EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

The New Accounting Directive: A Harmonised European Accounting Framework?

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ABOUT EFAA

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

BACKGROUND TO THIS PAPER

The Accounting Directive ("Directive")[1] published on 26 June 2013, entered into force on 20 July 2013. Member States had until 20 July 2015 to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive (incorporate the rules of the Directive within their national law), that is, a period of 24 months.

The new rules must be used by companies for periods beginning 1 January 2016 at the latest.

EFAA stated in its position paper, The Revision of the Accounting Directives – Missed Opportunity?[2] that it believed that the overall result of the review of the Directive and modernisation of the existing accounting acquis would fall short of expectations of the market. This may have been because the majority of attention in reviewing the Directive was focused on Country by Country Reporting for large extractive companies and, importantly, a real opportunity for the European Union ("EU") to develop a better accounting European framework for the great majority of European companies was not maximised.

One of the implications of this shortfall is that a significant number of Member State Options ("MSOs") have been left within the Directive which does not enhance the comparability across Europe.

This report aims to provide a commentary on what accounting treatments were ultimately chosen.

SURVEY

The purpose of this survey was to provide some brief insight into the likely effect of implementation of the Directive within a number of selected Member States and to note any likely transposition issues that have arisen from the ultimate legislation.

The survey was completed by EFAA Member Bodies and other accountancy bodies; not Member State Governments. Provided at ***APPENDICES I*** and ***II*** is EFAA's analysis of the effect of the implementation of both the Accounting Directive and the Micro Directive respectively.

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA relevance

[2] http://www.efaa.com/files/pdf/Publications/Annual%20reports/2014/EFAA%20MSO%20in%20Accounting%20Directives

The survey covered the following Member States:

- France;
- Germany;
- Italy;
- Latvia;
- Netherlands;
- Portugal;
- Spain; and
- United Kingdom.

SO WHAT HAVE WE LEARNED?

This section summarises the detail set out under the different issues in ***APPENDICES I*** and ***II***.

1. Transposition of the Accounting Directive – who had and who had not? (Issue 1)

On 30 April 2016, the legislation had been transposed in all eight of the surveyed countries. The Spanish legislation was in draft at 31 May 2016. Ireland has not been included in this survey as they have not yet brought forward legislation implementing the Directive.

2. What date of implementation was allowed and did this enable early adoption? (Issue 2)

Germany, the Netherlands and the United Kingdom were the only countries that provided for early adoption and where this was allowed all of the provisions of the legislation needed to be taken on board; that is, companies were not allowed to "cherry pick" certain aspects of accounting legislation to suit their needs.

3. The definition of net turnover (Issue 2)

Member states have followed closely the definition in the Directive. However, this has proved to be a matter of much debate because of the removal of the previous restriction to 'ordinary activities'. In Germany, changes resulting from transposition mean that the definition of net turnover now includes income from sales, rent and services. Rent and services, in the past, might not have been included in the definition of turnover for a business entity. This could therefore result in different measures in the calculation of some operating ratios and a reduction in the ability to compare the performance of undertakings using the annual financial reports. Additionally, there may well be unintended consequences if this ultimately affects the size categorization of an undertaking which then gives way to audit requirements and to different levels of financial disclosures.

In Portugal the definition of net turnover was made very specific and is now "the amount from the selling and service delivery after deducting of discounts, sales rebates, VAT and other sales taxes, but if the other income is significant (this is determined to be the case when turnover excluding other income is less than 75 % of the entity's total income), the other income should be added to net turnover, as long all income deriving from transactions with third parties are included in the definition of income".

Latvia also requires that significant "other" income be taken into account although the legislation is not as prescriptive as that of Portugal. In order to determine the category of the company (micro, small, medium, large) or the Group (small, medium, large), in exceptional circumstances, if net turnover is nil or the amount is insignificant, but other income in the statement of income is significant, then instead of using "Net turnover" as one of the thresholds, "Total income" is used, which is the amount of other income set out in all other items of the statement of income.

4. The size thresholds and the requirement for audit (Issue 3 and Issue 7)

The Directive brought in new size thresholds distinguishing small from medium and large sized entities. This was particularly significant because of the maximum harmonisation of note disclosures to be required from small. The Directive does not require the statutory audit of small companies albeit it notes that member states are free to set their own requirements in this regard.

Throughout the debate on the Accounting Directive, EFAA believed that it was appropriate for certain Member States to have flexibility in choosing the "right" size thresholds for them.

In our report "Implementing the New European Accounting Directive – Making the right choices" dated 8 April 2014[3] we commented as follows: *"EFAA has always asserted that the thresholds will have differing effects in Member States as the proportion of undertakings qualifying as a small undertaking varies state by state. EFAA notes that Germany, the Netherlands and the United Kingdom will likely increase the thresholds to the maximum level. The choice of threshold for small entities is of particular importance given the maximum harmonisation approach of Article 16.3 which will restrict the disclosures that can be made for small entities. EFAA believes that Member States should carefully decide what will be the most appropriate limits for themselves."*

It appears that this assertion was correct.

[3] http://www.efaa.com/files/pdf/Publications/Annual%20reports/2014/EFAA%20MSO%20in%20Accounting%20Directives%20Report%20140408.pdf

Germany, the Netherlands and the United Kingdom moved to the maximum size thresholds allowed and set limits at €12m (£10.2m) for turnover, €6 million (£5.1m) for assets and 50 employees. These size thresholds apply to both the determination of the levels of required disclosure for financial reporting and are also used to establish the exemption for small undertakings from having their financial statements audited.

Italy applied limits as follows: €8.8m for turnover, €4.4 million for assets and 50 employees. Again these limits apply to both the determination of the levels of required disclosure for financial reporting and the exemption from audit for small undertakings.

France, Latvia, Portugal and Spain all applied the base limits within the Directive being: €8m for turnover, €4 million for assets and 50 employees.

However, these four countries went on to set different size thresholds for audit purposes and to determine in some cases different thresholds for certain types of entities. What is of interest is that the size criteria for audit requirement was relatively low in these countries. As an example, Latvia set the audit threshold at only €1.6 million for turnover and €0.8 million for assets.

Out of a survey of 8 countries we have identified that:

- Three different size thresholds ((a), (b) and (c)) are in operation for the determination of what a small entity is and therefore what a small entity must include in its financial statements; and
- We have identified six different size criteria that ultimately determine the legislative requirements for entities to have a statutory audit.

A picture of this landscape is shown in **FIGURE #1** on this page.

5. Article 16.2 and maximum harmonisation (Issue 4)

Article 16.2 generally sets out the complete disclosures that Member States could require in the notes to the financial statements for small undertakings to which they may not add, as a maximum harmonisation measure. However, 16.2 allows an option for the Member States to add a few other, but important, disclosures from points (a), (m), (p), (q), (r) of Article 17 (i). The survey population chose to require the following disclosures with France, Germany, Spain and the United Kingdom requiring all 5 disclosures (please see **FIGURE #2** on page 4).

EFAA is supportive of the choices made in France, Germany, Spain and the United Kingdom. In our opinion, these disclosures represent accounting best practice and we firmly believe that they result in better accounting and better information being disclosed.

Furthermore the standard setters in the UK and the Netherlands felt obliged to recommend or stipulate further disclosures in order that small company financial statements could meet the true and fair requirement of the Directive (see page 12 below).

6. The maximum period allowed for the publication of accounts (Issue 5)

EFAA has always believed that the timeliness of financial information about a company is a desirable quality alongside the harmonised basis of preparation and the information disclosed.

FIGURE #1 – *Different size thresholds and size criteria determining legislative requirements*

	Used maximum size thresholds to determine "small"	Used own size thresholds to determine "small"	Used minimum size thresholds to determine "small"	Used size thresholds in (a), (b) or (c) to determine audit requirement for "small"	Used other size thresholds to determine audit requirement for "small"
	(a)	(b)	(c)		
France			•		•
Germany	•			•	
Italy		•		•	
Latvia			•		•
Netherlands	•			•	
Portugal			•		•
Spain			•		•
United Kingdom	•			•	

The revision of the Directive provided an opportunity to rectify a significant gap in the previous Accounting Directives by mandating the maximum period allowed for the publication of accounts by companies across Europe. The new Accounting Directive specifies that *"Member States shall ensure that undertakings within a reasonable period of time which shall not exceed 12 months after the end of the financial year publish the duly approved annual financial statements".*

What was the impact of this change in legislation on transposition?

The Netherlands changed its filing requirements and now requires accounts to be filed within 12 months. The requirements within all the other survey countries did not change and falls in the range of 4 to 12 months.

7. Small company abridged financial statements (Issue 8)

The Directive included a MSO to reduce the level of analysis in the formats of the profit and loss account and balance sheet that might be prepared by small entities.

In Spain the reduction for small entities is based on the existing legislation for SMEs. Every other country in the survey population chose the basis in the Directive to enable small companies to file abridged financial statements although certain entities, such as financial entities, were often excluded from the option.

8. Publication of the profit and loss account by small entities (Issue 9)

Following the ability to prepare abridged accounts member states may allow small companies to publish only the balance sheet and supporting notes and not the profit and loss account.

The profit and loss account would for most users be the starting point and most important element of any financial assessment of a company.

Five out of the eight countries (France, Italy, Latvia, Portugal and Spain) require a small entity to publish its profit and loss account albeit in France, entities that are members of a group may apply for dispensation from doing so.

On the other hand, Germany, the Netherlands and the United Kingdom do not require small entities to publish their profit and loss account.

9. Management report (Issue 10)

There is an MSO to exempt small companies from the preparation and filing of a management report to provide additional information and accompany the financial statements. Six of the eight surveyed countries have taken up this option. Italy and Latvia have continued with this requirement.

10. Accounting Options (Issue 12)

The Accounting Directive includes over 100 MSOs. **APPENDIX I** demonstrates a selection of those options (principally those dealing with the recognition or measurement of items in the financial statements) and shows where the Member States chose the same accounting treatments and where they did not.

Of immediate note is the fact that Germany, Italy, Latvia, the Netherlands, Portugal, Spain and the United Kingdom all required that accounts be prepared using the "substance over form" principle. France does not recognise this principle in the preparation of its financial statements.

In addition, only in three instances, namely allowing the capitalisation of interest costs, the recognition of

FIGURE #2 –
Article 16.2 and maximum harmonisation

	Movements in fixed assets	Details of the consolidating parent company	Off balance sheet arrangements	Related party transactions	Events after the balance sheet date
France	√	√	√	√	√
Germany	√	√	√	√	√
Italy	√	√	√	√	—
Latvia	√	—	√	—	√
Netherlands	—	√	—	—	√
Portugal	√	—	√	√	√
Spain	√	√	√	√	√
United Kingdom	√	√	√	√	√

development costs and merger accounting did all eight Member States implement the options in the same way.

In every other instance where an accounting choice was allowed there was no consensus evident across the surveyed Member States. These covered the following accounting treatments:

- Revaluation of fixed assets;
- Measurement base of financial instruments and other assets at fair value;
- Hedge accounting;
- Recognition of formation expenses as assets;
- LIFO valuation of inventory;
- Recognition of all foreseeable liabilities and potential losses (beyond what are liabilities);
- Difference between amounts repayable on a debt and the amount received being treated as an asset;
- Provisions for future expenses;
- Requirement for medium-sized companies to prepare consolidated accounts;
- The period for amortisation of goodwill; and
- Acquisition accounting based on fair values of assets acquired.

The differences in how these options have been dealt with in this survey clearly demonstrates that there is likely to be a continuing lack of comparability across Europe. That is, how companies account for transactions may well be significantly different.

In addition, there is some evidence, as exhibited in Portugal and the Netherlands, for example, that the number of differences between how small companies and large companies account for items is increasing.

11. The "big" implementation issues arising (Issue 11)

The survey also sought to identify the major issues that the various Member States had encountered in implementing the Directive. A summary is provided below.

Size thresholds and audit exemptions

This decision proved of significance for France, Latvia, Spain and Portugal who all chose to determine their own requirements in this matter and to use a MSO in this area to require audits of small entities.

Definition of turnover

As already noted above, this has proved to be more difficult than one would have imagined at first sight. It is likely to have unintended consequences as changes could affect size thresholds in the ultimate determination of audit requirements and financial statement disclosures in addition to reducing comparability across member states.

Goodwill accounting

It seems that several Member States debated the decision over goodwill accounting and amortisation. Ultimately all but one of our survey population agreed that goodwill could be amortised over a life up to 10 years. France requires that an annual impairment review is performed.

"True and Fair" View

The United Kingdom debated over the requirement for small company accounts to show a "true and fair" view on the one hand and the maximum harmonisation approach to disclosure requirements in Article 16.2 on the other. Ultimately, the conclusion was reached that some further disclosures might be needed to ensure small company accounts meet the "true and fair" requirement. The United Kingdom Standard Setter has identified five further disclosures that they "encourage" company management to include if relevant:

- Statement of compliance with FRS102 (the relevant accounting standard);
- Whether it is a public benefit entity (which would allow access to a slightly different accounting regime);
- Any uncertainties over the going concern assumption;
- Dividends paid or payable and a statement of change in equity – without which the profit for the year might not reconcile to the movement in the reserves in the opening and closing balance sheets; and
- Explanation of the effect of the first time adoption of FRS102.

Pensions

In Germany, with the implementation of the Accounting Modernisation Act in 2009, the discount rate for Pensions was changed from 6% to the mean interest rate of the previous 7 years. The resulting increase in the values of the pension provisions were permitted to be spread over 15 years as extraordinary expenses. Extraordinary items are no longer permitted within the new Accounting Directive and as a consequence, the necessary reclassification of extraordinary expenses leads to higher operating expenses and therefore to different ratios for those sourced from previous periods' financial reports.

12. Micro regime (Issue 6 and Appendix II)

Seven of the eight countries in the survey population introduced the Micro Directive albeit they have done so with differing dates of implementation. Notably Spain has not yet done so although Spain already had a micro accounting plan in existence.

The micro regime means significantly reduced financial information being available on the public record, especially notes to the financial statements and accounting policies. The detailed results are disclosed in ***APPENDIX II*** and observations on particular matters are given below.

Size thresholds and entities within scope

All countries used the size thresholds within the Micro Directive namely, total assets up to €350.000, revenues up to €700.000 and employees up to 10.

In addition, all of them extended the restrictions on the types of entities that could use the Directive in some way.

In France, Germany, Latvia, the Netherlands, Portugal and the United Kingdom financial institutions and credit institutions, insurance undertakings and charities were excluded. The Netherlands also extended this to exclude public interest entities whilst Germany does not allow members of groups to use the exemptions.

Basis of preparation

- *Accruals and prepayments:* One of the major discussion points of the Micro Directive was the potential to exempt companies from the need to recognise accruals and prepayments of 'other charges'.

  Interestingly, only Latvia and the Netherlands used this exemption. France, Germany, Italy, Portugal and the United Kingdom concluded that there were no tax advantages and very little advantages in terms of reductions in complexity of preparation. That is, there was no burden to preparing accounts on an accruals basis.

- *True and fair view:* Within all the countries in the survey population the accounts prepared under the Micro Directive have been (generally) judged to show a true and fair view. However, this has caused some debate in the United Kingdom and as a result special clauses were needed in the legislation to guide directors and auditors in the application of these with accounting standards, especially disclosure requirements within those standards.

  In addition, whilst the tax authorities in the United Kingdom and Latvia will accept the financial statements as the basis for tax assessments the authorities will have the ability to ask for further information and United Kingdom micro entities will still need to prepare a management report.

  The Dutch standard setter requires in some situations (e.g. where there is uncertainty about the going concern assumption) that further disclosure is made in order that financial statements show a 'true and fair view'. France followed suit and similarly requires that additional information is provided in order that accounts show a true and fair view.

- *Disclosure:* Overall the survey population has adopted very similar restricted formats for the financial statements, that is, they are being applied in the same manner.

CONCLUSIONS

This survey is a snapshot of the implementation of the Accounting Directive at April 2016. It only covers eight member states, but it does include some of the largest.

It is scarcely surprising given the number of MSOs that were included in the Directive that the overall picture is one of differences between the different countries with the implication that accounting will not be harmonised across Europe.

There are some areas where the surveyed countries did end up with comparable outcomes. For example, the Directive's maximum disclosure requirements for small companies represented significant harmonisation, even if by reducing transparency and the information available on the public record. The extra optional disclosures have generally been included, though of course not entirely, by the member states surveyed. The micro-entity regime was mostly adopted and in terms of the thresholds defining such entities and the presentational requirements, have generally been done on a similar basis across our sample.

However, there is no escape from the fact that users looking at the accounts of companies across Europe will have to exercise considerable care in reading, interpreting and comparing the information they contain.

a. The accounting options examined here have more often than not been done differently across the sample. Users will not be able to expect that contents and the timeliness of their availability will be the same across the EU.

b. The financial information on some significant matters may be prepared on a different basis. Some of this difference may well be evident if the accounting policies are consulted – for example those differences in terms of revaluations, fair value and inventory valuations.

c. Other matters might be harder to fathom, for instance the basis of provisions or hedge accounting.

d. Some of the options for member states dealt with in a similar way by the member state are those that give choice for companies in how they do their accounting (for example over borrowing and development costs). So again care will be needed by users to understand what they are looking at.

e. Nor should it be forgotten that on many accounting treatments (for example on leases, deferred tax and pension obligations) the Directive is silent and there will therefore be further differences and lack of harmonisation.

What are the implications of this picture of a lack of harmonisation of financial information about SMEs that emerges from the implementation of the Accounting Directive?

This will provide impediments to the development of SME investing or their doing business on a cross-border basis.

Already the European Commission's Capital Markets Union programme has noted the potential importance of a comparable European system of financial reporting for SMEs involved in alternative or SME growth markets. The programme has also noted the possibility of a common information base for credit applications.

The Common Consolidated Corporate Tax Base may be an important component in the area of EU action against tax avoidance. Any common corporate tax base would have to start with a common accounting basis.

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Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
1.	Has the transposition into National Law been completed? Provide references to the legislation or regulation involved.		The transposition was carried out as follows: • Partial Measurements of simplification in 2014 (ordinance n°2014-86 of January 30, 2014 and decree n°2014-136 of February 17, 2014) • Codified commercial regulation (ordinance n°2015-900 and decree n°2015-903 of July 23, 2015) • National Chart of accounts (PCG) + regulation CRC 99-02 group accounts: payments ANC n°2015-06, 2015-07, 2015-08 and 2015-09	The transposition has been finalised. The BilRuG (Accounting Directive Transformation Act) has been published in the official Journal and went into force on 23 July 2015.	The legislation has all been enacted via the issue of the Legislative Decree (D. Lgs. 139/2015) into the Italian Official Journal G.U.205 as of 4 September 2015. There has been no update of Italian GAAP following the new legislation.	A new "Law on Annual Accounts and Consolidated Annual Accounts" was developed, as well as other regulations of the Cabinet of Ministers. Previous "Annual Accounts Law", "Consolidated Annual Accounts Law" and the regulations of the Cabinet of Ministers expired on 31 December 2015.	The transposition has been finalised and published in the official journal (Staatsblad) 2015-349, 350 and 351 on 13 October 2015.	The transposition has been finalised. The Accounting Directive Transformation Act has been published in the official journal as Decreto-Lei 98/2015, 2 June 2015.	The transposition has been mainly completed through the Auditing Law (22/2015 20th. July 2015) and a Royal Decree, which was in draft until February 2016.	The legislation has all been enacted via Statutory instrument 2015/980. A revised version of the accounting standard FRS102 was published in July 2015 by the Financial Reporting Council together with FRS105 for micro entities.
2.	What date of implementation was allowed?		Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.	Required for accounting periods beginning on or after 1 January 2016.
	Was early adoption allowed? If so, from when?		Early adoption is not allowed.	Early adoption is allowed for fiscal years beginning after 31 December 2013 but only if the new regulation regarding the size thresholds and the new definition of net turnover are applied.	Early adoption is not allowed.	Early adoption is not allowed.	Early adoption is allowed for the 2015 fiscal year but only if all aspects of the amended law are being applied (no cherry picking).	Early adoption is not allowed.	Early adoption is not allowed.	Early adoption is allowed for periods beginning on or after 1 January 2015.
	How has turnover been defined? Have other sources of income been added in determining the thresholds?	2.5 and 3.12	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived.	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived. In order to determine the category of the company (micro, small, medium, large) or the Group (small, medium, large), in exceptional circumstances, if net turnover is nil or the amount is insignificant, but other income in the statement of income is significant, then instead of using "Net turnover" as one of the thresholds, "Total income" is used, which is the amount of other income set out in all other items of the statement of income.	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived.	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived. Consideration of article 2.º n.º2 has proved important and requires that this amount should account for at least 75% of all income, otherwise all income deriving from transactions with third parties should be included in the definition of turnover.	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived.	The amounts derived from the provision of goods and services after deduction of trade discounts, value added tax, and any other taxes based on the amounts so derived.

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
3.	What thresholds for defining small companies were ultimately adopted?	3.2 and 3.5								
	Income		EUR 8m	EUR 12m	EUR 8.8m	EUR 8m	EUR 12m	EUR 8m	EUR 8m	GBP 10.2m
	Balance sheet		EUR 4m	EUR 6m	EUR 4.4m	EUR 4m	EUR 6m	EUR 4m	EUR 4m	GBP 5.1m
	Employees		50	50	50	50	50	50	50	50
4.	In addition to the mandatory note disclosures, which of the following possible further disclosures have been added for small companies?	16.2								
	Movements in fixed assets		Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
	Details of the consolidating parent company		Yes	Yes	Yes	No	Yes	No	Yes	Yes
	Off balance sheet arrangements		Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
	Related party transactions		Yes	Yes	Yes	No	No	Yes	Yes	Yes
	Events after the balance sheet date		Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
	Ability to subdivide or to provide subtotals or new items within the prescribed layouts of the balance sheet and in the profit and loss account.	9.2	No	Yes An option is included that allows the subdivision of items or to add items, if they are not yet included in the existing scheme and the readability is increased. The MSO to require specific subdivisions was not used.	Yes	No	Yes An option is included in the amended law to add specific items if not yet covered by other existing items.	No	No	No
5.	What is the maximum period allowed for the publication of accounts?	30.1	6 months	12 months	6 months	4 months 7 months for medium-sized, large and parent companies of Groups that prepare consolidated annual reports.	12 months	7 .5 months with deadline of 15th July.	7 months	9 months
6.	Is the separate Micro entities' regime allowed?		Yes	Yes	Yes	Yes	Yes	Yes	No	Yes

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
7.	What were the thresholds or other limitations chosen for the audit requirement?		An audit is always required for stock companies (SA) and partnerships limited by shares (SCA) An audit is required for simplified public limited liability companies (S.A.S.) with size thresholds defined as follows: • balance sheet total 1 000 000 EUR; • net turnover 2 000 000 EUR; • average number of employees in the accounting year 20; An audit is required for private limited companies (SARL)/ joint stock company (SNC)/ unlimited company (SCS): with size thresholds defined as follows: • balance sheet total 1 550 000 EUR; • net turnover 3 100 000 EUR; • average number of employees in the accounting year 50;	Audit is required for medium and large sized undertakings. Small undertakings are exempt. The thresholds above are applied for small undertakings. Special rules apply for Financial and Credit Institutions and Insurances in that they must prepare financial statements after the rules of a large undertaking.	Audit is required for medium and large sized undertakings. Small undertakings are exempt. The thresholds above are applied for small undertakings.	Audit is required for medium-sized and large companies or if transferable securities of the company are admitted to trading on the regulated market, as well as for the consolidated annual reports prepared by the Parent company of the Group. An audit is required for small companies in at least one of the following circumstances: 1) Size thresholds defined as follows: • balance sheet total 800 000 EUR; • net turnover 1 600 000 EUR; • average number of employees in the accounting year 50; 2) the company is the Parent company of the Group; 3) if the company is a public persons' capital company, its subsidiary or the publicly owned private company as defined in the "Law on the Management of Public Persons' Capital Shares and Capital companies"; 4) if the company applied Part 5 of the Clause 2 of the Section 13 of the "Law on Annual Accounts and Consolidated Annual Accounts" and recognized, measured and stated the related financial statement items in accordance with International Accounting Standards (IAS / IFRS).	Audit is required for medium and large sized undertakings. Small undertakings are exempt. The thresholds above are applied for small undertakings.	An audit is required when the balance sheet is over 1.500.000 EUR, total sales and other income over 3.000.000 EUR and the entity has over 50 Employees. These thresholds are independent from the size thresholds within the Accounting Directive and are defined in article 262.º CSC. S.A. society type entities (Sociedade Anónima) are always required to have an audit regardless of the aforementioned general thresholds.	Following the Spanish Corporate Enterprises Act (Article 263) audit is required for companies that meet at least two of these conditions on two consecutive annual balance sheet dates: • balance sheet total 2.85 million EUR; • net turnover 5.7 million EUR; • average number of employees 50; The Spanish Auditing Law (22/2015 20th. July 2015) (Additional Disposition Number One) establishes other society type entities that are always required to have an audit regardless of the aforementioned general thresholds (for example listed companies).	Audit is required for medium and large sized undertakings. Small undertakings are exempt. The thresholds above are applied for small undertakings.

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
8.	Are small companies permitted to prepare abridged accounts?	14.1 and 14.2	Yes The following exceptions are noted: financial companies, insurance companies, mutual insurance companies, social security office, entities of the regulated market and charitable entities.	Yes	Yes	Yes	Yes	Yes	No In Spain there are abridged financial statements for SMEs and Micros but the format of abridged financial statements was included in the Plan for SMEs of 2007, and so, it is different from the concept of „abridged“ included in the Directives.	Yes but this is subject to shareholder approval.
9.	Are the profit and loss accounts of small companies published?	31.1	Yes Whilst filing annual financial statements at the commercial court is obligatory there is an option of confidentiality that applies to the income statement for small companies that are part of to a group. This rule applies to accounts related with the exercises closed from December 31, 2015 and filed after the expiry of a one year deadline from August 6, 2015 is on August 7, 2016.	No	Yes	Yes	No	Yes	Yes	No
10.	Are the management reports of small companies published?	31.1	No The management report for non-listed companies does not need to be filed at the registration office.	No Small entities are not obliged to prepare a management report.	Yes	Yes	No Small entities are not obliged to prepare a management report.	No Small entities are not obliged to prepare a management report.	No	No Small entities are not obliged to publish their management report if abridged accounts are prepared.
11.	Were there other issues arising on the implementation of the Directive in your member state? ("Big issues" or Major implementation discussion points?)		Yes	Yes	Yes	No	No	Yes	No	Yes
	• Audit							The major implementation issue surrounded the requirement for audit and the audit thresholds.		
	• Accounting for leases				There has been debate about the accounting for leases which is still based upon the accounting for lease rentals irrespective of the nature of the lease.					

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
11. (cont.)	• Disclosure surrounding commitments									The meaning of the requirement in Art16.1(d) for disclosure of financial commitments, guarantees or contingencies was specified as including commitments • via joint ventures; • For the acquisition or improvement of investment property, PP&E and intangibles; • Operating leases; • Multi-employer (including group) defined benefit schemes; and • Related party guarantees.
	• Accounting policies		• Change in accounting policies							• Statement of compliance with the accounting standard • Explanation of the effect of the first time adoption of the new accounting standard
	• Dividends									• Statement of change in equity including dividends paid or payable – without which the profit for the year may not reconcile to the movement in the reserves in the opening and closing balance sheets
	• Exceptional income		• Exceptional income							
	• Pensions			In Germany, with the implementation of the Accounting Modernisation Act in 2009, the discount rate for Pensions was changed from 6% to the mean interest rate of the previous 7 (since 2016: 10) years. The resulting increase in the values of the pension provisions were permitted to be spread over 15 years as extraordinary expenses. With the new Accounting Directive extraordinary items are no longer permitted and as a consequence, the necessary reclassification of extraordinary expenses leads to higher operating expenses and therefore to different ratios.						
	• True and fair view									Further disclosures that might be needed to ensure small company accounts meet the true and fair requirement. The United Kingdom/ Ireland standard setter has asked companies to consider the disclosures required of medium or large companies, but has in addition identified five further disclosures they “encourage” company management to include if relevant.
	• Turnover			The definition of turnover has been extended and now includes revenues from sales, rent or services which might not be typical for the activity of the undertaking.						

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
12.	Accounting treatment options – which of these are allowed or required in your member state after implementation?									
	Substance over form principle	6.1 (h)	This principle is not recognised in the annual financial statements	Required	Required	Required	Required	Required	Required	Required
	Revaluation of fixed assets	7.1	Allowed	Required if market price is lower than amortised costs, prohibited if market price is higher	Prohibited	Allowed	Allowed	Allowed except for Micro	Allowed only through a Law	Allowed
	Financial instruments at fair value	8.1	Prohibited	Required for short-term financial instruments but prohibited for long term financial instruments	Required for derivatives or other complex instruments	Required for equity stakes, derivatives or other complex instruments	Allowed	Allowed except for Micro	Required for equity stakes, derivatives or other complex instruments	Required for equity stakes, derivatives or other complex instruments
	Other assets at fair value	8.1	None	None	None	Investment property Agricultural assets	None	Investment property Agricultural assets	None	Investment property Agricultural assets
	Hedge accounting	8.5 and 8.8	Prohibited	Allowed	Allowed	Allowed	Allowed	Allowed (except for small and micro entities)	Allowed	Allowed
	Capitalisation of interest costs	12.8	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed (except for small and micro entities)	Allowed	Allowed
	Recognition of development costs as assets	12.11	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed
	Recognition of formation expenses as assets	12.11	Prohibited	Prohibited	Prohibited	Prohibited	Allowed	Allowed	Prohibited	Prohibited
	LIFO valuation of inventory	12.9	Prohibited	Allowed	Allowed	Prohibited	Allowed	Prohibited	Prohibited	Prohibited
	Recognise all foreseeable liabilities and potential losses (beyond what are liabilities)	6.5	Allowed	Required in a limited context (provisions for contingent losses)	Allowed	Prohibited	Prohibited	Prohibited	Required in a limited context (provisions for contingent losses)	Prohibited
	Difference between amount repayable on a debt and amount received treated as an asset	12.1	Allowed (for related parties only)	Allowed	Prohibited	Prohibited	Allowed	Prohibited	Prohibited	Prohibited
	Provisions for future expenses	12.12	Allowed	Required in a limited context (provisions for contingent losses)	Allowed	Prohibited	Prohibited (if these expenses do not relate to liabilities on or before the balance sheet date)	Prohibited	Required in a limited context (provisions for contingent losses)	Prohibited

Issue	Area of consideration	Directive reference	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
12. (cont.)	Medium-sized companies required to prepare consolidated accounts	23.2	Required	No	Required	Required	Required	Required	Required	Required
	Period for amortisation of goodwill between 5 and 10 years	12.11	No No amortization is required but an annual obligatory impairment test is required in cases where there is a possible existence of loss.	10 years	Up to 10 years	Up to 10 years	Minimum 5 years and maximum 10 years (if the economic life cannot be reliably assessed)	Up to 10 years	Up to 10 years	Up to 10 years
	Merger accounting for business combinations under common control	25	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed
	Acquisition accounting based on fair values of assets acquired	24.3 (b)	Required	Required	Required	Allowed	Required	Allowed	Required	Required
13.	Alternative presentation of the balance sheet – were entities allowed to use a different layout from those set out in annexes III and IV? If yes, which entities were allowed to do this?		Yes Banks and insurance companies that were the subject of development and ratification of specific regulations.	Yes Financial institutions, banks, insurance entities and the housing industry	Yes There are amended formats for banks and insurance companies. No company is permitted to choose a format based on IFRS for SMEs.	No	Yes Banks, insurance companies and investment companies	Yes Financial institutions, banks and insurance entities	No	Yes There are amended formats for banks and insurance companies. All companies are permitted to choose a format based on IFRS for SMEs.

Note	Area of consideration	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
1.	When was the implementation of the Micro Directive effective?	For financial years ending on or after 31 December 2013.	Financial years ending on or after 31 December 2012.	Financial years starting on or after 1 January 2016.	Financial years starting on or after 1 January 2013.	Financial years ending after 31 December 2014.	The extant Micro Directive has been in use since January 2010. The new Directive will come into force for financial years starting on or after 1 January 2016.	New Micro Directive not implemented.	Financial years ending on or after 30 September 2013.
2.	Was it considered that implementation of the micro directive should coincide with the new accounting directive?	Yes The text of the directive is recalled in the decree 2014-136.	No The objective seems to have been not to wait to apply a deregulatory measure.	Yes	Yes	Yes The implementation of the micro entity regime has been postponed until the implementation of the new accounting directive.	No The objective seems to have been not to wait to apply a deregulatory measure.	N/A	No The objective seems to have been not to wait to apply a deregulatory measure.
3.	What were the thresholds used for the definition of a micro entity?	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	Total Assets up to €350.000; Revenues up to €700.000; employees up to 10; two of these three requirements have to be met in two consecutive financial years.	N/A	Following the maximum allowed in the directive – approximate € to £ translation. There were some elaborations on the application of thresholds.
4.	The exemptions cannot be applied to investment or financial holding under-takings. Were any other scope restrictions placed on the use of the micro entity exemptions?	Yes Certain entities were excluded: Banks and finance companies, the establishments of payment and utility of electronic money, to the companies of insurance and reinsurance, to the social security institution, pension institutions, the mutual insurance companies and unions of mutual insurance companies, to the people and entities whose financial titles are traded on a regulated market and to the people and entities which call upon public generosity. Companies whose activity consists in managing investments and securities were also excluded.	Yes Micro entities which are included in group consolidated financial statements need to prepare their accounts in accordance with the accounting rules for small companies.	No	Yes Credit institutions and insurance entities are also excluded.	Yes Credit institutions, insurance undertakings and public interest entities are excluded.	Yes Credit institutions, insurance entities and non-profit entities are also excluded.	N/A	Yes Credit institutions, insurance undertakings and charities were also excluded.
5.	Was the exemption from the need to recognise accruals and prepayments of 'other charges' used? If not why not?	No There were no tax advantages perceived and very little in terms of reductions in complexity of preparation.	No There were no tax advantages perceived and very little in terms of reductions in complexity of preparation.	No There were no tax advantages perceived and very little in terms of reductions in complexity of preparation.	Yes	Yes	No There were no advantages perceived in terms of reductions in complexity of preparation.	N/A	No There were no tax advantages perceived and very little advantages in terms of reductions in complexity of preparation and there were considered to be problems in relation to the definition of realised profits available for distribution.

Note	Area of consideration	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
6.	Was the exemption used from providing notes to the financial statements (except for information on financial commitments guarantees and contingencies and on credits to management)?	Yes	Yes	Yes	Yes	Yes	Yes Although it is not mandatory, it is possible to use footnotes.	N/A	Yes
7.	Were any other disclosure requirements added in?	Yes The exemption of notes to the financial statements requires that additional details are provided in order to give a true and fair view of the financial statements (uncertainty in respect of going concern, change in accounting policies, precision of the accounting framework).	Yes Micro entities are not obliged to prepare the notes if contingent liabilities and loans to members of the board/ owners are shown below the balance sheet.	No	No	No	No	N/A	No
8.	Will micro entities be obliged to prepare management reports?	Yes There is an exception for single shareholder private limited companies (EURL) or simplified single shareholder companies (SASU) which do not exceed 2 of the 3 thresholds of the small company for the accounting periods starting from 1 January 2016.	No	No	No	No	No	N/A	Yes
9.	Is the balance sheet restricted to?								
	• Subscribed share capital unpaid	No	Yes	Yes	Yes	Yes	Yes	N/A	Yes
	• Formation expenses	No	Yes	No	No	Yes	No		No – not recognised in United Kingdom
	• Fixed assets	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Current assets	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Prepayments and accrued income	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Capital and reserves	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Provisions	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Creditors	Yes	Yes	Yes – amounts due after one year shown separately	Yes – amounts due after one year shown separately	Yes	Yes		Yes – amounts due after one year shown separately
	• Accruals and deferred income	Yes	Yes (but also available in the small regime)	Yes	Yes, except for accruals for unused holiday entitlement	Yes	No		Yes

Note	Area of consideration	France	Germany	Italy	Latvia	Netherlands	Portugal	Spain	United Kingdom
10.	Is the P&L account restricted to?								
	• Net turnover	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes
	• Other income	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Cost of raw materials	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Staff costs	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Value adjustments	Yes	Depreciation and other amounts written off assets	Depreciation and other amounts written off assets	Depreciation and other amounts written off assets	Depreciation and other amounts written off assets	Depreciation and other amounts written off assets		Depreciation and other amounts written off assets
	• Other charges	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Tax	Yes	Yes	Yes	Yes	Yes	Yes		Yes
	• Profit or loss	Yes	Yes	Yes	Yes	Yes	Yes		Yes
11.	Micro entities cannot use the fair value alternative measurement basis. Were any other amendments made to the accounting by micro entities?	No	No	No	No	Measurement at market value is prohibited, but it is allowed to measure tangible and intangible fixed assets at 'current cost price'.	No	N/A	Yes The revaluation measurement basis from Art. 7 is also not allowed.
12.	Are the accounts regarded as giving a true and fair view?	Yes	Yes	Yes	Yes	Yes, however in some situations (e.g. uncertainty about the going concern assumption) further disclosure is required for the purpose of a 'true and fair view'.	Yes	N/A	Yes
13.	Did this produce any significant difficulties?	Yes The exemption of notes to the financial statements requires that additional details are provided in order to give a true and faire view of the financial statements (uncertainty on the going concern, change in accounting policies, precision on the accounting framework).	No	No	Yes Special clauses were needed in the legislation to guide Directors and auditors in the application of these with accounting standards – especially disclosure requirements in those standards.	No	No	N/A	Yes Special clauses were needed in the legislation to guide Directors and auditors in the application of these with accounting standards – especially disclosure requirements in those standards.
14.	Any further implications from the implementation of the micro entities directive?	No	No	No	The tax authorities will accept these as the basis of their assessments, though they have the ability to ask for further information.	No	No	N/A	The tax authorities will accept these as the basis of their assessments, though they have the ability to ask for further information.
15.	Any other observations on the implementation?	No	Micros are not obliged to publish their financial statements when they meet the thresholds in two of the last three years.	No	No	The Dutch Accounting Standards Board issued a separate micro entities accounting standard.	No	N/A	A separate accounting standard for micro entities (FRS105) has been issued to comply with the new law.