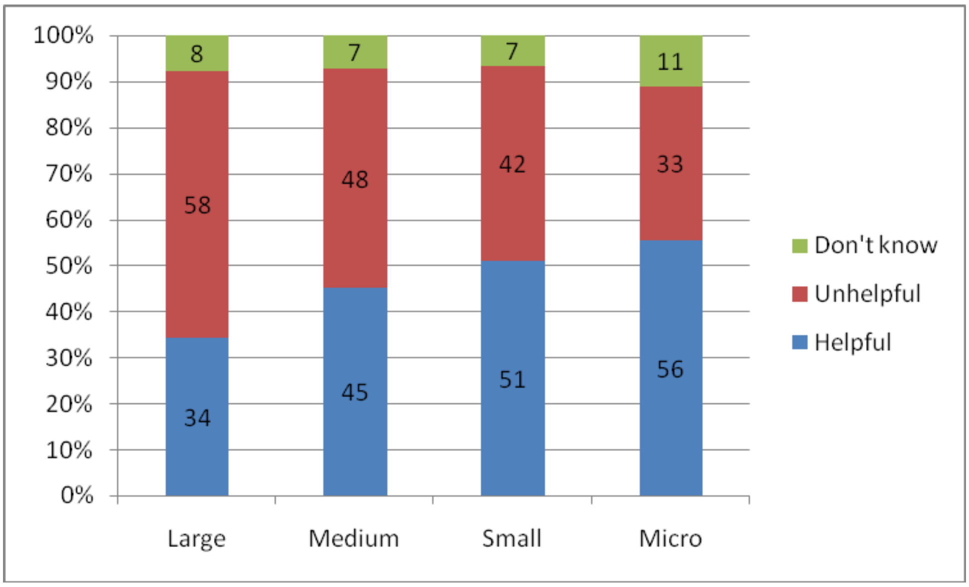
Chart 7.1 – percentage of stakeholders requiring more information than is contained in statutory accounts



Of external stakeholders, banks were most likely to require additional information. Surprisingly, many companies thought that tax authorities often just needed statutory accounts, but as shown in section 2 many companies outsource their tax computations to their accountants (for example, 53% of small companies outsource their tax returns). Customers and partners are less likely to require additional information.

We also asked companies who responded to the survey whether they were users of accounts, in other words whether they had a need to analyse accounts of other firms. Overall, 58% of respondents needed to analyse accounts. Large companies (83%) were more likely to analyse accounts than small companies (41%) Those who used accounts were asked if the changes were likely to be helpful.

Chart 7.2 – % of users of accounts considering the changes to be helpful or unhelpful



Generally, large companies who analyse accounts more considered the changes unhelpful on balance. Smaller companies were more likely to consider the changes to be helpful

7.2 Interview feedback

A summary of the comments from the interviewees we contacted is shown below

Banks

The banks and national banking associations interviewed do not consider the proposed changes to the current format to be helpful and they would cause a number of problems in analysing accounts. The current directives have worked well for the last 30 years – they could be completed and modernised, but not simplified.

Some banks do not agree on excluding micro entities – companies need financial information, the costs are few, and the dangers are big. Banks do not believe the proposed changes would reduce the administrative burden of their clients. The reduction would only be apparent and not material. The lack of necessary information could also damage the client – bank relationship. Banks need financial statements to assess creditworthiness.

Regulators

The individual financial statements are more strictly regulated than the consolidated ones, since taxable income, capital/ equity requirements, restrictions to distribution, guarantee to creditors etc., are generally regulated by law and based on individual accounts.

Accounting associations

Associations are supportive of simplification and modernisation as long as the value of the financial information provided is not reduced. The introduction of the cash flow statement is seen as a particularly important move in this direction. The associations are particularly concerned about the relaxations as regards commitments, guarantees and taxation.

Associations think that the proposals are driven by cost savings, but many of the requirements in reporting at present are driven by tax, legal or statistical authorities. Many of the proposed relaxations would not save a great deal of cost because much of the information has to be collected anyway. The proposed relaxations would disadvantage users of accounts.

Accounting firms

The general view is that the proposed relaxations would not have a major impact on SMEs or on accounting firms providing services to SMEs. Some accounting firms see this as useful, and will get the EU closer to IFRS for SMEs. The costs will mainly be one-off in some member states that are already close to IFRS for SMEs. Others do not see this as a desirable goal.

Some cost studies do point out that the burden for small entities is not just from accounting but other areas, in particular from the tax authorities, and these proposed relaxations will not have a major impact on this.

7.3 Summary

Banks are the most likely group to require information above what is in the statutory accounts. Surprisingly, many companies thought that tax authorities often just needed statutory accounts, but many companies outsource their tax computations to their accountants. Customers and partners are less likely to require additional information.

Generally, large companies who analyse accounts more considered the changes unhelpful on balance. Smaller companies were more likely to consider the changes to be helpful

The banks and national banking associations interviewed do not consider the proposed changes to the current format to be helpful and they would cause a number of problems in analysing accounts. They say that the current directives have worked well for the last 30 years – they could be completed and modernised, but not simplified. Other users of accounts had similar comments but accountants were more supportive

Summary of costs and savings 8

This section quantifies the effect of the proposed changes in the 4th Company Law Directive on European companies as a whole, and estimates the amount of savings and the remaining costs

8.1 Introduction

We now consider the cost effect of the proposed changes to the 4th Company law Directive on European companies as a whole. Not all the changes discussed in this report apply equally to small and medium sized enterprises, or indeed to micro enterprises. It is expected that changes may apply to small and medium enterprises as follows.

Table 8.1 - Applicability of changes to small and medium enterprises

	Small	Medium
Simplification of accounts layout		✓
Introduce a cash flow statement	✓	✓
Disclosure of guarantees and commitments	✓	✓
Income disclosures	✓	✓
Disclosure of deferred tax	✓	✓
Simplify valuation rules	✓	✓
Additional disclosures (eg related party)	✓	✓
Other changes	✓	✓

However, in the tables and calculations below we show the effect of all changes for all sizes of companies.

8.2 Estimating total cost and savings

In order to estimate the costs for EU countries as a whole, we grossed up the time estimates shown in sections 3 to 6 of this report, using the following approach

- We first adjusted the time estimates to allow for the fact that not all companies expect savings. For example, only 50% of small companies expect savings from the simplification of the layout of accounts. Those companies who expect savings say they will save a median of 3.6 hours. To spread this saving to arrive at a figure that is representative of all companies we need to reduce the saving per company to 1.8 hours. The detailed calculations are in Appendix E
- We then costed the time estimates using separate cost rates for internal and for external time. These costs rates are shown in Appendix D and are separately shown for each Member State. A range of cost rates has been shown for external time. Unless otherwise indicated, in the tables below we have used the higher end of this range for external time
- We then used estimates of the number of companies subject to the Directive to obtain overall costs for each Member State. National details are shown in the statistical supplement and it should be noted that estimates of numbers of companies come from different sources and are may not be consistent with each other
- We totalled the national figures to arrive at overall costs for the EU and then calculated an average saving for EU companies
- We expressed the savings as a percentage of the total cost of the disclosure requirements of the Directive. Total costs may have been prepared on a different basis from the approach used in this study so the resulting percentages can only be used as a general guide to the scale of changes.

Summary of costs and savings 8

On the basis shown above, the total cost or saving on an annual basis for each of the possible changes to the Directive is as shown in the table below. Total costs are provided both for a low and high estimate of external costs but the analysis by size of company is on the basis of the higher cost external rate. We also show whether there is an annual cost or saving. The first table relates to those changes that affect the presentation of accounts

Table 8.2 – Annual savings or costs for accounts presentation (€ million)

Annual savings effect (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
Simplification of accounts layout	Saving	2	23	175	823	1023	791
Introduce a cash flow statement	Cost	1	13	144	833	991	794

The second group of changes relates to potential changes to notes to the accounts

Table 8.3 – Annual savings or costs for notes (€ million)

Annual savings effect (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
Disclosure of guarantees and commitments	Saving	10	53	159	647	869	694
Income disclosures	Saving	4	28	108	469	609	483
Disclosure of deferred tax	Saving	11	24	183	786	1004	790
Simplify valuation rules	Saving	14	17	148	283	462	373
Additional disclosures (eg related party)	Cost	12	38	95	222	366	302
Other changes	Saving	13	29	147	321	510	431

On the same basis, the annual additional cost of preparing accounts under IFRS for SMEs would be as shown in the table below.

Table 8.4 – annual costs of IFRS for SMEs (€ million)

Annual savings effect (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
IFRS for SMEs	Cost	6	24	130	684	844	681

In addition, there are one off set up costs, arising from the need to change systems or make other changes to implement the new disclosure requirements. These costs are shown below. Again, as above, we show separately the costs or savings for accounts presentation, notes and IFRS for SMEs. It will be appreciated that the one off effects are all costs – there are no one off savings.

Table 8.5 – Set up costs by type of disclosure (€ million)

Set up costs (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
Simplification of accounts layout	Cost	3	27	314	1423	1766	1393
Introduce a cash flow statement	Cost	2	20	251	1239	1512	1243

Summary of costs and savings 8

Table 8.6 – Set up costs for notes (€ million)

Set up costs (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
Disclosure of guarantees and commitments	Cost	0	9	43	246	298	242
Income disclosures	Cost	0	3	11	176	190	158
Disclosure of deferred tax	Cost	0	3	48	420	470	381
Simplify valuation rules	Cost	0	2	29	168	199	163
Additional disclosures (eg related party)	Cost	0	4	25	192	221	179
Other changes	Cost	0	2	33	224	259	216

Table 8.7 – Set up costs of IFRS for SMEs (€ million)

Annual savings (euro, millions)	Effect	Total				Total (high)	Total (low)
		Large	Medium	Small	Micro		
IFRS for SMEs	Cost	7	56	164	787	1015	794

8.3 Comparison with total costs

We can compare the savings estimated above with the total costs of preparing accounts in accordance with the Directive. Of course, the bulk of cost connected with the preparation of accounts relates to the underlying accounting system which is needed for business purposes anyway. But there is an additional marginal cost of preparing accounts in accordance with the Directive.

The data annex to the Ramboll and Cap Gemini report on Priority Areas for Annual Accounts and Company Law[12] shows the following analysis by size of company for the costs of preparing accounts and notes to comply with the 4th Company Law Directive. Companies also incur audit costs in addition to the administrative costs of preparing accounts, and we consider this later in this section of the report.

Table 8.8 Analysis of total cost by size of company (€ million)

Company size	Administrative costs
Large companies	578
Medium companies	429
Small companies	3,015
Micro companies	5,439
Total	9,461

Source : Ramboll and Cap Gemini

To estimate the percentage of the cost that would be saved by implementing the potential changes considered in this report, we can compare the costs shown above with the value of savings estimated in this report. The total savings from the potential changes analysed in

[12] Data Annex to the Final report for Priority Area Annual Accounts/Company Law

this report amount to €3120 million per year (there is a set up cost in addition and IFRS for SMEs is excluded). An analysis by size of company is shown below. The analysis is split between those possible changes which relate to accounts presentation (the simplification of the layout and the introduction of a cash flow statement) and the remaining possible changes which relate to notes to the accounts.

Table 8.9 Comparison of savings and total costs

		Accounts presentation		Notes to the accounts	
Company size	**Administrative cost € million**	**Savings € million**	**% Saved**	**Savings € million**	**% Saved**
Large companies	578	2	0%	41	7%
Medium companies	429	9	2%	113	26%
Small companies	3,015	31	1%	650	22%
Micro companies	5,439	-10	0%	2284	42%
Total	9,461	32	0%	3088	33%

It will be seen that overall, the potential changes analysed in this report amount to some 33% of the administrative costs of preparing accounts under the 4th Company Law Directive. The percentage saved is highest for micro companies (42%) and lowest for large companies (7%). Generally, the savings from a simpler layout are similar to the costs of introduction of a cash flow statement.

An analysis by type of potential change, and by size of company, suggests that the percentage of the total costs of preparing accounts will change as follows. In other words, for micro companies, the simplification of the layout of accounts may save 15% of the cost of preparing accounts whereas for large companies the effect is small[13].

Table 8.10 - % saving resulting from each potential change[14]

	Company size				Total
	Large	**Medium**	**Small**	**Micro**	
Simplification of accounts layout	0	5	6	15	11
Introduce a cash flow statement	0	-3	-5	-15	-10
Disclosure of guarantees and commitments	2	12	5	12	9
Income disclosures	1	6	4	9	6
Disclosure of deferred tax	2	6	6	14	11
Simplify valuation rules	2	4	5	5	5
Additional disclosures (eg related party)	-2	-9	-3	-4	-4
Other changes	2	7	5	6	5
IFRS for SMEs	-1	-6	-4	-13	-1

[13] Because of the effect of roundings, the sum of the % changes in table 8.8 may not equal table 8.7
[14] Negative amounts are cost increases

8.4 Costs of note preparation and audit

We now consider the costs of note preparation and audit. Of the possible changes considered in this report, only some (guarantees and commitments, income disclosures, deferred tax, valuation rules, additional disclosures and other changes) are assumed to affect the costs of preparation and audit of notes.

In respect of the costs of preparation of notes, Ramboll's report[15] provides data on the time needed to prepare the notes to the accounts, as a proportion of the total time needed to prepare accounts. After allocating common elements (such as publication time) the percentage of time needed to prepare notes for each size of company is shown below.

Table 8.11 – Percentage of the total time for accounts preparation spent on notes to the accounts

Large	Medium	Small	Micro
33%	30%	50%	52%

Source : analysis of Ramboll report

Ramboll obtained their data by canvassing the views of accounting experts whereas the data in this report is obtained from individual companies, and so the data may not be directly comparable. We have applied these percentages to the administrative cost shown in table 8.7 above to obtain an estimate of the total cost for notes preparation

Table 8.12 – Estimate of costs of notes preparation

	Administrative cost € million	Notes %	Notes cost € million
Large	578	33%	191
Medium	429	30%	129
Small	3015	50%	1508
Micro	5439	52%	2828
Total	9461	49%	4655

Separately, the data annex to the Ramboll and Cap Gemini report referred to above[16] shows the cost of audits for each size of company, across the EU[17]. Typically, an audit will include a systems element, and work on the audit of the final accounts. There is no analysis of the audit costs between these elements.

We have taken the audit costs shown in the data annex for each type of company, excluding audits of consolidated accounts which are not covered by the 4th Company Law Directive. We have not reviewed these costs but so in the absence of better information we have assumed that half the audit time relates to systems audit work and that of the remaining

[15] Ramboll, Study on administrative costs of the EU Company Law Acquis, 2007 accessed at http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf

[16] [16] *Final Report for Priority Area Annual Accounts/Company Law*

[17] These costs exclude the audit of consolidated accounts

Summary of costs and savings 8

time the percentage spent on notes is as shown above. Thus, for large companies, the total audit cost is allocated half to systems, and 33% of the remaining time is allocated to notes, making an estimate of the notes element of the audit as €273 million.

On this basis, the total audit costs and the element attributable to the costs of auditing notes to the accounts would be as follows

Table 8.13 – Estimate of audit costs

	Audit cost € million	Notes audit costs € million
Large	1656	273
Medium	3342	501
Small	661	165
Micro	1737	452
Total	7396	1391

The resulting estimate of notes audit costs in table 8.13 covers all notes, both those analysed in this report and others which are not analysed because there were no suggestions that they be changed. We can obtain an estimate of the element of the audit cost that applies to the notes analysed in this report, and potential savings using data in the tables above.

From table 8.12 we have an estimate of the cost of preparing notes. From table 8.9 we have an estimate of the saving that may occur if the changes analysed in this report are implemented. We can express the amount saved as a percentage of the notes cost. If we assume that a similar percentage of the notes audit costs (table 8.13) are saved, we can see that overall there is a potential audit cost saving of €935 million per year. An analysis by size of company is shown below

Table 8.14 – Estimate of potential audit cost savings

	Notes cost € million	Notes savings € million	% saved	Notes audit costs € million	Potential audit saving € million
Large	191	41	22%	273	59
Medium	129	113	88%	501	440
Small	1508	650	43%	165	71
Micro	2828	2284	81%	452	365
Total	4655	3088	66%	1391	935

8.5 Estimating the remaining cost of notes to the accounts

We can now consider the potential remaining cost for preparing and auditing notes to the accounts. Using the costs of preparation of notes shown in the section above, and that element of savings[18] attributable to notes and their audit, we can arrive at an estimate of the remaining cost for preparing and auditing notes for each class of company. This information is shown in table 8.15 below. It must be emphasised that the information for this table come from a number of different sources and we have not been able to review the underlying data.

Table 8.15 – Estimate of remaining costs of preparing and auditing notes

	Company size				Total
	Large	Medium	Small	Micro	
Note preparation costs	191	129	1,508	2,828	4655
Note audit costs	273	501	165	452	1391
Total note costs	**464**	**630**	**1673**	**3280**	**6047**
Note preparation savings	41	113	650	2284	3088
Note audit savings	59	440	71	365	935
Total savings	**100**	**552**	**721**	**2649**	**4023**
Remaining amount	**364**	**78**	**951**	**631**	**2024**
% remaining burden	78%	12%	57%	19%	33%

Because of the differing sources of information, the above table can provide only a general guide to the likely magnitude of the remaining cost.

8.6 Summary by type of change

We also summarise the costs and savings for each type of change, including a summary of the comments from external stakeholders. Summaries are shown below for each of the changes suggested. Costs are based on the higher of the range of external cost rates

[18] Based on summing the potential annual savings or costs from table 8.3 in respect of guarantees and commitments, income disclosures, deferred tax, valuation rules, additional disclosures and other changes. No account is taken in this table of set up cost.

	Large	Medium	Small	Micro	Total
Guarantees and commitments	10	53	159	647	869
Income disclosures	4	28	108	469	609
Deferred tax	11	24	183	786	1004
Valuation rules	14	17	148	283	462
Additional disclosures	-12	-38	-95	-222	-366
Other changes	13	29	147	321	510
TOTAL	41	113	650	2284	3088

Summary of costs and savings 8

Simplification of accounts layout	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	2	23	175	823	1023
Set up costs € million	3	27	314	1423	1766
Stakeholder comments	Banks were generally rather negative and said that one fixed format is preferred rather than the ability to use different formats. Users have quite a wide range of opinion about these relaxations, but generally suggest that adopting them will have limited cost savings. Accountants generally support a simplification of the required format				

Introduce a cash flow statement	Company size				Total
	Large	Medium	Small	Micro	
Annual cost (€ million)	1	13	144	833	991
Set up costs € million	2	20	251	1239	1512
Stakeholder comments	Banks said that where there is no cash flow statement, banks can use software to generate cash flows and carry out more sophisticated analysis, or they ask firms to prepare the cash flow statements themselves. Some banks said that a simplified cash flow statement could reduce useful information available, so may not be useful. All other stakeholders were positive and supported the introduction of cash flow statements for medium sized companies				

Disclosure of guarantees and commitments	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	10	53	159	647	869
Set up costs € million	0	9	43	246	298
Stakeholder comments	All the banks spoken to were unanimous on the need to retain disclosures on guarantees and commitments. If they were not in the financial statements, companies would be asked to provide this information anyway. All other stakeholders expressed similar views				

Summary of costs and savings 8

Income disclosures	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	4	28	108	469	609
Set up costs € million	0	3	11	176	190
Stakeholder comments	All the banks indicated that they need the distinction between "normal" and extraordinary income (or "primary" and "other" income) as this is the basis on which financial ratios are calculated and important for assessing the ability of borrowers to service loans. However, most other stakeholders thought that the changes would result in little loss of useful information. Accountants said that in some member States the distinction between normal and extraordinary income is already blurred				

Disclosure of deferred tax	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	11	24	183	786	1004
Set up costs € million	0	3	48	420	470
Stakeholder comments	Banks need this information to assess the effect of taxation on a business's ability to service loans. One bank suggested that loss of information on deferred tax would not be a major issue as regards SMEs because their taxation affairs may be less complex. Accountants thought it would be necessary to calculate this information anyway, but that disclosure may not be necessary				

Simplify valuation rules	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	14	17	148	283	462
Set up costs € million	0	2	29	168	199
Stakeholder comments	In general banks do not have a preference whether valuation information is at cost if an option for fair value is used. However, they prefer a conservative approach. Accountants prefer to work with cost rather than fair value, due to the subjectivity in valuation, especially in the current economic situation				

Summary of costs and savings 8

Additional disclosures (eg related party)	Company size				Total
	Large	Medium	Small	Micro	
Annual cost(€ million)	12	38	95	222	366
Set up costs € million	0	4	25	192	221
Stakeholder comments	In some member states this information is already asked for by law. Interviewees considered this proposed disclosure helpful. There may be an argument for small firms to be exempt from this requirement, and it was suggested that it may be difficult to transpose in some member states as there are issues concerning the confidentiality of management information and ownership				

Other items	Company size				Total
	Large	Medium	Small	Micro	
Annual savings (€ million)	13	29	147	321	510
Set up costs € million	0	2	33	224	259
Stakeholder comments	Banks tend to ask for most of this information, and even if a specific item may not seem important, a movement in that item can be important. If these relaxations were introduced, firma would probably have to produce this information anyway for their banker(s). Accounting firms generally are not supportive of these proposed relaxations, although in some instances some suggest an exception can be made for small firms on a few items.				

IFRS for SMEs	Company size				Total
	Large	Medium	Small	Micro	
Annual cost (€ million)	6	24	130	684	844
Set up costs € million	7	56	164	787	1015
Stakeholder comments	The banks interviewed did not think the introduction of IFRS for SMEs would be helpful. Others considered that the relaxations proposed are seen as generally compatible with IFRS for SMEs, but there are different views as to the desirability of a move towards IFRS for SMEs among the associations interviewed.				

Possible amendments to Directive A

This appendix covers the details of the possible amendments to the 4th Company Law Directive contained in this report. The information in this appendix was substantially included in the questionnaire completed by companies, although in a different format.

The first table shows a list of disclosure requirements of the current 4th Directive, sections 1 to 8 is presented. Possible changes for small and medium companies are indicated in red text. The final column shows where these possible amendments have been considered in this report

A second table then summarises possible changes to the Directive in respect of valuation

A final set of tables shows the details of proposed balance sheet and profit and loss account layouts before and after the possible changes

Art.	Present disclosure / information requirement	Revised directive		The section of this report covering the possible change
		Small (* denotes current member state exemption available in Art. 44)	Medium (# denotes current member state exemption available)	
	Section 1 General provisions:			
1	• Annual accounts shall comprise			
	o Balance sheet			
	o Profit and Loss account			
	o Cash flow statement	Will not be required	Propose new requirement (for large also)	Cash flow
	o Notes			
	• Member States may require other statements and disclosures			
	Section 2 General provisions for Balance Sheet and Profit and Loss			
4(4)	• For each item figures for preceding financial year must be presented			
6	• Appropriation of profit and treatment of loss may be required			
	Section 3 Balance sheet			

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive: Small (* denotes current member state exemption available in Art. 44)	Revised directive: Medium (# denotes current member state exemption available)	The section of this report covering the possible change
9-10	• 2 balance sheet layouts	Propose one simpler layout	Propose one simpler layout	Layout
10a	• Current/non-current layout for balance sheet			
14	• All guarantees must be disclose in the footnotes or notes	Propose deleting	Propose deleting	Guarantees
	Section 4 Special provisions for Balance Sheet			
15(3)	• Movements of the assets			
15(3) (a)	○ Should be shown on balance sheet or in notes (separately, with detail information)	* Propose deleting	Keep	Valuation
15(3) (b)	○ For first time adoption residual value may be used as carrying value (must be disclosed in notes)	* Propose deleting	Keep	Valuation
15(3) (c)	○ valuation by replacement value or inflation adjusted value	* Propose deleting	Propose deleting	Valuation
15(4)	• Formation expenses same as 15(3) (a) and (b)	* Propose deleting	Propose deleting	Valuation
18	• Prepayments and accrued income	* Propose deleting	Keep	Other
21	• Accruals and deferred income	* Propose deleting	Keep	Other

Centre for Strategy & Evaluation Services

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive: Small (* denotes current member state exemption available in Art. 44)	Revised directive: Medium (# denotes current member state exemption available)	The section of this report covering the possible change
	Section 5 Profit and Loss			
23-26	• 4 layouts possible	Replace by simpler formats	Replace by simpler formats	Layout
22	• Statement of performance possible instead of P&L			
	Section 6 Special Provisions			
29(1)	• Extraordinary income and charges			
29(2)	○ Amount and nature in the notes (also for previous year) if material	* Propose deleting	Propose deleting	Income
30	• Taxes can be shown it total (MS exemption)			
	○ Detailed disclosure in the notes.	* Propose deleting	Propose deleting	Taxation
	Section 7 Valuation rules			
33	• Other valuation methods (replacement value, inflation adjustments, revaluation)	Propose deleting. Basis of valuation will be cost or fair value	Propose deleting. Basis of valuation will be cost or fair value	Valuation
	○ Items concerned and method should be disclosed in the notes	Disclosure will be with accounting policies	Disclosure will be with accounting policies	Valuation
33(2)(a)	○ Difference from valuation according to Directive should be explained in the notes in form of detailed table(Revaluation reserve)	Propose deleting	Keep	Valuation

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive		The section of this report covering the possible change
		Small (* denotes current member state exemption available in Art. 44)	Medium (# denotes current member state exemption available)	
33(2) (c)	○ Transfers from the Revaluation Reserve to P&L must be disclosed separately	Propose deleting	Keep , but would be fair value to P&L	Valuation
33(3)	○ Differences in value adjustment may be show separately in P&L	Propose deleting	Keep	Valuation
33(4)	○ In balance sheet or note must be disclosed	Propose deleting	Keep	Valuation
	▪ the value according to the general rules	Propose deleting	Keep	Valuation
	▪ cumulative value adjustment	Propose deleting	Keep	Valuation
	▪ difference between valuations	Propose deleting	Keep	Valuation
	▪ cumulative difference	Propose deleting	Keep	Valuation
34(2)	• Formation expenses must be explained in the notes	* Propose deleting	#Propose deleting	Other
35(1) (c) (cc)	• Value adjustments of fixed assets to the lower figure should be disclosed separately in P&L or in the notes	Propose deleting	Keep	Valuation
35(1) (d)	• Exceptional value adjustment of fixed assets for taxation purposes must be disclosed in the notes	Propose deleting	Keep	Valuation
35(4)	• Interest on borrowed capital included in the production cost must be disclosed in the notes	Propose deleting	Keep	Other
37(1)	• Cost of Research and Development (derogations from Art 34 treatment (5 year amortisation) must be disclosed in the notes)	Propose deleting	Keep	Valuation
37(2)	• Good will – amortisation over 5 years must be disclosed in the notes	Propose deleting	Keep	Valuation

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive		The section of this report covering the possible change
		Small (* denotes current member state exemption available in Art. 44)	Medium (# denotes current member state exemption available)	
39(1)(c)	• Exceptional value adjustment to current assets must be disclosed separately in the P&L or in notes	Propose deleting	Keep	Valuation
39(1)(e)	• Exceptional value adjustments of current assets for tax purposes must be disclosed in the notes	Propose deleting	Keep	Valuation
40(2)	• Differences in inventory value form the market value must be disclosed in the notes	* Propose deleting	Keep	Valuation
41(1)	• Positive difference between debt and amount repayable must be shown as asset in balance sheet or in the notes	Propose deleting	Keep	Valuation
42	• Material "other provisions" must be disclosed in the notes	* Propose deleting	Keep	Other
	Section 7a Valuation at fair value			
42d	• If financial instrument are at FV, the notes shall include			
42d (a)	o Assumptions underlying valuation models			
42d (b)	o FV per category of instrument, changes in FV included in P&L and Fair Value Reserve			
42d (c)	o Information about derivative financial instruments			
42d (d)	o Movements in FV			
	Section 8 Contents of the notes on the accounts			
43	Notes to the account must contain at least the information on			
43(1)	• Valuation methods			

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive		The section of this report covering the possible change
		Small (* denotes current member state exemption available in Art. 44)	Medium (# denotes current member state exemption available)	
(1)	• Value adjustment calculation methods			
	• Foreign currency conversion			
43(1) (2)	• Names, offices of undertakings with at least 20% stake in and all unlimited liability undertakings – unless not material			
43(2)	o MS Need not apply to financial holdings			
45(1) (a)	o May take for of a statement in a register (Art 3(1), (2) of Directive 68/151/EEC, the fact must be disclosed in notes			
45(1) (b)	o May be omitted if seriously prejudicial to any of the undertakings, the fact must be disclosed in notes			
43(1) (3), (4)	• Shares – number, nominal value, par value of subscribed for each class of shares	Propose deleting	Keep	Other
43(1) (5)	• Participation certificates, convertible debentures, or similar securities rights	* Propose deleting	Keep	Other
43(1) (6)	• Amounts owed, due and payable after more than 5 years and debts covered by valuable security, for each creditors item	* (but total disclosure required) Propose deleting	Keep	Guarantees
43(1) (7)	• Total amount of any financial commitments not in the balance sheet if useful for analysing financial position	* Propose deleting	Keep	Guarantees
43(1) (7)	• Commitments concerning pensions and affiliated undertaking, disclosed separately	* Propose deleting	Keep	Guarantees

Possible amendments to Directive A

<table>
<tr><th rowspan="2">Art.</th><th rowspan="2">Present disclosure / information requirement</th><th colspan="2">Revised directive</th><th rowspan="2">The section of this report covering the possible change</th></tr>
<tr><th>Small (* denotes current member state exemption available in Art. 44)</th><th>Medium (# denotes current member state exemption available)</th></tr>
<tr><td>43(1) (7a)</td><td>• Nature and business purpose of arrangements not in the balance sheet and their financial impact, if material</td><td>* To become a mandatory disclosure</td><td># (Art 43(1(7a))) To become a mandatory disclosure</td><td>Additional disclosures</td></tr>
<tr><td rowspan="2">43(1) (7b)</td><td>• Transactions with related parties (amount, nature, other information, materiality, under normal market conditions), may be aggregated unless doesn't distort</td><td>* Propose deleting</td><td>#(Art.43(1(7b))) Propose deleting</td><td>Additional disclosures</td></tr>
<tr><td>o MS may exempt transactions between company and its fully owned subsidiary</td><td></td><td></td><td></td></tr>
<tr><td>43(1) (8)</td><td>• Net turnover broken by categories of activity and geographical markets (if differ substantially)</td><td>* Propose deleting</td><td># (Art 45(2)) Propose deleting</td><td>Income</td></tr>
<tr><td>45(2)</td><td>o May be omitted if seriously prejudicial to any of the undertakings, the fact must be disclosed in notes</td><td></td><td></td><td></td></tr>
<tr><td>43(1) (9)</td><td>• Average number of persons employed, by categories, if not disclosed in P&L – the staff cost</td><td>* To become a mandatory disclosure</td><td></td><td>Other</td></tr>
<tr><td>43(1) (10)</td><td>• Tax induced distortions to P&L</td><td>* Propose deleting</td><td>Keep</td><td>Taxation</td></tr>
<tr><td>43(1) (11)</td><td>• Deferred tax (the difference between tax charged and amount payable)</td><td>* Propose deleting</td><td>Keep</td><td>Taxation</td></tr>
<tr><td>43(1) (12)</td><td>• Emoluments to administrative, managerial and supervisory bodies, commitments on pensions for former members</td><td>* Propose deleting</td><td>Keep</td><td>Other</td></tr>
</table>

Possible amendments to Directive A

Art.	Present disclosure / information requirement	Revised directive		The section of this report covering the possible change
		Small (* denotes current member state exemption available in Art. 44)	Medium (# denotes current member state exemption available)	
43(3)	○ MS may exempt if it is possible to identify the position of specific members of these bodies			
43(1) (13)	• Advances and credit to members of administrative, managerial and supervisory bodies and commitments entered on their behalf	Propose deleting	Keep	Other
43(1) (14)	• If valuation at FV not applied			
43(1) (14) (a)	○ FV of derivative instruments (if possible) and information on their extent and nature	* Propose deleting	Keep	Valuation
43(1) (14) (b)	○ FV of financial fixed assets carried at an excess of their FV without value adjustment to lower figure	Propose deleting	Keep	Valuation
43(1) (15)	• Fees for audit, assurance, tax advisory, non-audit services	* Propose deleting	# (Art 45(2)) Propose deleting	Other
	○ MS may exempt if company is included in Consolidated accounts (if the information is in the notes to these accounts)			

Valuation related adjustments

The table below summarises the possible amendments to valuation related disclosures

4th Directive Reference (Article)	Possible amendments to disclosure requirements
15 (3)	Delete the requirement to provide details of asset movements.

Possible amendments to Directive A

15 (4), 34(2)	Delete the requirement to provide details of Formation expenses
33	It is proposed that the basis of valuation will be cost or fair value. Other valuation methods (replacement value, inflation adjustments, revaluation) will not be covered
33, 35 (1) c	Delete the requirement to disclose valuation rules in the notes
33(2)	Delete the requirement to disclose the difference in valuation bases in the form of a detailed table.
33(2)	Delete the requirement to disclose transfers from the Revaluation Reserve to P&L
33(3)	Delete the requirement to disclose differences in value adjustments in the profit and loss account
33(4)	Delete the requirement to disclose the value according to the general rules, cumulative value adjustments, difference between valuations and cumulative differences
35(1) (c)(cc)	Valuation adjustments of fixed assets to the lower figure should be disclosed separately in P&L or in the notes
35(1) d, 39 (1) e	Delete the requirement to disclose exceptional value adjustments of fixed and current assets for taxation purposes in the notes
35(4)	Delete the requirement to disclose interest on borrowed capital included within production cost
37(1)	Delete the requirement to disclose Research and Development amortisation rates in excess of 5 years
37(2)	Delete the requirement to disclose Goodwill amortisation rates in excess of 5 years
39 (1) c	Delete the requirement to disclose Exceptional value adjustments to current assets
40(2)	Delete the requirement to disclose differences in inventory value from the market value
41(1)	Delete the requirement to disclose a debt discount in the balance sheet or in the notes
42	Delete the requirement to disclose material "other provisions"
43(1) 14	Delete the requirement to disclose the following where valuation at fair value (FV) is not applied,(1) FV of derivative instruments (if possible) and information on their extent and nature and (2) FV of financial fixed assets carried at an excess of their FV without value adjustment to lower figure

Possible amendments to Directive A

Comparison of existing and proposed balance sheets and profit and loss accounts

The tables below compare the profit and loss account and balance sheet layouts shown in the 4th Company Law Directive (the Accounting Directive) with the proposed new minimum disclosures

Balance sheet

There are two possible layouts for the balance sheet shown in the 4th Accounting Directive. Both these layouts are shown below. Only the main headings, which are the minimum requirement for small companies, are shown. The proposed simplified layout is also shown

Current layout - Balance sheet layout under Article 9
Assets A. Subscribed capital unpaid B. Formation expenses C. Fixed assets I. *Intangible assets* II. *Tangible assets* III. *Financial assets* D. Current assets I. *Stocks* II. *Debtors* III. *Investments* IV. *Cash at bank and in hand* E. Prepayments and accrued income F. Loss for the financial year Liabilities A. Capital and reserves I. *Subscribed capital* II. *Share premium account* III. *Revaluation reserve* IV. *Reserves* V. *Profit or loss brought forward* VI. *Profit or loss for the financial year* B. Provisions C. Creditors D. Accruals and deferred income E. Profit for the financial year

Possible amendments to Directive A

Current layout - Balance sheet layout under Article 10
A. Subscribed capital unpaid B. Formation expenses C. Fixed assets I. *Intangible assets* II. *Tangible assets* III. *Financial assets* D. Current assets I. *Stocks* II. *Debtors* III. *Investments* IV. *Cash at bank and in hand.* E. Prepayments and accrued income F. Creditors: amounts be coming due and payable within one year G. Net current assets/liabilities H. Total assets less current liabilities I. Creditors: amounts becoming due and payable after more than one year J. Provisions K. Accruals and deferred income L. Capital and reserves I. *Subscribed capital* II. *Share premium account* III. *Revaluation reserve* IV. *Reserves* V. *Profit or loss brought forward* VI. *Profit or loss for the financial year*

Proposed minimum disclosure for balance sheet
1. Intangible assets 2. Investment property 3. Property, plant and equipment 4. Financial assets 5. Inventories 6. Trade and other receivables 7. Cash and cash equivalents 8. Issued capital and reserves 9. Provisions 10. Deferred tax liabilities and deferred tax assets (separately disclosed) 11. Financial liabilities 12. Liabilities and assets for current tax (separately disclosed) 13. Trade and other payables

Possible amendments to Directive A

Profit and loss account

There are four possible layouts for the balance sheet shown in the Company Law Directive. In the interests of simplicity, only the first of these layouts are shown below. The proposed simplified layout is also shown.

Current layout - Profit and loss account - Article 24 layout
1. Net turnover. 2. Variation in stocks of finished goods and in work in progress. 3. Work performed by the undertaking for its own purposes and capitalized. 4. Other operating income. 5. (a) Raw materials and consumables. (b) Other external charges. 6. Staff costs: (a) wages and salaries; (b) social security costs, with a separate indication of those relating to pensions. 7. (a) Value adjustments in respect of formation expenses and of tangible and intangible fixed assets. (b) Value adjustments in respect of current assets, to the extent that they exceed the amount of value adjustments which are normal in the undertaking concerned. 8. Other operating charges. 9. Income from participating interests, with a separate indication of that derived from affiliated undertakings. 10. Income from other investments and loans forming part of the fixed assets, with a separate indication of that derived from affiliated undertakings. 11. Other interest receivable and similar income, with a separate indication of that derived from affiliated undertakings. 12. Value adjustments in respect of financial assets and of investments held as current assets. 13. Interest payable and similar charges, with a separate indication of those concerning affiliated undertakings. 14. Tax on profit or loss on ordinary activities. 15. Profit or loss on ordinary activities after taxation. 16. Extraordinary income. 17. Extraordinary charges. 18. Extraordinary profit or loss. 19. Tax on extraordinary profit or loss. 20. Other taxes not shown under the above items. 21. Profit or loss for the financial year.

Possible amendments to Directive A

Proposed minimum requirement for profit and loss account
1. Net turnover 2. Cost of sales (including value adjustments) 3. Gross profit or loss 4. Distribution costs (including value adjustments) 5. Operating income 6. Income from investments 7. Interest receivable 8. Other value adjustments 9. Interest payable 10. Tax on profit or loss 11. Profit or loss for the financial year

Detailed analysis of survey results B

1. Basic information about respondents

Numbers of employees

	Total	Large	Medium	Small	Micro
0	10	0	0	1	9
1-9	84	4	1	14	65
10-49	92	3	8	70	11
50-249	71	15	41	15	0
250-499	26	17	8	0	1
500 +	42	38	2	0	2
Total	325	77	60	100	88

Member state

Member State	Total respondents	Member State	Total respondents	Member State	Total respondents
AT - Austria	14	**FI - Finland**	20	**NL - The Netherlands**	28
BE - Belgium	13	**FR - France**	2	**NO - Norway**	5
BG - Bulgaria	6	**HU - Hungary**	20	**PL - Poland**	27
CY - Cyprus	1	**IE - Ireland**	14	**PT - Portugal**	16
CZ - Czech Republic	17	**IT - Italy**	16	**RO - Romania**	8
DA - Denmark	37	**LT - Lithuania**	1	**SI - Slovenia**	3
DE - Germany	57	**LU - Luxembourg**	1	**SK - Slovak Republic**	1
EE - Estonia	8	**LV - Latvia**	3	**SV - Sweden**	6
EL - Greece	6	**MT - Malta**	1	**UK - United Kingdom**	30
ES - Spain	12			**Total**	373

Detailed analysis of survey results B

2. Basic information requested in questionnaire

What is your annual turnover (either for the last year of account, or currently estimated)? (For the Member States outside the Euro zone, could you please convert the amount into €)

Turnover	Total	Large	Medium	Small	Micro
Less than or equal to €1 million	94	0	1	9	84
Over €1 million to €8.8 million	102	1	13	85	3
Over €8.8 million to €35 million	52	4	43	5	0
Over €35 million	74	71	3	0	0
Total	322	76	60	99	87

What are your balance sheet totals (either for the last year of account, or currently estimated)? (For the Member States outside the Euro zone, could you please convert the amount into €)

Balance sheet totals	Total	Large	Medium	Small	Micro
Less than or equal to €500,000	80	1	0	4	75
Over €500,000 to €4.4 million	96	1	7	79	9
Over €4.4 million to €17.5 million	63	2	47	14	0
Over €17.5 million	80	73	6	1	0
Total	319	77	60	98	84

Q3. *In each Member State, certain types of companies are covered by the 4th Company Law Directive. Please click on the list of enterprises covered by this Directive to check the type of company covered by 4th Directive in your Member State.*

Detailed analysis of survey results B

Based upon this list, could you please indicate if your enterprise is required to prepare accounts in a legal form?

Legal form	Total	Large	Medium	Small	Micro
Yes	312	76	55	98	83
No	0	0	0	0	0
Total	312	76	55	98	83

Q4. Are you a subsidiary of another enterprise (ie are the financial results of your company included in the consolidated accounts of a parent company)?

Subsidiary	Total	Large	Medium	Small	Micro
Yes	77	37	22	15	3
No	246	39	38	85	84
Total	323	76	60	100	87

Yes %	24	49	37	15	3

Q5 Do you already prepare accounts in accordance with IFRS (International Financial Reporting Standards), for example because your company is part of a group?

IFRS	Total	Large	Medium	Small	Micro
Yes	69	34	16	13	6
No	227	43	43	75	66
Total	296	77	59	88	72

Yes %	23	44	27	15	8

Detailed analysis of survey results B

3. How you prepare your accounts

We would now like to ask you about how you keep your accounts and whether you use external advisers or contractors, and also about any accounts other than statutory accounts which you have to prepare.

Q6. In the table below, please select which of the following accounting and reporting functions are mainly carried out in house and/or by external advisers or contractors.

Transaction recording

	Total	Large	Medium	Small	Micro
Mainly by external advisers	45	2	1	14	28
Mainly in house	276	75	59	85	57
Don't know	2	0	0	0	2
Total	323	77	60	99	87

External %	14	3	2	14	32
Internal %	85	97	98	86	66

Preparation of management accounts

	Total	Large	Medium	Small	Micro
Mainly by external advisers	63	1	1	18	43
Mainly in house	258	76	59	81	42
Don't know	3	0	0	1	2
Total	324	77	60	100	87

External %	19	1	2	18	49
Internal %	80	99	98	81	48

Detailed analysis of survey results B

Cash flow forecasts

	Total	Large	Medium	Small	Micro
Mainly by external advisers	26	0	1	7	18
Mainly in house	283	77	57	91	58
Don't know	12	0	1	2	9
Total	321	77	59	100	85

External %	8	0	2	7	21
Internal %	88	100	97	91	68

Preparation of annual statutory accounts

	Total	Large	Medium	Small	Micro
Mainly by external advisers	148	6	16	59	67
Mainly in house	171	69	41	40	21
Don't know	1	0	0	1	0
Total	320	75	57	100	88

External %	46	8	28	59	76
Internal %	53	92	72	40	24

Preparation of tax returns

Detailed analysis of survey results B

	Total	Large	Medium	Small	Micro
Mainly by external advisers	179	24	28	62	65
Mainly in house	139	51	31	35	22
Don't know	2	0	0	1	1
Total	320	75	59	98	88

External %	56	32	47	63	74
Internal %	43	68	53	36	25

Q7. In the table below, please indicate in the first column the organisations that require only statutory accounts. In the second column, please indicate the organisations that require additional information over and above your statutory accounts.

Tax authorities

	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	89	34	14	20	21
Only statutory accounts required	231	42	46	78	65
Don't know	5	1	0	2	2
Total	325	77	60	100	88

More info %	27	44	23	20	24
Statutory only %	71	55	77	78	74

Banks

Detailed analysis of survey results B

	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	166	43	31	52	40
Only statutory accounts required	140	31	28	45	36
Don't know	19	3	1	3	12
Total	325	77	60	100	88

More info %	51	56	52	52	45
Statutory only %	43	40	47	45	41

Customers

	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	40	11	11	10	8
Only statutory accounts required	202	54	43	64	41
Don't know	83	12	6	26	39
Total	325	77	60	100	88

More info %	12	14	18	10	9
Statutory only %	62	70	72	64	47

Business Partners

Detailed analysis of survey results B

	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	65	20	11	19	15
Only statutory accounts required	182	48	44	53	37
Don't know	78	9	5	28	36
Total	325	77	60	100	88

More info %	20	26	18	19	17
Statutory only %	56	62	73	53	42

Parent company or group

	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	106	49	22	25	10
Only statutory accounts required	104	21	27	31	25
Don't know	115	7	11	44	53
Total	325	77	60	100	88

More info %	33	64	37	25	11
Statutory only %	32	27	45	31	28

Others

Detailed analysis of survey results B

Others	Total	Large	Medium	Small	Micro
Information above your statutory accounts required	23	10	4	4	5
Only statutory accounts required	45	10	13	11	11
Don't know	113	19	9	43	42
Total	181	39	26	58	58

More info %	13	26	15	7	9
Statutory only %	25	26	50	19	19

4. Preparation of a cash flow forecast

Detailed analysis of survey results B

Do you currently prepare a similar cash flow statement either for internal purposes or for publication?

	Total	Large	Medium	Small	Micro
Yes	208	70	49	49	40
No	112	7	11	49	45
Don't know	5	0	0	2	3
TOTAL	325	77	60	100	88

% yes	64	91	82	49	45

Do you think that it is possible to prepare a cash flow statement with the information shown above quickly from existing data?

	Total	Large	Medium	Small	Micro
Yes	195	56	42	52	45
No	75	11	10	24	30
Don't know	55	10	8	24	13
TOTAL	325	77	60	100	88

% yes	60	73	70	52	51

Please think about preparing an annual cash flow statement for publication in the format shown above for the first time.
Please show the set up time that might be needed

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	4	32	2	16	0	5	0	4	2	7
Up to one hour	14	14	2	4	2	3	4	4	6	3
1 to 4 hours	35	47	9	7	8	10	10	17	8	13
4 to 8 hours	44	23	7	9	11	2	15	8	11	4
8 to 16 hours	55	28	19	4	14	9	12	6	10	9
More hours	37	21	14	5	5	5	10	7	8	4
Don't know	6	30	3	11	2	8	1	6	0	5
TOTAL	195	195	56	56	42	42	52	52	45	45

Mean	13.1	8.6	15.3	6.8	9.5	8.0	14.8	11.1	11.8	8.2
Median	7.8	3.3	10.7	2.1	7.6	3.7	7.1	3.6	6.4	3.3

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	27	4	3	13	7
No	151	45	36	33	37
Don't know	17	7	3	6	1
TOTAL	195	56	42	52	45

% yes	14	7	7	25	16

Once the format is set up, how much time will be needed each year to prepare the annual cash flow statement?

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	10	44	3	20	1	8	1	9	5	7
Up to one hour	24	25	4	6	4	6	9	7	7	6
1 to 4 hours	60	42	18	7	13	6	17	17	12	12
4 to 8 hours	49	17	13	6	12	4	14	2	10	5
8 to 16 hours	30	29	9	5	9	9	7	8	5	7
More hours	17	7	7	2	2	1	3	3	5	1
Don't know	5	31	2	10	1	8	1	6	1	7
TOTAL	195	195	56	56	42	42	52	52	45	45

Mean	8.9	5.7	10.5	4.6	5.2	4.4	8.2	7.8	7.1	4.7
Median	4.1	1.9	4.6	0.5	4.8	2.5	3.7	2.2	3.5	2.5

Detailed analysis of survey results B

5. Changes in accounts format

Are you likely to take advantage of the simplification of the formats for the balance sheet and profit and loss account?

	Total	Large	Medium	Small	Micro
Yes	186	27	28	71	60
No	89	37	23	17	12
Don't know	0	0	0	0	0
TOTAL	275	64	51	88	72

% yes	68	42	55	81	83

Do you think that the simplified format might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	122	15	15	50	42
No	143	48	38	29	28
Don't know	60	14	7	21	18
TOTAL	325	77	60	100	88

% yes	38	19	25	50	48

Please think about preparing an annual profit and loss account and balance sheet for publication in the new simplified format

Detailed analysis of survey results B

shown above for the first time. Please show the set up time that might be needed

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	2	10	1	4	0	2	0	2	1	2
Up to one hour	13	9	2	1	3	1	5	4	3	3
1 to 4 hours	19	21	1	0	1	2	10	11	7	8
4 to 8 hours	29	20	1	2	5	1	12	9	11	8
8 to 16 hours	29	19	4	0	3	4	14	7	8	8
More hours	10	8	4	2	0	0	5	6	1	0
Don't Know	0	35	0	6	0	5	0	11	0	13
TOTAL	102	122	13	15	12	15	46	50	31	42

Mean	12.9	11.4	14.3	8.5	5.8	6.0	16.9	19.9	5.8	5.7
Median	6.3	4.7	11.0	0.5	5.6	4.0	6.7	5.1	5.6	4.8

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	19	1	2	11	5
No	82	10	12	29	31
Don't know	21	4	1	10	6
TOTAL	122	15	15	50	42

% yes	16	7	13	22	12

Detailed analysis of survey results B

Once the format is set up, how much time will be saved each year by the use of the simplified format?

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	0	0	0	0	0	0	0	0	0	0
Up to one hour	14	18	3	2	3	3	3	6	5	7
1 to 4 hours	45	29	3	2	5	2	21	16	16	9
4 to 8 hours	18	14	2	2	3	2	8	2	5	8
8 to 16 hours	11	10	2	0	2	3	6	5	1	2
More hours	6	3	1	0	0	0	5	3	0	0
Don't Know	0	39	0	6	0	4	0	14	0	15
TOTAL	94	113	11	12	13	14	43	46	27	41

Mean	10.8	8.3	4.1	3.0	4.3	5.5	16.8	13.9	3.1	3.8
Median	3.2	3.0	3.5	2.5	3.1	4.0	3.6	2.9	2.6	3.0

Detailed analysis of survey results B

6. Guarantees, commitments etc

It is proposed to delete the requirements for some companies to provide information on guarantees, commitments and other related items. To provide this information, companies often have to carry out a specific analysis. The disclosures which may be removed are:

- Information on guarantees
- An analysis of amounts payable after more than 5 years
- Details of amounts payable where valuable security had been given
- Commitments concerning pensions and affiliated undertakings
- Any other financial commitments not in the balance sheet if this information would be useful for analysing the financial position

We would like to know whether you will make any time savings from these changes, and whether there are any costs such as set up costs that will be incurred.

Do you think that the removal of these disclosures might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	154	43	38	41	32
No	122	28	16	41	37
Don't know	49	6	6	18	19
TOTAL	325	77	60	100	88

% yes	47	56	63	41	36

If these changes are implemented, please estimate any annual saving in internal and external time.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	2	17	0	9	0	2	0	3	2	3
Up to one hour	12	18	0	4	3	4	5	6	4	4
1 to 4 hours	47	36	10	7	15	12	15	9	7	8
4 to 8 hours	26	19	10	7	4	4	6	6	6	2
8 to 16 hours	35	21	12	3	8	7	9	6	6	5
More hours	13	10	7	5	3	2	2	2	1	1
Don't Know	19	33	4	8	5	7	4	9	6	9
TOTAL	154	154	43	43	38	38	41	41	32	32

Mean	12.5	10.1	27.4	19.9	7.7	6.6	5.0	4.2	4.9	4.1
Median	5.0	3.1	7.8	2.9	3.7	3.4	3.7	3.3	4.0	2.7

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	15	1	5	4	5
No	109	32	26	25	26
Don't know	30	10	7	12	1
TOTAL	154	43	38	41	32

% yes	10	2	13	10	16

Detailed analysis of survey results B

Please tell us if it will take any time to make one off changes to your systems because of the removal of these specific disclosures. Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	46	51	16	20	13	13	11	12	6	6
Up to one hour	20	22	6	5	4	3	4	7	6	7
1 to 4 hours	26	18	4	3	5	2	10	5	7	8
4 to 8 hours	14	13	3	2	2	5	5	4	4	2
8 to 16 hours	14	9	3	1	5	2	3	3	3	3
More hours	8	7	2	1	3	4	2	2	1	0
Don't Know	26	34	9	11	6	9	6	8	5	6
TOTAL	154	154	43	43	38	38	41	41	32	32

Mean	5.1	4.4	2.0	1.1	5.0	5.4	6.1	5.9	4.5	2.8
Median	0.9	0.4	0.2	0.0	0.8	0.5	1.8	0.6	1.6	1.0

Detailed analysis of survey results B

7. Income related

It is proposed to delete the requirements for some companies to provide information on certain specific analyses of income. To provide this information, companies often have to carry out additional analysis. The disclosures which may be removed are as follows:

- Information on the amount and nature of extraordinary income (if material)
- An analysis of net turnover broken by categories of activity and geographical markets (if they differ substantially)

Do you think that the removal of these disclosures might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	117	31	26	35	25
No	148	39	29	42	38
Don't know	60	7	5	23	25
TOTAL	325	77	60	100	88

% yes	36	40	43	35	28

If these changes are implemented, please estimate any annual saving in internal and external time.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	**External**	**Internal**	**External**	**Internal**	**External**	**Internal**	**External**	**Internal**	**External**
	Number		**Number**		**Number**		**Number**		**Number**	
None or negligible	1	16	0	7	0	3	0	2	1	4
Up to one hour	11	21	1	4	5	5	3	9	2	3
1 to 4 hours	43	28	10	7	8	5	14	9	11	7
4 to 8 hours	28	19	10	5	4	5	9	5	5	4
8 to 16 hours	13	8	4	1	2	2	5	2	2	3
More hours	7	6	2	1	2	1	2	3	1	1
Don't Know	14	19	4	6	5	5	2	5	3	3
TOTAL	117	117	31	31	26	26	35	35	25	25

Mean	6.0	4.6	4.9	2.5	5.8	4.5	4.6	2.7	3.8	3.6
Median	3.8	2.3	5.0	1.6	3.1	2.5	3.9	2.3	3.2	2.7

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	4	0	1	3	0
No	88	28	15	24	21
Don't know	25	3	10	8	4
TOTAL	117	31	26	35	25

% yes	3	0	4	9	0

Detailed analysis of survey results B

Please tell us if it will take any time to make one off changes to your systems because of the removal of these specific disclosures. Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	38	49	13	16	7	10	12	14	6	9
Up to one hour	17	16	2	3	5	3	6	7	4	3
1 to 4 hours	22	17	4	3	6	3	6	6	6	5
4 to 8 hours	11	6	3	1	0	1	4	2	4	2
8 to 16 hours	7	7	2	0	1	2	1	1	3	4
More hours	4	4	1	1	2	2	1	1	0	0
Don't Know	18	18	6	7	5	5	5	4	2	2
TOTAL	117	117	31	31	26	26	35	35	25	25

Mean	3.1	2.7	2.1	0.6	3.7	4.1	1.8	1.4	3.3	3.2
Median	0.7	0.0	0.0	0.0	0.7	0.2	0.5	0.2	1.8	0.8

Detailed analysis of survey results B

8. Taxation and deferred tax

It is proposed to delete the requirements for some companies to provide information on some specific analyses of taxation and deferred tax. To provide this information, companies often have to carry out additional analysis. The disclosures which may be removed are as follows:

- A detailed breakdown of taxation amounts
- Information on any tax induced distortions to the profit and loss account
- Information on deferred tax (the difference between tax charged and amount of tax payable)

Do you think that the removal of these disclosures might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	141	39	29	43	30
No	129	33	25	37	34
Don't know	55	5	6	20	24
TOTAL	325	77	60	100	88

% yes	43	51	48	43	34

If these changes are implemented, please estimate any annual saving in internal and external time.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
Up to one hour	14	18	1	3	3	5	4	6	6	4
1 to 4 hours	39	29	12	6	7	3	13	12	7	8
4 to 8 hours	38	30	5	7	7	5	16	11	10	7
8 to 16 hours	18	12	10	3	2	2	4	3	2	4
More hours	13	7	7	5	3	0	1	1	2	1
Don't Know	15	33	4	9	4	10	4	9	3	5
TOTAL	137	129	39	33	26	25	42	42	30	29

Mean	11.6	8.3	22.2	17.3	8.2	3.4	6.1	5.7	3.9	4.5
Median	4.6	3.5	7.6	4.0	3.8	1.5	4.4	3.5	4.2	3.8

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	6	0	2	3	1
No	107	31	20	28	28
Don't know	28	8	7	12	1
TOTAL	141	39	29	43	30

% yes	4	0	7	7	3

Please tell us if it will take any time to make one off changes to your systems because of the removal of these disclosures. Please do not include the cost of general changes to the system.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	47	48	18	19	9	11	13	11	7	7
Up to one hour	15	14	3	3	4	1	4	6	4	4
1 to 4 hours	25	19	4	1	7	4	10	8	4	6
4 to 8 hours	21	11	4	3	1	2	7	3	9	3
8 to 16 hours	9	7	2	0	3	1	1	1	3	5
More hours	5	4	2	2	1	0	2	2	0	0
Don't Know	19	38	6	11	4	10	6	12	3	5
TOTAL	141	141	39	39	29	29	43	43	30	30

Mean	11.9	10.9	1.8	0.8	18.5	1.8	5.4	5.6	3.8	3.8
Median	0.9	0.3	0.0	0.0	0.9	0.0	1.5	0.8	2.9	1.8

Detailed analysis of survey results B

9. Changes to valuation rules

It is proposed to simplify valuation rules and move to a general position where most valuation is on the basis of cost with an option for fair value. It is also proposed that detailed disclosures of movement of assets will no longer be required. Details of the possible changes are set out in Appendix A of this report.

Do you think that the removal of these disclosures might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	125	38	25	40	22
No	132	29	30	35	38
Don't know	68	10	5	25	28
TOTAL	325	77	60	100	88

% yes	38	49	42	40	25

If these changes are implemented, please estimate any annual saving in internal and external time.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	5	18	1	8	1	6	1	0	2	4
Up to one hour	13	15	0	3	3	3	7	5	3	4
1 to 4 hours	35	28	5	2	8	3	13	15	9	8
4 to 8 hours	23	15	9	7	4	3	5	4	5	1
8 to 16 hours	26	14	13	5	4	2	8	5	1	2
More hours	15	10	8	6	3	1	3	3	1	0
Don't Know	8	25	2	7	2	7	3	8	1	3
TOTAL	125	125	38	38	25	25	40	40	22	22

Mean	13.9	10.6	24.7	19.6	9.3	5.1	4.4	3.9	3.1	2.7
Median	5.0	2.8	9.8	5.4	3.8	1.0	3.4	3.2	2.8	1.6

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	5	1	0	4	0
No	91	29	17	25	20
Don't know	29	8	8	11	2
TOTAL	125	38	25	40	22

% yes	4	3	0	10	0

Detailed analysis of survey results B

Please tell us if it will take any time to make one off changes to your systems because of the removal of these disclosures. Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	41	46	12	16	8	11	16	14	5	5
Up to one hour	14	17	5	6	3	2	3	4	3	5
1 to 4 hours	30	20	4	1	7	2	10	10	9	7
4 to 8 hours	11	7	4	3	1	2	4	2	2	0
8 to 16 hours	9	6	4	1	1	1	2	2	2	2
More hours	5	3	3	2	1	0	1	1	0	0
Don't Know	15	26	6	9	4	7	4	7	1	3
TOTAL	125	125	38	38	25	25	40	40	22	22

Mean	2.3	1.7	2.6	1.2	1.8	1.7	2.1	1.9	2.9	2.3
Median	1.0	0.2	0.8	0.0	0.8	0.0	0.7	0.6	1.8	0.9

Detailed analysis of survey results B

10. Additional disclosures

It is proposed to include certain additional disclosures as shown below. To provide this information, companies may have to carry out specific analyses.

- Transactions with related parties. The amount and nature of these transactions, together with other information, must be shown. Transactions may be aggregated provided there is not a distortion to the figures.

- Nature and business purpose of arrangements which are not shown in the balance sheet and their financial impact, if material

Do you think that it is possible to provide these disclosures quickly from existing information?

	Total	Large	Medium	Small	Micro
Yes	116	35	27	29	25
No	134	29	24	46	35
Don't know	75	13	9	25	28
TOTAL	325	77	60	100	88

% yes	36	45	45	29	28
% no	41	38	40	46	40

If these changes are implemented, please estimate any annual additional internal or external time each year.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	7	20	0	6	2	6	1	2	4	6
Up to one hour	13	19	3	5	3	3	4	6	3	5
1 to 4 hours	30	27	4	6	5	4	12	10	9	7
4 to 8 hours	17	13	4	4	6	3	3	3	4	3
8 to 16 hours	26	11	11	2	8	5	6	3	1	1
More hours	19	13	12	9	3	1	3	3	1	0
Don't Know	4	13	1	3	0	5	0	2	3	3
TOTAL	116	116	35	35	27	27	29	29	25	25

Mean	18.6	13.3	36.8	27.4	11.0	6.3	4.2	3.0	2.7	2.3
Median	5.4	2.4	12.4	3.5	6.3	2.5	3.4	2.7	2.3	1.0

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	7	4	0	3	0
No	84	26	18	19	21
Don't know	25	5	9	7	4
TOTAL	116	35	27	29	25

% yes	6	11	0	10	0

Detailed analysis of survey results B

Please tell us if it will take any time to make one off changes to your systems because of the addition of these disclosures. Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	35	43	13	18	9	11	8	9	5	5
Up to one hour	17	20	4	5	3	5	6	5	4	5
1 to 4 hours	26	17	3	1	5	2	8	6	10	8
4 to 8 hours	12	8	4	2	6	3	0	2	2	1
8 to 16 hours	9	5	3	2	2	1	3	1	1	1
More hours	8	5	5	3	1	0	2	2	0	0
Don't Know	9	18	3	4	1	5	2	4	3	5
TOTAL	116	116	35	35	27	27	29	29	25	25

Mean	10.7	7.4	19.7	12.2	4.8	1.7	2.2	1.7	2.3	2.0
Median	1.2	0.3	0.8	0.0	1.6	0.0	0.9	0.7	1.6	1.0

Detailed analysis of survey results B

11. Other items

Finally, there are certain other changes which are proposed. Disclosures which could be removed include the following:

- Information on movements in share capital
- Participation certificates, convertible debentures, or similar securities rights
- Emoluments to administrative, managerial and supervisory bodies and commitments on pensions for former members of these bodies
- Advances and credit to members of administrative, managerial and supervisory bodies and commitments made on behalf of them
- Fees for audit, assurance, tax advisory, non-audit services
- Separate disclosure of prepayments and accrued income
- Separate disclosure of accruals and deferred income
- Average number of persons employed, by categories and the staff costs

Do you think that the removal of these disclosures might result in any time or cost saving to you?

	Total	Large	Medium	Small	Micro
Yes	151	47	30	44	30
No	125	25	26	37	37
Don't know	49	5	4	19	21
TOTAL	325	77	60	100	88

% yes	46	61	50	44	34

If these changes are implemented, please estimate any annual saving in internal and external time.

Detailed analysis of survey results B

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	4	25	0	10	0	6	1	4	3	5
Up to one hour	18	29	1	6	5	5	10	10	2	8
1 to 4 hours	38	29	9	4	8	7	10	12	11	6
4 to 8 hours	34	19	10	5	7	4	9	7	8	3
8 to 16 hours	31	15	15	7	5	1	9	4	2	3
More hours	16	12	8	6	3	2	4	3	1	1
Don't know	10	22	4	9	2	5	1	4	3	4
TOTAL	151	151	47	47	30	30	44	44	30	30

Mean	9.5	6.8	15.9	11.6	6.6	3.8	8.2	6.1	3.7	2.8
Median	5.2	2.1	8.8	3.3	4.6	1.6	4.2	2.5	3.3	1.0

Is there any other set up expenditure you might incur, other than professional fees?

	Total	Large	Medium	Small	Micro
Yes	4	0	1	2	1
No	119	39	22	30	28
Don't know	28	8	7	12	1
TOTAL	151	47	30	44	30

% yes	3	0	3	5	3

Detailed analysis of survey results B

Please tell us if it will take any time to make one off changes to your systems because of the proposed changes. Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	49	56	19	24	9	10	14	13	7	9
Up to one hour	23	25	6	5	7	6	7	8	3	6
1 to 4 hours	35	21	7	2	4	1	12	10	12	8
4 to 8 hours	7	5	1	1	2	3	1	0	3	1
8 to 16 hours	11	6	4	1	1	0	4	3	2	2
More hours	5	4	1	1	2	1	1	1	1	1
Don't know	21	34	9	13	5	9	5	9	2	3
TOTAL	151	151	47	47	30	30	44	44	30	30

Mean	9.8	8.3	3.3	2.3	17.5	10.6	3.3	3.0	2.6	2.0
Median	0.7	0.1	0.0	0.0	0.5	0.1	0.8	0.6	2.0	0.8

Detailed analysis of survey results B

12 IFRS

Are you aware of the International Financial Reporting Standard for small and medium sized entities (IFRS for SMEs)?

	Total	Large	Medium	Small	Micro
Yes	123	35	26	37	25
No	202	42	34	63	63
TOTAL	325	77	60	100	88

% yes	38	45	43	37	28

Q54 Do you think that it would be possible to implement the IFRS for SMEs quickly from existing information/systems?

	Total	Large	Medium	Small	Micro
Yes	56	11	13	20	12
No	45	15	7	13	10
Don't know	22	9	6	4	3
TOTAL	123	35	26	37	25

% Yes	46	31	50	54	48
% No	37	43	27	35	40

If IFRS for SMEs were to be allowed under the Directives, please estimate any annual additional internal or external time

Detailed analysis of survey results B

needed to prepare annual accounts

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	0	2	0	1	0	0	0	0	0	1
Up to one hour	3	4	1	2	0	1	1	0	1	1
1 to 4 hours	5	9	2	2	0	2	1	3	2	2
4 to 8 hours	8	6	1	2	4	1	2	3	1	0
8 to 16 hours	17	12	4	1	2	1	6	5	5	5
More hours	12	6	3	2	3	1	3	2	3	1
Don't know	12	18	6	7	2	5	2	2	2	4
TOTAL	57	57	17	17	11	11	15	15	14	14

Mean	11.4	8.4	8.3	5.1	9.8	6.1	11.8	10.0	16.3	10.7
Median	11.1	7.0	11.0	4.0	10.0	4.0	11.3	8.8	11.2	9.6

If IFRS for SMEs were to be allowed under the accounting Directives, please estimate any annual internal or external time

Detailed analysis of survey results B

saved in preparing annual accounts.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	2	3	1	2	1	1	0	0	0	0
Up to one hour	2	2	0	0	0	0	1	1	1	1
1 to 4 hours	5	8	1	0	0	0	2	5	2	3
4 to 8 hours	4	1	0	0	0	0	2	0	2	1
8 to 16 hours	2	1	0	0	0	0	2	1	0	0
More hours	5	3	2	1	1	1	2	1	0	0
Don't know	8	10	2	3	4	4	1	2	1	1
TOTAL	28	28	6	6	6	6	10	10	6	6

Mean	7.1	4.1	8.6	5.3	8.0	8.0	4.6	3.1	3.5	2.8
Median	5.0	2.5	4.0	0.0	0.0	0.0	7.0	2.8	3.3	2.5

Please tell us if it will take any time to make one off changes to your systems because of IFRS for SMEs.

Detailed analysis of survey results B

Please do not include the cost of general changes to the system.

	Total		Large		Medium		Small		Micro	
	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Number		Number		Number		Number		Number	
None or negligible	0	0	0	0	0	0	0	0	0	0
Up to one hour	8	14	3	3	0	2	4	5	1	4
1 to 4 hours	18	14	3	3	2	1	6	6	7	4
4 to 8 hours	6	10	2	4	1	1	2	3	1	2
8 to 16 hours	25	16	5	1	7	4	9	7	4	4
More hours	0	0	0	0	0	0	0	0	0	0
Don't know	30	38	15	16	5	9	6	8	4	5
TOTAL	87	92	28	27	15	17	27	29	17	19

Mean	6.7	5.4	6.2	4.0	9.5	7.1	6.5	5.7	5.5	5.1
Median	5.7	3.8	5.0	3.5	10.3	8.0	5.0	3.8	3.4	3.3

Q59 Please think about the potential costs and benefits to your company of adopting IFRS for SMEs and tell us what you think of the proposals overall?

Detailed analysis of survey results B

Numbers	Total	Large	Medium	Small	Micro
There will be significant net benefits	6	1	0	2	3
There will be some net benefits	44	13	11	12	8
There will be some net costs	33	7	6	11	9
There will be significant net costs	9	1	0	5	3
Don't know	31	13	9	7	2
TOTAL	123	35	26	37	25

%	Total	Large	Medium	Small	Micro
There will be significant net benefits	5	3	0	5	12
There will be some net benefits	36	37	42	32	32
There will be some net costs	27	20	23	30	36
There will be significant net costs	7	3	0	14	12
Don't know	25	37	35	19	8
TOTAL	100	100	100	100	100

Detailed analysis of survey results B

13 Use of accounts

Q50. Looking at the proposed changes generally, how helpful will they be for your business

	Total	Large	Medium	Small	Micro
Very helpful	38	10	4	14	10
rather helpful	150	30	31	50	39
rather unhelpful	84	22	21	20	21
Very Unhelpful	22	6	3	6	7
Don't know	31	9	1	10	11
Total	325	77	60	100	88

%	Total	Large	Medium	Small	Micro
Very helpful	12	13	7	14	11
rather helpful	46	39	52	50	44
rather unhelpful	26	29	35	20	24
Very Unhelpful	7	8	5	6	8
Don't know	10	12	2	10	13
Total	100	100	100	100	100

Is your company a user of accounts (for example, do you require

Detailed analysis of survey results B

accounts from suppliers or do you analyse accounts)?

	Total	Large	Medium	Small	Micro
1. Yes (go to 51a)	187	64	42	45	36
2. No	138	13	18	55	52
3. DK (go to 51a)	0	0	0	0	0

Q51a If so, what effect will the changes have on the way you use accounts – are the changes likely to help you?

Numbers	Total	Large	Medium	Small	Micro
Very helpful	21	5	3	3	10
rather helpful	63	17	16	20	10
rather unhelpful	66	30	15	14	7
Very Unhelpful	22	7	5	5	5
Don't know	15	5	3	3	4
Total	187	64	42	45	36

%	Total	Large	Medium	Small	Micro
Very helpful	11	8	7	7	28
rather helpful	34	27	38	44	28
rather unhelpful	35	47	36	31	19
Very Unhelpful	12	11	12	11	14
Don't know	8	8	7	7	11
Total	100	100	100	100	100

Estimates of the number of enterprises C

This appendix contains estimates of the number of enterprises falling into each category of size for compliance with the 4th Company Law Directive, based on earlier work by CSES[19] and also by Ramboll[20]

Threshold requirements

There are two sets of thresholds in the 4th Directive allowing for a simpler presentation of accounts and for the audit of accounts. These thresholds allow Member States to exempt relevant companies from some of the provisions of the Directive. Not all Member States have chosen to utilise the exemptions to their full extent. There are transition requirements where companies are close to the thresholds.

The two sets of thresholds are:
For medium companies, Article 27 allows a simplified layout of accounts. Member States may implement the simplified layout for companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 17 500 000;
- net turnover: EUR 35 000 000;
- average number of employees during the financial year: 250.

For smaller companies Article 11 allows companies to draw up abridged balance sheets only, and to be exempted from audit. Member States may implement the simplified layout for companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 4 400 000;
- net turnover: EUR 8 800 000;
- average number of employees during the financial year: 50.

For a company to take advantage of these thresholds, it must be below any two of the three criteria (there are detailed provisions as to when a company goes in and out of the threshold). The two sets of thresholds therefore apply on an 'any two of three' basis. This is a different approach from other similar thresholds applied by the Commission

There is also a proposed threshold limit for micro enterprises is as follows

- balance sheet total: EUR 500 000;
- net turnover: EUR 1 000 000;
- average number of employees during the financial year: 10

[19] CSES. 2008. Evaluation of Thresholds for Micro-Entities.
http://ec.europa.eu/internal_market/accounting/docs/studies/micro_entity_en.pdf

[20] Ramboll Management. 2007. Study on administrative costs of EU Company Law Acquis. July 2007.
http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_cos
ts_en.pdf.

Estimates of the number of enterprises C

Estimate of number of companies

Estimates of the number of companies subject to the 4th Company Law Directive have been obtained from a report by Ramboll and Cap Gemini, or from data supplied by the Commission services. Where information was not available, other sources have been used as shown following the table

	Large	Medium	Small	Micro	Total
Austria	754	3246	15,099	64,901	84000
Belgium	1163	6034	30965	153569	191731
Bulgaria	516	3298	33338	165377	202529
Cyprus	50	279	26083	129384	155796
Czech Republic	2900	10500	27267	135263	175930
Denmark	462	2,449	37,018	38,965	76,445
Estonia	49	252	12928	64130	77359
Finland	149	1670	30450	151050	183319
France	2330	11588	108720	1010835	1133473
Germany	8610	37009	252,629	369,019	667267
Greece	783	4065	13279	65873	84000
Hungary	2175	10107	28481	141284	182047
Ireland	325	603	3298	149422	153648
Italy	5421	28116	95780	475126	604443
Latvia	367	2332	11046	39218	52963
Lithuania	87	452	2319	11506	14364
Luxembourg	124	645	3310	16420	20499
Malta	19	96	4175	20710	25000
Netherlands	4124	43543	24459	121334	193460
Poland	2447	14635	31909	114658	163649
Portugal	903	6,072	42,097	367,297	416369
Romania	359	1862	9555	47397	59173
Slovakia	549	2467	12025	72097	87138
Slovenia	385	2212	7661	26685	36943
Spain	5101	31503	134948	1022562	1194114
Sweden	1068	5670	36945	183269	226952
United Kingdom	4081	14726	81430	779423	879660
TOTAL	45301	245431	1117214	5936774	7342271

Slovenia

Complete data was not available for Slovenia so the following data on numbers of enterprises in 2008 was accessed from the statistical office of the Republic of Slovenia

Estimates of the number of enterprises C

Enterprises by activities (SKD 2008) and size class by number of persons employed, Slovenia, annually

Size	Number
Large	385
Medium	2212
Small	7661
Micro	41.360
Micro (0 or 1 employee)	100.923
All enterprises	152.541

According to the CSES report, approximately 25.4% of all enterprises are companies, and so the numbers of micro enterprises were multiplied by this factor to provide an estimate of the number of companies. It will be appreciated that this data is based on employment rather than the 4th Company Law Directive thresholds

Austria

The following data on numbers of enterprises in 2008 was accessed from the statistical office of the Austrian Republic
http://www.statistik.at/web_de/statistiken/handel_und_dienstleistungen/leistungs_und_strukturdaten/index.html
Total number of enterprises 2008 – 300745. Applying the same factor as above suggest that there are 76389 enterprises. But data supplied by the Commission services suggests that there are 84000 enterprises of which 80000 are small. Accordingly, the number of medium and large enterprises (4000) and the number of small enterprises (80000) were spread across the four categories in the same ratios as the data for Germany

Portugal

The following table of numbers of companies in 2006 is taken from the CSES report. The total number of enterprises is in excess of 1 million

Employment size	Number
Total	**416,369**
0- 1	180,249
2-4	127,913
5-9	59,135
10-14	18,828
15-19	8,777
20-49	14,492
50-249	6,072
250+	903

Cost rate estimates D

This appendix contains cost rate estimates for internal and external accounting work. Two alternative approaches are presented, one using survey results and the other using published data.

Survey results

Enterprises were asked to estimate the hourly time to carry out internal and external accounting tasks. Excluding significantly outlying results, the resulting internal and external cost rates were as follows. We first show a table based on the arithmetic average of responses. 76 companies gave internal cost rates and 56 gave external cost rates

If you are able to provide an approximate hourly cost of time to carry out internal and external accounting tasks, please provide this information in the box below in €. For MS outside the Euro zone, please convert the amount into €.

Table D1 – arithmetic average cost rates

	Amount in € per hour
Typical internal cost	44
Typical external hourly cost	129

Source: EBTP survey

The median result is shown below. The arithmetic average is increased by high cost countries such as the UK where the external cost of accountants is higher than in many other member states

Table D2 – median cost rates

	Amount in € per hour
Typical internal cost	35
Typical external hourly cost	100

Source: EBTP survey

Another recent study, by Ramboll[21], had used an internal cost rate of €44.8 for a finance manager and €111.3 for a public accountant. These rates are slightly higher than the median results of this survey although lower than the arithmetic mean. However, neither of these sources provides data for individual Member States

Data based on published statistics

The European Commission services provided data on cost rates for professional and other staff in EU Member States. These hourly wages are based on standardised ESTAT data (the four-yearly Labour cost survey and the annual updates of labour cost (ALC) statistics) and are at 2006 prices and include an allowance for overheads.

[21] Ramboll Management. 2007. Study on administrative costs of EU Company Law Acquis. July 2007. http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf.

Cost rate estimates D

Using data from the second group – professionals – and the fourth group – clerical - we calculated a rate for each of the EU27 member states as shown below. Amounts are in euro per hour

	2: Professionals	4.Clerks	Internal	External lower rate	External Higher rate
Austria	38.75	22.34	30.54	61.08	87.26
Belgium	35.25	23.38	29.31	58.63	83.75
Bulgaria	2.24	1.42	1.83	3.66	5.23
Cyprus	20.29	10.25	15.27	30.54	43.63
Czech Republic	7.74	4.81	6.28	12.55	17.94
Denmark	45.40	27.66	36.53	73.06	104.38
Estonia	7.83	4.36	6.10	12.19	17.42
Finland	34.74	20.85	27.80	55.59	79.42
France	47.02	20.71	33.87	67.73	96.76
Germany	43.15	24.93	34.04	68.08	97.26
Greece	21.00	12.22	16.61	33.22	47.46
Hungary	7.78	4.87	6.32	12.64	18.06
Ireland	45.94	24.97	35.45	70.91	101.30
Italy	59.26	20.38	39.82	79.64	113.77
Latvia	5.81	3.73	4.77	9.55	13.64
Lithuania	6.06	3.46	4.76	9.52	13.60
Luxembourg	41.58	27.80	34.69	69.38	99.11
Malta	13.21	8.85	11.03	22.07	31.52
Netherlands	35.19	21.94	28.57	57.14	81.62
Poland	10.37	5.01	7.69	15.38	21.97
Portugal	19.32	9.52	14.42	28.84	41.20
Romania	5.97	3.61	4.79	9.58	13.69
Slovakia	5.19	2.76	3.98	7.95	11.36
Slovenia	18.75	9.74	14.25	28.49	40.70
Spain	23.94	12.89	18.42	36.84	52.62
Sweden	40.47	22.86	31.66	63.33	90.47
United Kingdom	49.75	23.69	36.72	73.44	104.92

Internal costs were calculated by taking the mean of hourly cost rates for professional staff and clerical staff[22]. The rates include an allowance for overheads of 25%.

To estimate external costs, we have taken two options. The first is a rate of double the internal cost table. This represents a charging rate equivalent to 2.5 times salary costs. This approach is understood to be in line with general practice for many smaller accountants. Larger accounting firms may have higher charges. The second (higher) rate is based on a

[22] These hourly wages are based on standardised ESTAT data (the four-yearly Labour cost survey and the annual updates of labour cost (ALC) statistics) and are based on 2006 prices

Cost rate estimates D

mark up of 100/35 in line with the findings of the EBTP survey. This higher rate has been used in all analyses except where shown otherwise

Cost estimates

E

This appendix shows the steps taken to obtain estimates for the EU27 countries as a whole, based on the time calculations in sections 3 to 5 of this report. The number of hours that each enterprise would take to provide additional disclosures each year (annual time) or would save is as follows. Additional time is shown as negative.

Annual savings	**Internal**				**External**			
	Large	**Med**	**Small**	**Micro**	**Large**	**Med**	**Small**	**Micro**
Simplification of layout	3.5	3.1	3.6	2.6	2.5	4	2.9	3
Cash flow	-4.6	-4.8	-3.7	-3.5	-0.5	-2.5	-2.2	-2.5
Guarantees and commitments	7.8	3.7	3.7	4	2.9	3.4	3.3	2.7
Income disclosures	5	3.1	3.9	3.2	1.6	2.5	2.3	2.7
Deferred tax	7.6	3.8	4.4	4.2	4	1.5	3.5	3.8
Valuation rules	9.8	3.8	3.4	2.8	5.4	1	3.2	1.6
Additional disclosures	-12.4	-6.3	-3.4	-2.3	-3.5	-2.5	-2.7	-1
Other changes	8.8	4.6	4.2	3.3	3.3	1.6	2.5	1
Total	25.5	11	16.1	14.3	15.7	9	12.8	11.3
IFRS for SMEs	-6	-7	-4	-4	-2.5	-2.5	-3	-2.5

The number of hours set up time is as follows. In all cases these hours represent additional time

Annual savings	**Internal**				**External**			
	Large	**Med**	**Small**	**Micro**	**Large**	**Med**	**Small**	**Micro**
Simplification of layout	11	5.6	6.7	5.6	0.5	4	5.1	4.8
Cash flow	10.7	7.6	7.1	6.4	2.1	3.7	3.6	3.3
Guarantees and commitments	0.2	0.8	1.8	1.6	0	0.5	0.6	1
Income disclosures	0	0.7	0.5	1.8	0	0.2	0.2	0.8
Deferred tax	0	0.9	1.5	2.9	0	0	0.8	1.8
Valuation rules	0.8	0.8	0.7	1.8	0	0	0.6	0.9
Additional disclosures	0.8	1.6	0.9	1.6	0	0	0.7	1
Other changes	0	0.5	0.8	2	0	0.1	0.6	0.8
Total	23.5	18.5	20	23.7	2.6	8.5	12.2	14.4
IFRS for SMEs	5	10.3	5	3.4	3.5	8	3.8	3.3

However, some companies already carry out certain functions, or do not expect savings and we need to adjust these times to allow for this. For example, only 50% of small companies expect savings from the simplification of the layout of accounts. We were told by companies who expect savings that they would save a median of 3.6

Cost estimates

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hours of internal time. To adjust this to a figure that is representative of all companies we need to reduce the saving per company to 1.8 hours

	Large	Medium	Small	Micro	Notes
Simplification of layout	19	25	50	48	% expecting savings
Cash flow	9	18	49	51	% not preparing one already
Guarantees and commitments	56	63	41	36	% expecting savings
Income disclosures	40	43	35	28	% expecting savings
Deferred tax	51	48	43	34	% expecting savings
Valuation rules	49	42	40	25	% expecting savings
Additional disclosures	45	45	29	28	% unable to provide information quickly
Other changes	61	50	44	34	% expecting savings

IFRS for SMEs	43	27	35	40	% unable to implement quickly

Applying these factors, we can obtain time savings or time spent for the 'average' company, ie taking account of all companies whether or not they will make savings. After making these adjustments, the additional time used or saved per company is as follows. Additional time is shown as a negative amount

Annual savings, hours per company	**Internal**				**External**			
	Large	**Med**	**Small**	**Micro**	**Large**	**Med**	**Small**	**Micro**
Simplification of layout	0.7	0.8	1.8	1.2	0.5	1.0	1.5	1.4
Cash flow	-0.4	-0.9	-1.8	-1.8	0.0	-0.5	-1.1	-1.3
Guarantees and commitments	4.4	2.3	1.5	1.4	1.6	2.1	1.4	1.0
Income disclosures	2.0	1.3	1.4	0.9	0.6	1.1	0.8	0.8
Deferred tax	3.9	1.8	1.9	1.4	2.0	0.7	1.5	1.3
Valuation rules	4.8	1.6	1.4	0.7	2.6	0.4	1.3	0.4
Additional disclosures	-5.6	-2.8	-1.0	-0.6	-1.6	-1.1	-0.8	-0.3
Other changes	5.4	2.3	1.8	1.1	2.0	0.8	1.1	0.3
Total	15.1	6.5	7.0	4.4	7.8	4.6	5.6	3.6
IFRS for SMEs	-2.6	-1.9	-1.4	-1.6	-1.1	-0.7	-1.1	-1.0

Cost estimates

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On a similar basis, the set up time is shown in the table below. All set up time is additional time

Set up time, hours per company	Internal				External			
	Large	Med	Small	Micro	Large	Med	Small	Micro
Simplification of layout	2.1	1.4	3.4	2.7	0.1	1.0	2.6	2.3
Cash flow	1.0	1.4	3.5	3.3	0.2	0.7	1.8	1.7
Guarantees and commitments	0.1	0.5	0.7	0.6	0.0	0.3	0.2	0.4
Income disclosures	0.0	0.3	0.2	0.5	0.0	0.1	0.1	0.2
Deferred tax	0.0	0.4	0.6	1.0	0.0	0.0	0.3	0.6
Valuation rules	0.4	0.3	0.3	0.5	0.0	0.0	0.2	0.2
Additional disclosures	0.4	0.7	0.3	0.4	0.0	0.0	0.2	0.3
Other changes	0.0	0.3	0.4	0.7	0.0	0.1	0.3	0.3
Total	3.9	5.3	9.3	9.6	0.3	2.1	5.7	6.0
IFRS for SMEs	2.2	2.8	1.8	1.4	1.5	2.2	1.3	1.3

Next, to obtain estimates for each of the EU 27 countries we can apply these time costs or savings to the numbers of enterprises estimated in Appendix C, using the cost rates at Appendix D. We can then add the individual country results to obtain an estimate for the EU as a whole. These calculations are shown in detail in the statistical supplement to this report.

The resulting cost savings or additional costs, both for the average company and for the EU as a whole, are as follows. As before, additional costs are a negative. The tables below show total annual savings, and set up costs for internal and external costs combined, for a single company

Annual savings (euro per company)	Company size			
	Large	Medium	Small	Micro
Simplification of layout	52.0	92.4	157.0	138.6
Cash flow	-13.9	-54.7	-129.3	-140.3
Guarantees and commitments	231.5	215.1	142.2	109.0
Income disclosures	98.4	112.1	96.8	79.0
Deferred tax	249.4	98.8	163.6	132.3
Valuation rules	317.7	71.2	132.5	47.6
Additional disclosures	-259.0	-153.9	-85.1	-37.3
Other changes	285.8	116.7	131.8	54.1
TOTAL	961.7	497.6	609.6	383.1
IFRS for SMEs	-145.2	-97.2	-116.2	-115.2

Cost estimates

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Set up costs (euro per company)	Company size			
	Large	Medium	Small	Micro
Simplification of layout	60.7	108.3	281.0	239.6
Cash flow	38.6	83.2	225.1	208.7
Guarantees and commitments	2.9	35.7	38.1	41.5
Income disclosures	0.0	13.9	9.9	29.6
Deferred tax	0.0	11.0	43.0	70.7
Valuation rules	10.1	8.6	25.5	28.2
Additional disclosures	9.3	18.3	22.2	32.3
Other changes	0.0	10.0	29.2	37.7
TOTAL	121.5	289.1	674.0	688.2
IFRS for SMEs	165.8	227.8	146.6	132.6

Applying these savings to all companies, as discussed above, we can arrive at a total annual saving and set up cost for the EU as a whole

Annual savings (euro, millions)	Company size				Total
	Large	Medium	Small	Micro	0.0
Simplification of layout	2.3	22.7	175.4	822.9	1023.3
Cash flow	-0.6	-13.4	-144.4	-833.0	-991.4
Guarantees and commitments	10.3	52.8	158.9	647.2	869.1
Income disclosures	4.4	27.5	108.2	469.0	609.0
Deferred tax	11.1	24.2	182.8	785.6	1003.7
Valuation rules	14.2	17.5	148.1	282.8	462.5
Additional disclosures	-11.5	-37.8	-95.1	-221.6	-366.0
Other changes	12.7	28.6	147.3	321.3	509.9
TOTAL	42.8	122.1	681.0	2274.2	3120.1
IFRS for SMEs	-6.5	-23.9	-129.9	-684.0	-837.7

Cost estimates

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Set up costs (euro, millions)	Company size				Total
	Large	Medium	Small	Micro	0.0
Simplification of layout	2.7	26.6	313.9	1422.7	1765.9
Cash flow	1.7	20.4	251.4	1238.8	1512.4
Guarantees and commitments	0.1	8.8	42.5	246.2	297.7
Income disclosures	0.0	3.4	11.1	175.6	190.0
Deferred tax	0.0	2.7	48.0	419.6	470.4
Valuation rules	0.4	2.1	28.5	167.7	198.8
Additional disclosures	0.4	4.5	24.8	191.5	221.2
Other changes	0.0	2.5	32.7	223.6	258.7
TOTAL	5.4	70.9	752.9	4085.8	4915.1
IFRS for SMEs	7.4	55.9	163.8	787.5	1007.2

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Literature survey

Context

The review of the Accounting Directives aims at modernising and simplifying reporting requirements and to make them more understandable and accessible. This is an aspect of the Commission's Better Regulation strategy, aimed at measuring administrative costs and reducing administrative burdens.

The EU approach to better regulation aims to ensure that administrative burdens are proportionate to their benefits. Financial reporting serves the needs of several stakeholders, including banks, business partners or creditors. They should also cover broader information needs, for example ensuring consumer, health and environmental considerations.

The Commission put forward several ideas for simplifying the current accounting requirements for SMEs in a Communication dated July 2007[23]. Having considered the responses to the public consultation, the Commission presented in April 2008 a proposal for a Directive containing a number of targeted simplification measures.

Most of the ideas presented in the Communication, along with a number of new ones, were taken up by the *High Level Group of Independent Stakeholders on Administrative Burdens,* in its Opinion of July 2008[24]. In view of the strong stakeholder support for further simplification for SMEs, it was announced on 29 September 2008 that a review of the Fourth and Seventh Accounting Directives should be initiated[25].

In 2008 there was a fast-track adoption of a first series of amendments simplifying disclosure requirements for medium-sized companies and clarifying the obligation to draw up consolidated accounts. Then the European Commission decided to introduce a Member State option to create a new "micro" entity category that will be exempted from the accounting requirements under the Fourth Directive.

The consultation[26]: Cutting Accounting Burden for Small Business / Review of the Accounting Directives is the third step in the simplification of accounting rules for SMEs and other companies in the scope of the Fourth and Seventh Company Law Directives ("Accounting Directives").

The (2009) consultation addresses issues relating to the modernization and simplification of the Accounting Directives. Positive effects of the review will include a reduction of burden

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23 European Commission: Simplifying the business environment for companies http://ec.europa.eu/internal_market/company/simplification/index_en.htm

24 See: http://ec.europa.eu/enterprise/admin-burdens-reduction/highlevelgroup_en.htm

25 See: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/589&format=HTML&aged=0&language=EN&guiLanguage=en

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mainly for small enterprises ("think small first") as well as qualitative improvements for all enterprises in the scope of the Directives. An additional objective is to increase the clarity of the text for lawmakers and users in general.

The Fourth[27] and Seventh[28] Directives have served as the basis for general purpose financial reporting in the European Union for about three decades. During this period the business environment, accounting practices and user needs have changed significantly. The financial reporting environment in the EU changed in 2005 when international standards in the field of accounting were made mandatory for listed companies and those with listed debt securities[29].

A revision of the Accounting Directives will have consequences for other Directives[30] as well as other reporting rules (tax returns, prudential accounts, statistical reporting, etc.) at EU as well as national level. Often these other rules refer directly to requirements in the Accounting Directives or to national implementations of them. Changes made in the context of this project may therefore have intended or unintended effects on other legal and regulatory texts. Careful analyses at EU as well as Member State level therefore need to be undertaken.

Some key documents developed in the course of this ongoing process have been:

Report on impacts of raised thresholds defining SMEs (2005)

This report was a brief attempt to analyze the impact on company population as well as on Member State's policy based on six scenarios for raising the thresholds defining small and medium sized companies within twenty Member States of the European Union.

The research suggested that the impact on small and medium enterprise populations from the six scenarios with different threshold levels is, overall, modest in relative terms but still considerable in absolute terms, but the relative effects on the medium sized enterprise population is higher. An overall conclusion was that increased thresholds would in relative terms impact the SME populations in different Member States very differently.

The willingness of Member States to implement higher threshold defining SMEs appeared to be related to their motivation to alleviate their companies from regulatory burdens. Given the uncertainty about the adoption of thresholds the impacts would be inclined to be relatively hard to predict.

Administration Costs of the EU Company Law Acquis (2007)

This report aimed at identifying those requirements in the Company Law Acquis with high potential for rule simplification and/ or burden reduction.

Data for these Information Obligations (IOs) was obtained through a workshop with experts in the field and the use of a Delphi questionnaire. Data obtained is thus largely "synthetic".

27 Fourth Council Directive (78/660/EEC)

28 Seventh Council Directive (83/349/EEC)

29 Regulation on the application of international accounting standards (1606/2002/EC)

30 The Directives that are affected most may be the Bank Accounts Directive (86/635/EEC) and the Insurance Accounts Directive (91/674/EEC)

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This was used in conjunction with hourly average wage rates (Eurostat Labour Survey), an estimation of standard activities involved in the various IOs and then grossed up to a European level using estimates of the numbers of companies in the EU 27 and their breakdowns into micro, small, medium and large to obtain an indication of the administrative burdens involved with the 10 IOs considered.

As regards the 4th Directive, it was suggested that areas of most interest in terms of simplification or administrative burden reduction were the Annual Report and the Condensed Balance sheet.

IFRS for SMEs Accounting Standard: perceptions and expectations across Europe Mazars, (2007)

This research, carried out by Mazars and EFRAG in 2007, the year in which the US regulator abandoned the obligation for foreigners listed in the US to reconcile IFRS with US GAAP and when the Draft IFRS for SMEs appeared, surveyed 1500 SMEs in 6 EU countries (France, Germany, Italy, Netherlands, Spain and the UK).

The research found that some 80% were in favour of continued convergence, although there was an even split between whether this should be optional or mandatory. There was also a support for breaking the links between tax, legal and accounting in financial reporting. Convergence was supported for reasons to do with competition, management, internal communications and lowering financial costs. However, these reasons differed strongly between countries.

Corporate financial reporting was identified as serving primarily tax authorise, banks, shareholders and management. In the case of banks, most requested cash flow statements and budgets in addition to the financial statements when considering finance. Companies said they that they generally had this information readily available and could prepare it in-house. There was however a marked difference between countries as regards the role of the banks in finance and what they required.

The research also suggested that while the exposure draft of the IFRS for SMEs was generally good, some changes were needed but also that the proposed changes did not match the expectations of EU SMEs.

Some impacts identified that might follow from the introduction of IFRS for SMEs were: changes in management (9driven by the different indicators); the need for more highly trained staff, and the severing of the links between tax and accounting in the financial statements.

International Financial Reporting Standard for Small and Medium Sized Entities. Review of field-testing results carried out by the ACCA in UK in early 2008

Field tests (using the Exposure Draft) were carried out by 5 accounting practices on 5 of their clients to assess

- The extent of restatement
- Problems encountered
- Where more guidance is needed

- What can be omitted

All but two of the firms surveyed are classified as “small” by UK standards (<50 employees).

Findings were considered in the following categories:

- Recognition and measurement differences: few problems encountered, although this may be an understatement
- Presentational differences: not problematic
- Rarely occurring accounting issues: few problems – when do exist refer to full IFRS
- Areas with unexpectedly few comments from respondents: financial assets and liabilities, employee benefits, impairment of non-financial assets, provisions and contingencies
- Influence of accountants and software: accountants prepare and put forward accounts – off the shelf packages for UKGAAP exist – if also for IFRS for SMEs it would be very helpful
- Cost/ benefit: would the audit fee change? 14 of the companies were audited. Most firms said they would expect the audit fee to increase but not by a considerable amount. This would be due to the additional cash flow statement, different disclosure requirements and transitional software.
- Other issues: some questions about impairment of assets and recognition of revenues remain
- UK transition: small firms would want some exemptions (consolidated accounts and cash flow); transition time would not be significant especially if software packages exist. One year should suffice, a “big bang” approach is preferred in transfer from UKGAAP to IFRS for SMEs (with some time for training).
- Implications: there would be little major difficulty for accountants – support replacing UKGAAP with IFRS for SMEs, not just medium and large sized firms.

Evaluating Thresholds for Micro Entities (2008)

The aim of this research was to provide evidence to inform discussion of the possible introduction of exemptions from the provisions of the Fourth Company Law Directive for a category of ‘micro entities’, as prompted by the European Commission’s Communication on a simplified business environment for companies in the areas of company law, accounting and auditing.

Estimates were made on the basis of employment and turnover categories, but it was not possible to do so on the basis of balance sheet totals.

- Based on number employed, savings from exempting companies with 10 or less people employed were estimated of the order of €6,655 million, while savings from exempting companies at a lower threshold of 5 or less employees were of the order of €5,570m.
- If turnover were the only criterion, savings from exempting companies with less than €5m in turnover would be of the order of €7,465 million, for companies with €2m or less these savings would be of the order of €7,044m, for companies with turnover of 1m or less the potential savings would be €6,493m.
- If both turnover (<€1m) and employment (<10) criteria were applied, the number of companies exempt would be 5,369,738 with a total cost saving of €5,976m.

EU Project on Baseline Assessment and Reduction of Administrative Costs (2009)

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This is a report on the pilot project for measurement of the Annual Accounts/ Company Law priority area of the overall EU project on Baseline Assessment and Reduction of Administrative Costs. It is based on measurements conducted in 6 Member States. Data developed by this study has been provided to CSES upon signing of a confidentiality agreement.

This report identified:
- Specific proposals on how to reduce the administrative cost for business arising from the Information Obligations (IOs)
- Input to prioritise and analysis of future simplification work in the shape of cost data for all 27 Member States;
- Analysis of the measurement data as input for the simplification work.

Analysis in the report suggested that the following three suggestions have the highest potential for savings:
- The most significant burden reduction could be achieved by exempting micro entities from the application of the Fourth Company Law Directive on drawing up annual accounts. The estimated burden saving associated with the exemption amounts to 5.79bn Euros.
- The Fourth Company Law Directive provides the possibility of exempting micro and small businesses from the obligation to have their annual accounts audited. In addition to the proposed complete exemption of micro entities from the Fourth Company Law Directive further cost reduction could be achieved by generally exempting small businesses from the obligation to have their accounts audited. The estimated burden saving associated with this exemption amounts to 495mn Euros.
- There is notable cost-reduction potential in offering businesses the opportunity to access a range of related services through one channel and delivering data for several recipients through the same channel – so called one-stop-shopping. The estimated burden saving associated with this possibility amounts to 311mn Euros.

A key point of difference between the current project and work carried out previously is the aim to use actual figures as reported by companies rather than estimates.

FEE: Future Approach to Setting Global Accounting Standards, July 2009

In this note the FEE put forward its view that a future approach should consist of jointly developing new standards, rather than continued convergence, as the convergence approach had reached a stage of diminishing returns.

Financial Reporting from the Perspective of Banks as a major User Group of Financial Statements. Empirical Results and Implications for the further Development of an International Financial Reporting Standard for Private Entities

DRSC, University of Regensburg (2008)

Combined with the results of ASCG's SME survey the interviews reveal issues
Relating to the ED-IFRS for SMEs where the cost/benefit balance might be questioned.

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Those issues are: mark-to-model approach to assess fair values, impairment-only approach to goodwill, recognition of development costs and deferred tax assets, non presentation of extraordinary items. (p.29)

IFRS for SMEs Survey of the expectations and needs of SMEs including field tests.

Conseil National de la Comptabilité

Conclusion

The companies consider that even without referring to full IFRS (two state that they used full IFRS) the application of IFRS for SMEs increases significantly the time required for drawing up the financial statements as well as their cost.

The conclusions of these field tests, with the results of the SMEs survey10, will contribute to the overall position of the CNC in relation to the work carried out on the subject of SMEs by the IASB and the European authorities.

Autorité des Normes Comptables, 12 March 2010

Comments of IFRS for SMEs for the European Commission

- Company needs are not met by IFRS for SMEs. Despite the simplification of IFRS it is still too complex. The links between accountancy, tax and legal reporting need to be retained. The majority of firms do not want it, EU directives do what is required. IFRS for SME simplifications are only relevant to quoted firms. Companies can still choose IFRS as regards consolidated statements.
- There are some issues as regards various matters of principle with IFRS, for example: company valuation, fair value, and so on that also have implications as regards more complex and costly calculations.
- Problems will also be created as regards the EU judicial order: with an additional accounting standard there will be too many. With the differences between member states it will make comparisons difficult.
- The introduction of IFRS in 2005 created many problems, so it would be better if there was more widely thought on the matter. Current EU law works and could be revised and improved. It should not be abandoned in favour of IFRS for SMEs.

Dutch Accounting Standards Board (Raad voor de Jaarverslaggewing), to EFRAG

The RJ is of the opinion that more incompatibilities exist between IFRS SME and the EU Accounting Standards than outlined. The IFRS for SMEs requirement to recognise contingent liabilities acquired in a business combination is incompatible with the EU Accounting Directives. The same goes for the requirement to recognise current tax and deferred tax using the probability-weighted average method.

The EFRAG assessment does not consider how the EU Accounting Directives have been incorporated into the national law of EU Member States. Because of the options in the EU Accounting Directives available to Member States, in practice the potential number of incompatibilities may be much higher when the assessment would be performed at an individual Member State level. It may be worthwhile to consider further research on this point in conjunction with National Standard Setters, prior to any final decision on changes to the existing Directives. Our concern in this respect is also prompted by the lack of clarity on the interaction between the IFRS for SMEs and present publication requirements.

Accountancy Nieuws, 26 March 2010

At a meeting organised by the RJ to discuss IFRS for SMEs, Paul Dirkin a Director of Rabobank (Netherlands) said that Rabobank pays little attention to annual statements when considering funding of SMEs. The first consideration is the impression obtained from personal advice provided and discussions, and experience with the client and the client history. Only after that are the annual statements considered. He indicated that firms will incur extra costs for IFRS for SMEs from which only accountants, actuaries and advisors benefit. They are happy with the Dutch GAAP and annual fiscal approach.

At the same meeting Paul Morshuis from Shell International BV indicated that IFRS for SMEs is a useful framework from an international perspective – it is better than having to deal with 50 GAAPs, and is especially useful for shared services centres. What they would like is an IFRS "light".

Overall remarks

While there is a great deal of discussion has occurred in recent years as regards the aims of reducing administrative burden, simplifying and updating accounting practices, and in particular supporting Europe's SMEs, there has not been a consideration of the costs (in the sense of real rather than "synthetic" costs) and impacts of proposed changes; nor has there been an assessment of the costs and benefits of introducing an alternative standard - the IFRS for SMEs

Interview list

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Organisation	Type	Interview
Denmark		
FSR	Accounting Association/ Standards	Telephone
Nordea Bank	Bank	Telephone
Finansradet	Banking Association	Telephone
Danske Bank	Bank	
France		
CNCC	Auditing Association	Face to face
OEC	Accounting Association	Face to face
PWC	Accounting Company	Face to face
Autorite des Normes Comptables (ANC)*	Standard Setter	Telephone
Mazars	Accounting Company	Telephone
Germany		
IDW	Accounting Association	Telephone
Bundesbank	Central Bank	Telephone
Deutscher Steuerberaterverband e.V	Tax Advisory Association	Telephone
DATEV	Software Firm	Telephone
HypovereinsBank	Banking	Telephone
Italy		
IRDCEC/ CNDCEC	Accounting Association	Face to face
Ministry of Finance	Treasury	Face to face
Association of Italian Banks*	Banks Association	**Face to face**
The Bank of Italy	Central Bank	Face to face
CNDCC	Accountant	Telephone
Lithuania		
LAR	Accounting Association /Regulator	Face to face
Finansai	Accounting Firm	Face to face
PWC	Accounting Firm	Face to face
Rimess AUB	Accounting Firm	Face to face
Netherlands		
NIVRA	Accounting Association	Telephone
Ernst & Young	Accounting Firm	Telephone
Grant Thornton	***Accounting Firm***	Telephone
Rabobank	Bank	Telephone
ING	Bank	Telephone

Interview list

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Poland		
KIBR	Accounting Association	Telephone
Elma-Polaudit	Accounting Firm	Telephone
Ministry of Finance	Regulator	Telephone
Abakus	Accounting Company	Telephone
Romania		
CECCAR	Accounting Association/ Standards	Telephone
Spain		
ICJCE	Accounting Association	Telephone
PWC	Accounting Firm	Telephone
BOVÉ MONTERO Y ASOCIADOS	Accounting Firm	Telephone
UK		
HMT	Treasury	Face to face
ICAEW	Standards	Face to face
Zolfo Cooper	Accounting Firm	Face to face
Newby Crouch	Accounting Firm	Face to face
INTERNATIONAL		
IASB	Regulator/ Standards	Face to face

* The ANC Cairman spoke on behalf of his board that includes banks, lawyers and industries

* The ABI interview consisted of a face-to-face meeting, after which ABI officials met with a small group of Italian banks representing relevant market sectors, who then provided a joint response.

In addition 21 companies were telephoned to discuss aspects of their response to the questionnaire

Analytical issues H

This annex deals with issues surrounding the analysis of data from the survey, and in particular the use of median averages rather than mean averages.

As indicated in Section 2, in analysing the cost information provided by companies, it became apparent that a small number of companies said that there would be large costs or savings from some of the changes. These outlying values had a significant effect on the arithmetic mean of costs, so for analysis purposes the median of response has been used. Both mean and median values are shown in the detailed analysis in appendix B.

Calculation of medians

This annex explains the approach we have used to the calculation of the median, given that most data was returned as rages (eg the number of companies in the range 1 to 4 hours). We can illustrate the calculation of the median by the use of an example containing data values as follows

Up to one hour	15
1 to 4 hours	39
4 to 8 hours	38
8 to 16 hours	18
More hours	13
TOTAL	123

The first step is to establish the range in which the median lies. In this example, 123 companies returned values. The median is therefore 62.

54 companies returned values of less than 4 hours and 31 companies returned values of more than 8 hours. So the median lies in the range 4 to 8 hours.

We then extrapolated within the range 4 to 8 hours to estimate a median. In the range 4 to 8 hours, 8 companies are below the median value (62-54) and 30 companies are above the median value. So we have estimated the median as being 8/38 above the minimum point of the range. The range is 4 hours so the median is (8/38)x4 ie 0.8 above the minimum of the range. In this case the median is 4.8

Calculation of arithmetic means

For many tables, particularly in appendix B the mean value is also shown. To arrive at an arithmetic mean, it was necessary to attribute a value to open ended responses. In other words, if a field had a response of “greater than 8 hours” it was necessary to attribute a value to that response.

The approach adopted was to ask respondents to provide a value for an open ended field (ie if they completed the box “greater than 8 hours” we asked them to state how many hours). We then applied the mean of the values we were given to all response. For example, if one respondent said they used 12 hours, another 16 hours and two other respondents did not give information; we applied 14 hours to all 4 respondents. Where there was no information, we used the lower end of the open ended range (ie 8 hours in the example above).

Analytical issues H

In practice, the calculation of means does not affect any of the results in this report because they are based on median values.