



Financial statements must be prepared using:

- Going concern basis (disclosed in accounting policies)
- Prudence recognising the imbalance of treatment between assets and liabilities
- Accruals basis
- Substance over form
- Materiality applies to recognition, measurement, presentation, disclosure and consolidation



General financial reporting principles – Increasing the options

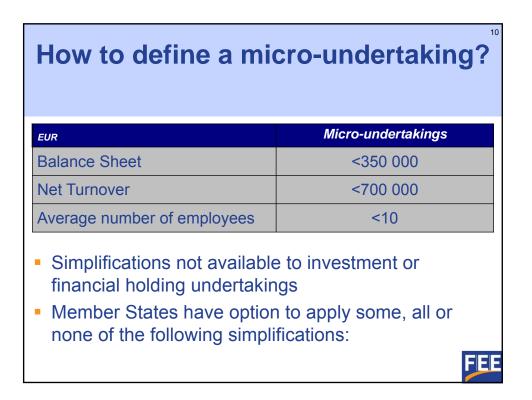
- However, available Member State (MS) options could reduce comparability between countries:
 - Set-off: may be permitted if disclosed
 - Substance over form: may be disapplied
 - Materiality: may be restricted to presentation and disclosure only
 - Prudence: recognition of foreseeable liabilities and losses may be extended to include subsequent events



- FEE's view:
 - Substance over form and materiality are crucial concepts and should always be applied
 - This recast is a useful first step in the development of a principle-based framework suitable for the 21st century
 - Profession can add value in assisting Member States in transposing the Directive and in choosing the most suitable options

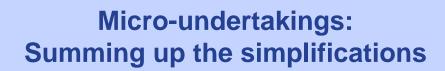
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In million EUR	Small	Medium		Large		
	Old	New	Old	New	Old	New
Balance Sheet	<4.4	4><6	<17.5	<20	>17.5	>20
Net Turnover	<8.8	8><12	<35	<40	>35	>40
Average number of employees	<50	<50	<250	<250	>250	>250



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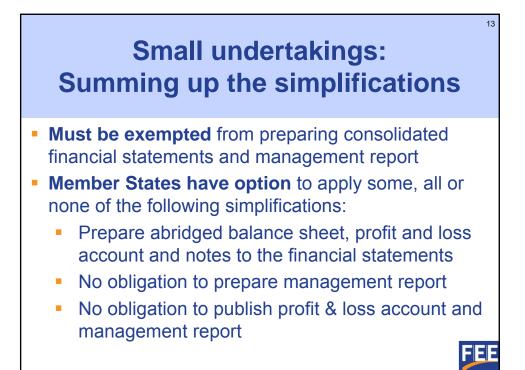


- Prepare abridged balance sheet and profit & loss account
- No obligation to prepare notes to the financial statements and management report
- Use of "Cash +" accounting: accruals basis only for revenue, raw materials\consumables, staff costs, value adjustments to assets and tax
- No Fair Value accounting
- Need only to publish an abridged balance sheet
- **However** still need to keep accounting records

Small undertakings: "Think small first" approach

Million EUR	Base Threshold	MS Option
Balance Sheet	<4	>4<6
Net Turnover	<8	>8<12
Average number of employees	<50	<50

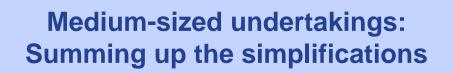
 Member States may vary either or both of the turnover and balance sheet thresholds up to the maximums shown in the MS option



Medium-sized undertakings: Meeting the threshold

Million EUR	Thresholds				
Balance Sheet	<20				
Net Turnover	<40				
Average number of employees	<250				
 The undertaking moves up a category if it exceeds 2 of the 3 thresholds for 2 consecutive years 					

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- Member States have option to apply some, all or none of the following simplifications:
 - Exemption from preparing consolidated financial statements
 - Prepare abridged profit & loss account
 - Prepare abridged management report
 - Publish abridged balance sheet
 - Publish abridged notes to the financial statements

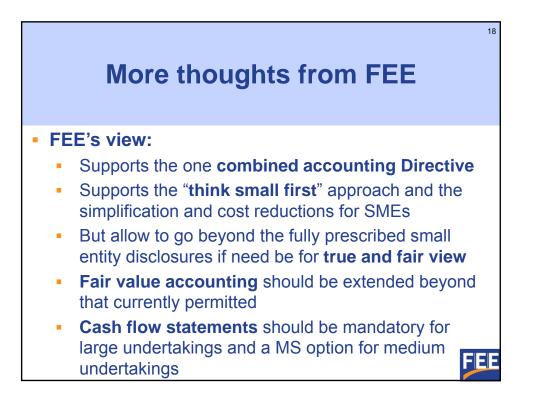
Large undertakings: Full disclosure				
Million EUR	Thresholds			
Balance Sheet	≥ 20			
Net Turnover	≥ 40			
Average number of employees	≥ 250			
 There are no exemptions for larg 	e undertakings			
 True comparability between finar exists for large undertakings and adopted IFRS? 				
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Fair Value measurement and cash flow statements: Options to pursue

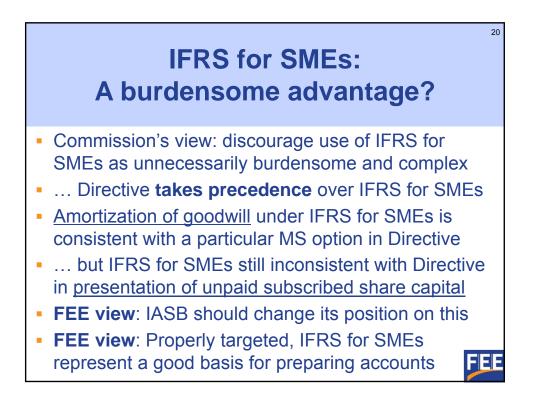
Alternative measurement basis of Fair Value

- MS option to permit or require Fair Value as an alternative measurement basis but only for restricted categories of items
- Cash flow statements
 - No requirements for cash flow statements for any entity (MS may require additional statements but not for micro or small undertakings)
 - Required under IFRS and IFRS for SMEs



International Financial Reporting Standards: Interacting with the Directive

- Directive encompasses all companies governed by Member State law
- The 2002 IAS Regulation: adoption of IFRSs mandatory for listed undertakings in the EU
- If the IFRSs are silent, the Directive takes precedence
- If there is conflict between IFRSs and the Directive, the treatment prescribed in the IFRS takes precedence (Regulations take precedence over Directives in EU law)



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Payments to governments: The threshold for transparency

- Affects large companies and PIEs active in the extractive or forestry industries
- Disclosure of any payment (or series of payments) totalling EUR 100 000 or more in a financial year
- Payments to include taxation, royalties and dividends
- Annual disclosure in a public report outside the annual financial statements
- Reporting on country-by-country and project-byproject basis
- No requirement for auditor's involvement

Audits for small undertakings: To audit or not to audit?

- Audit is mandatory on EU level for medium and large sized undertakings and public-interest entities
- Member States (MS) have the option to impose an audit on all or part of their small undertakings
- Audit of small undertakings to take into account their needs and those of the users of their accounts
- FEE view: Audit should not be characterised as a burden – profession should stress the benefits that an audit gives
- FEE view: MS option for audit of small undertakings to be based on size of economy and undertakings

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Audit thresholds for small undertakings: A step too far?

 Audit thresholds based on the Directive's accounting thresholds for defining undertakings, which have changed:

Option
5.0
2.0
50

 If MS adopt the maximum threshold, many more small undertakings will not require an audit

