Final Report of the Survey on the IFRS for SMEs among German SMEs

Berlin 2010

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1 OBJECTIVES OF THE SURVEY

After a long lasting development process the International Accounting Standards Board (IASB) published the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* on 9 July 2009. This standard was requested primarily by supranational institutions like the World Bank, the International Monetary Fund and the UN, as well as by numerous standard setters and governments from emerging countries and countries in transition. The objective was, to have apart from the (full) IFRS a set of international accounting requirements that take into account the particular needs of SMEs in terms of costs involved in the presentation of financial statements and the benefits provided to the users of these statements.

The standard has had a diverse reception all over the world. While there has been a considerable number of countries that have already introduced the standard in their national regulatory system or are willing to do so[1], others have been very critical about the concept and the necessity of the standard and are therefore reluctant to accept it in their national legal environment.[2] This controversial situation is also found within the EU, there are countries in favour and countries against an introduction in the EU and/or national law. [3]

Against the background of the embracing revision act of the German Commercial Code (Handelsgesetzbuch, HGB), the so-called "*Bilanzrechtsmodernisierungsgesetz*" (BilMoG), that became effective in summer 2009 and that was intended to create a less costly and less complex alternative to the IFRS in general and the IFRS for SMEs in particular for German entities[4], it is of interest whether German SMEs see a need to apply the IFRS for SMEs and how they assess the content of the standard in comparison with the BilMoG. To seek empirically based answers to these two questions the German Accounting Standards Committee (GASC) has initiated a survey. To guarantee the independence and the quality of the study the GASC commissioned two researchers, Prof. Dr. Brigitte Eierle from the University of Bamberg and Prof. Dr. Axel Haller from the University of Regensburg, to carry out the study. To get broader coverage and a higher public profile for the study, as well as additional expertise, the GASC cooperated with the Federation of German Industries (BDI). The study was carried out in early summer 2010.

According to the IASB´s definition of an SME the scope of the survey includes German entities that do not have public accountability and publish general purpose financial statements for external users.[5] In line with the IFRS for SMEs these entities are referred to in this study as SMEs.

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1 The standard is already applicable on a voluntary or compulsory basis e.g. in South Africa, Brazil, the Philippines, Hong Kong, Tanzania, Sierra Leone, Costa Rica, Namibia, Nigeria und Mauritius; IASB (2010).

2 See e.g. Fülbier, R. U./Gassen, J. (2010); Janssen, J./Gronewold, U. (2010); Kirsch, H. (2010); Schildbach, T. (2009).

3 According to the results of the most recent survey of the EU Commission thirteen Member States are in favour of a broad application of the IFRS for SMEs and eight are against; EU-Commission (2010). The Member States in favour are: UK, Denmark, Spain, Sweden, the Czech Republic, Poland, Cyprus, Greece, Ireland, Malta, Estonia, Portugal and the Netherlands. For the role of the IFRS for SMEs within Europe see Biebel, R. (2010).

4 See Deutscher Bundestag (2008), p. 1.

5 Publicly accountable entities are those which file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or which hold assets in a fiduciary capacity for a broad group of outsiders (e.g. a bank, insurance entity, securities broker/dealer etc.); IFRS for SMEs 1.2. In addition the IASB leaves it up to the national regulators to ultimately define the scope of the standard and decide which entities should use the IFRS for SMEs. Therefore, regulators may also use additional qualitative and/or quantitative characteristics for their national decisions on the application of the IFRS for SMEs; see *Eierle, B.*/Haller, A. (2010).

The study intends to provide sound empirical data on the assessment of financial statement preparers of German SMEs of the accounting methods required in the IFRS for SMEs compared to those required in the HGB, their perceived need to provide internationally comparable accounting data as well as their general perception of any potential advantage for their entity to apply the IFRS for SMEs. It should fuel the ongoing discussion in Germany and the EU about whether the IFRS for SMEs should be introduced in the EU and/or national legal system as well as whether further developments of the German accounting regulation should embrace the incorporation of at least some of the content of the IFRS for SMEs.

Although the IASB expressed clearly its intended scope of the IFRS for SMEs it has been discussed since the development of the standard whether it might be sensible with regard to the cost/benefit consideration to expand the scope of the standard to "small" entities with public accountability.[6] In order to provide empirical data with regard to this discussion in Germany the research team of this study also carried out a survey on publicly traded entities with an annual sales volume of less than 130 m Euros.[7] The objective of this study was to find out how those responsible for accounting in these entities assess the cost/benefit relationship related with some accounting methods required in the IFRS for SMEs in particular and the application of the IFRS for SMEs in general in comparison with the (full) IFRS. The results of this second study are part of a second research report that has also been published by the GASC. The summary at the end of that report includes several comparative remarks with regard to this parallel study.

This study has very much been aligned to a previous study that was carried out in 2007 and that was also initiated by the GASC. This earlier study was based on the Exposure Draft of the IFRS for SMEs and was a response to the field test initiative of the IASB. The summary at the end of this report therefore also provides inter-temporary comparisons of the results of the current and the previous study.

2 DESIGN OF THE SURVEY

2.1 Questionnaire

The survey is based on a questionnaire that was sent by mail to 4,000 SMEs, asking the director in charge of the annual accounts to fill it in. Return envelopes with postage paid were provided and confidentiality was guaranteed.

The content of the questionnaire aimed to get answers to the following areas of questions:

a) Is there a general need of German SMEs to provide internationally comparable accounting information?

b) How do German SMEs assess particular requirements of the IFRS for SMEs in general and compared to the "modernised" requirements of the HGB?

c) To which extent are German SMEs interested in the application of the IFRS for SMEs?

The questionnaire was structured in such a way that it did not require any knowledge of IFRS or the IFRS for SMEs. Appropriate explanations were therefore provided with the questions. In this way a fairly equal level of knowledge was aimed at, which should safeguard reliable and comparable answers. In addition, each question (where appropriate) had the answer category "impos-

6 See DRSC (2010), p. 4; ASB (2010), para. 12.9.

7 See Eierle, B./Haller, A. (2010a).

sible to say" which also should contribute to the quality and reliability of the answers and therefore of the results.[8]

The questionnaire had a length of 12 pages. It was developed within the cooperating institutions and in consultation with other experts during the period from February till May 2010. After a pre-test the questionnaires were sent out in June. The entities were given four weeks to send the questionnaire back. One week before the deadline for sending the questionnaires back, a reminder letter was sent to the entities.

2.2 Sample selection

Like the study in 2007 the approx. 1.211.000 German enterprises containing database, called *MARKUS-Datenbank*, was the basis for the sample selection.[9] From this total all entities were excluded that did not meet the IASB´s definition of SMEs. In addition to this, entities with an annual sales volume of less than 10 m EUR, so to say the "small" entities according to Article 267 HGB and Article 11 of the 4th Directive were also excluded. This was because it is most likely that if the IFRS for SMEs has any relevance for SMEs in Germany, these entities might be excluded from the scope of application. Out of the remaining 86,323 entities 4000 were selected by using a disproportionate stratified random sampling. The criteria for the clusters were the size and the legal form of the entities.

This sample selection was chosen in order to get a sufficient number of questionnaires back from larger entities and those with specific legal forms, such as partnerships, limited partnerships and stock corporations and therefore to be able to get significant and relevant insights into the attitudes and evaluations of those entities. This would not have been the case in a purely randomly selected sample because small entities and particular legal forms, especially the limited liability company, are fairly over-represented, which would then also have been the case for the sample. This analytical advantage was seen by the researchers to outweigh the disadvantage of the lack of proportional representation of the German landscape of SMEs.

2.3 Questionnaire returns

The entities were asked to send the questionnaires back within four weeks. 340 completed questionnaires came back, of which 18 had to be excluded because of the reasons shown in figure 1. Finally 322 questionnaires were usable for the analysis. This represents a response rate of 8.05%.

Due to the fact that not all questionnaires were comprehensively filled in, the following presentation of the results and answers given always provides the number of responses that were included in the analysis of a particular question (symbol "n").

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[8] The frequency of this response is shown in the following figures of this report.

[9] This database contains all entities of the German companies' register which do have an acceptable credit rating of the *Creditreform*, an institution which evaluates the credit worthiness of entities in Germany and other countries.

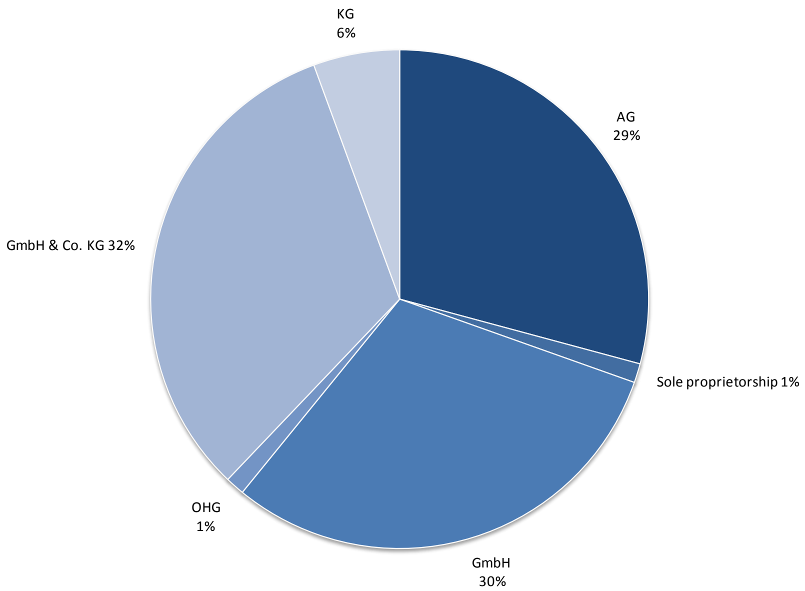
Questionnaires sent out	4.000	
Questionnaires returned	340	
Rejected questionnaires, due to a		
Listing on the stock exchange	17	
Not for profit organisation	1	
= Analysable questionnaires	322	(8.05%)

Figure 1: Questionnaire response rate

2.4 Characterisation of the participating entities

The entities that answered the questionnaire are broadly diversified in terms of size (measured by the annual sales volume), legal form, and industry. However, in conformity with the representation in the *MARKUS-Datenbank*, companies with limited liability (92%) are heavily overrepresented compared to partnerships and sole proprietorships (see figure 2). Also the size clusters are not equally represented. The small and the large ones are overrepresented compared to the two mid-sized clusters (see figure 3).

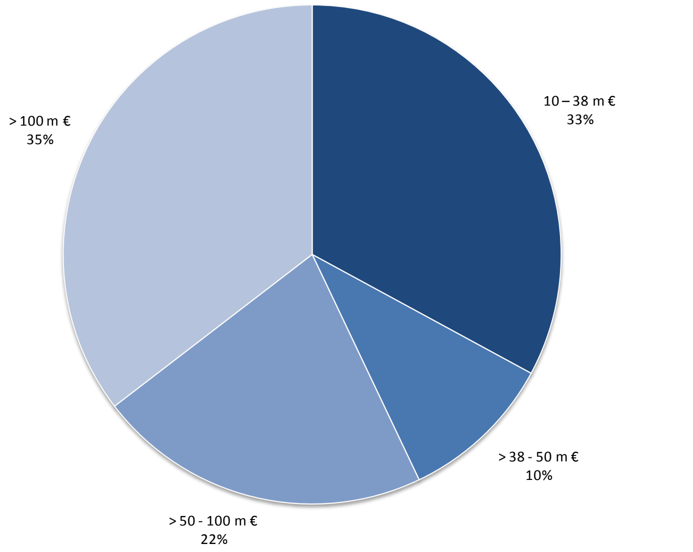
Question: Which legal form does your entity have?



Usable answers: n=322

Figure 2: Legal form of responding entities

Question: **What was your annual sales volume in the last financial year?**

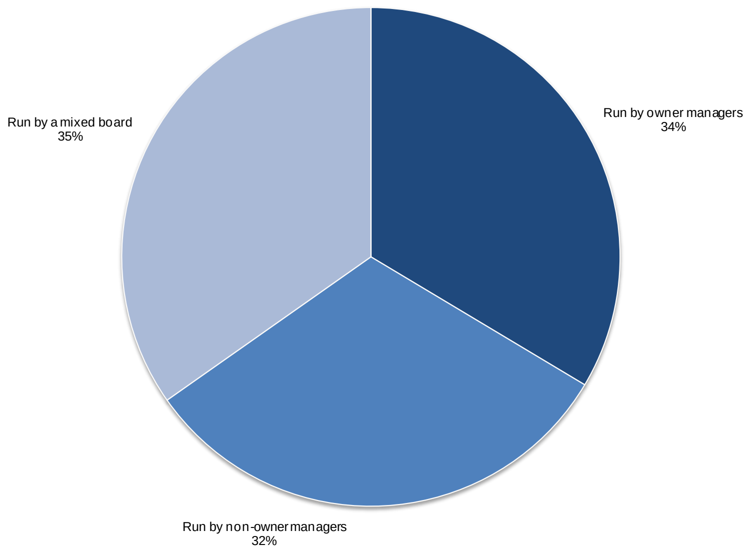


Usable answers: n=319

Figure 3: Responding entities according to their annual sales volume

Although the sample contains only a small proportion of partnerships the owner and manager structure of the participating entities is quite equally distributed. Approx. a third of the entities is only managed by owners. Another third is managed by outside managers and the rest has outside managers as well as owner managers (see figure 4).

Question: **Which management/owner structure does your entity have?**

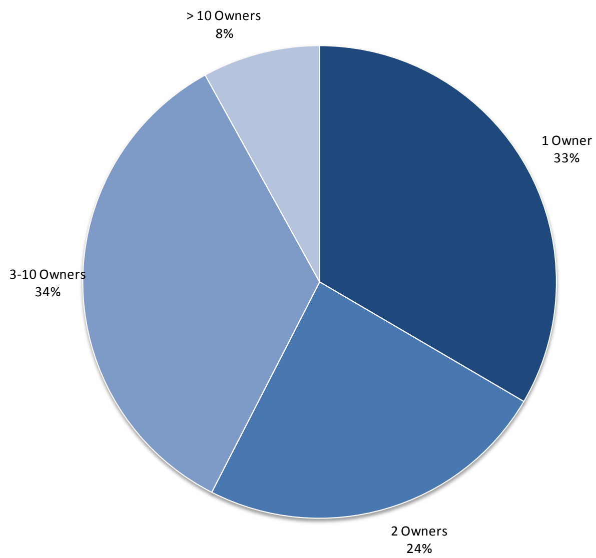


Usable answers: n=256

Figure 4: Management/owner structure of the responding entities

A more detailed analysis reveals that those entities that are in the cluster of the smallest entities (annual sales volume between 10 and 38 m Euros, n=89) and those entities that have an annual sales volume between 50 and 100 m Euros (n=57) show with 51% and 40% a higher portion of owner managed firms than the entities of the other two size clusters.[10] Despite these size effects it becomes obvious, that even within small entities the quantity of those with non-owner managers is quite high. This underlines the IASB's assumption that there is a considerable number of SMEs with owners that are not involved in the management of the entity (so-called "non-participating owners"). These owners have to rely on the information provided in financial statements and are therefore major users of presented accounts.[11]

Question: How many owners does your entity have?



Statistics	
Mean value	7,18
Median	2,00
Standard deviation	32,132
Minimum	1
Maximum	500

Usable answers: n=299

Figure 5: Number of owners of the responding entities

Focusing solely on the number of owners of the participating firms one specific characteristic of non-publicly accountable entities becomes obvious (see figure 5). 33% of the responding entities have only one owner, the median of the answers is 2 and the maximum is 500 owners. Only 8% of the firms have more than 10 owners. This shows that non-publicly accountable entities usually have a small number of owners.

Figure 6 shows the industries the participating entities are in. It is obvious that the manufacturing, wholesale as well as car repair industries are represented the most in the group of the entities analysed.

10 Within the entities with an annual sales volume of more than 100 m Euros (n=81) the portion of owner-managed firms is only 15%.

11 See BC80 IFRS for SMEs.

Responding entities according to their industries on the basis of the federal statistical office's official classification of economic activities (WZ 2008):	
Manufacturing	35%
Wholesale and retail trade, repair of motor vehicles	25%
Professional, scientific and technical activities	9%
Information and communication	6%
Construction	5%
Real estate activities and accomodation	4%
Transportation and storage	4%
Electricity, gas, steam and air conditioning supply	4%
Administrative and support service activities	3%
Human health and social work activities	2%
Mining and quarrying	1%
Water supply, sewerage, waste management and remediation activities	1%
Restaurants and hotels	1%
Financial and insurance activities	1%
Education	1%
Other service activities	1%
Public administration and defence, compulsory social security	0%
Usable answers: n=322	

Figure 6: Responding entities according to industry

The survey shows that SMEs are very often part of a group. 66% of the participating entities (n=307) stated that they are parent and/or subsidiary of a group. In this respect a clear size effect is obvious. While 59% of the SMEs of the smallest size cluster (annual sales volume between 10 and 38 m Euros) mention that they are not included in group financial statements, the portion is only 11% in the category of the largest SMEs (annual sales volume above 100 m Euros) (see figure 7).

The survey also reveals that SMEs in Germany broadly use IFRS for their consolidated accounts and therefore apply the option provided in Art. 315a Abs. 3 HGB to apply IFRS for the consolidated accounts instead of German GAAP. According to the answers given, 24% of the entities (n=225) apply IFRS within the group they belong to. 18% present their own group financial statements according to IFRS (n=248) and 11% (n=192) use IFRS in their "sub-group accounts" (*Teilkonzernabschluss*) (see figure 8). It is interesting that 22 firms stated to use other requirements than IFRS or HGB in preparing their consolidated financial statements (see figure 7). This can be seen as a proof for the international connectedness of German SMEs.

It also becomes obvious that SMEs of the cluster with the largest entities (annual sales volume above 100 m Euros) are more often included in consolidated statements that comply with (full) IFRS (56%) than entities of the smallest cluster (annual sales volume between 10 and 32 m Euros) (see figure 7). A comparable connection is also revealed with regard to the separate financial statements that are presented by 11% of the entities of the cluster with the largest entities (n=124) on the basis of IFRS. Hereby it has to be noted that these must be supplementary financial statements for publications purposes that are presented in addition to the financial statements according to HGB that are required by law.

Question:	**Which accounting standards are used for the preparation of the consolidated financial statements in which your entity is included?**

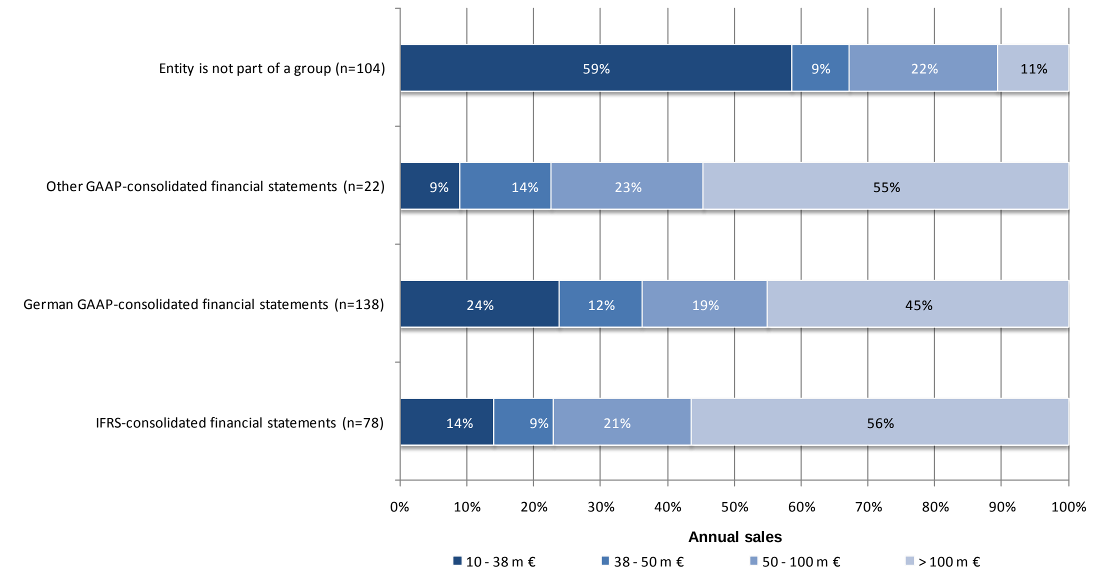


Figure 7: Accounting standards used for the preparation of the consolidated financial statements in which the entity is included in relation to the size of the entity (annual sales)

Question:	**Which financial statements does your entity prepare and which accounting standards are used?**

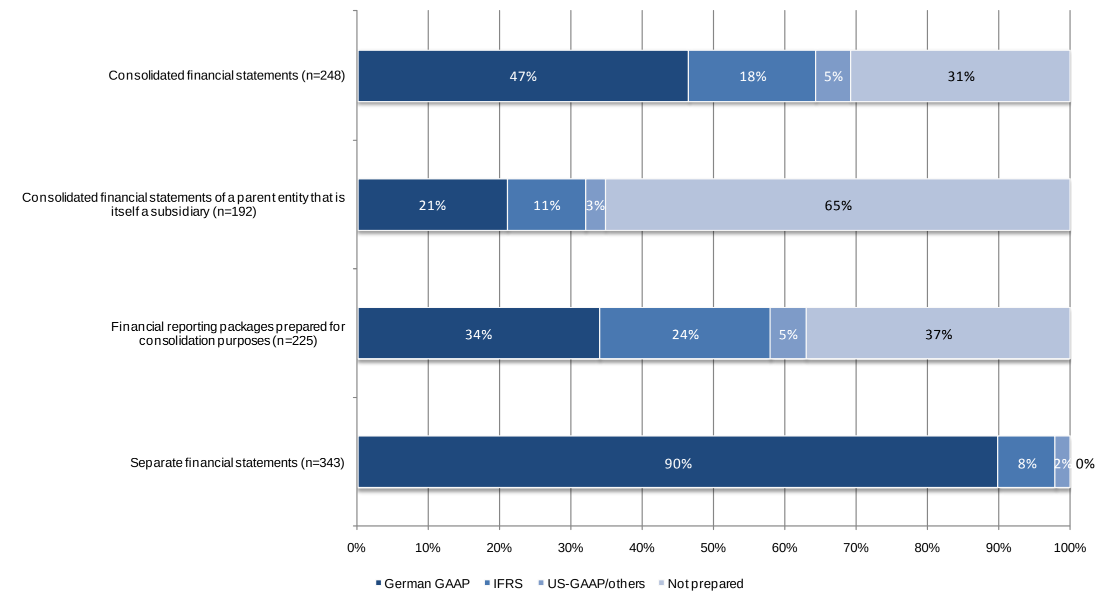


Figure 8: Accounting standards used for different types of financial statements

The quite frequent application of IFRS in financial statements of SMEs might explain the answers of the participants concerning their level of knowledge of (full) IFRS. 31% of the persons (n= 313) stated to have (rather or very) good knowledge of IFRS (45% in entities with an annual sales volume above 100 m Euros) and 32% evaluated their knowledge as being moderate (41% in entities with an annual sales volume between 38 and 59 m Euros) (see figure 9).

Question: What is your knowledge level of (full) IFRS?

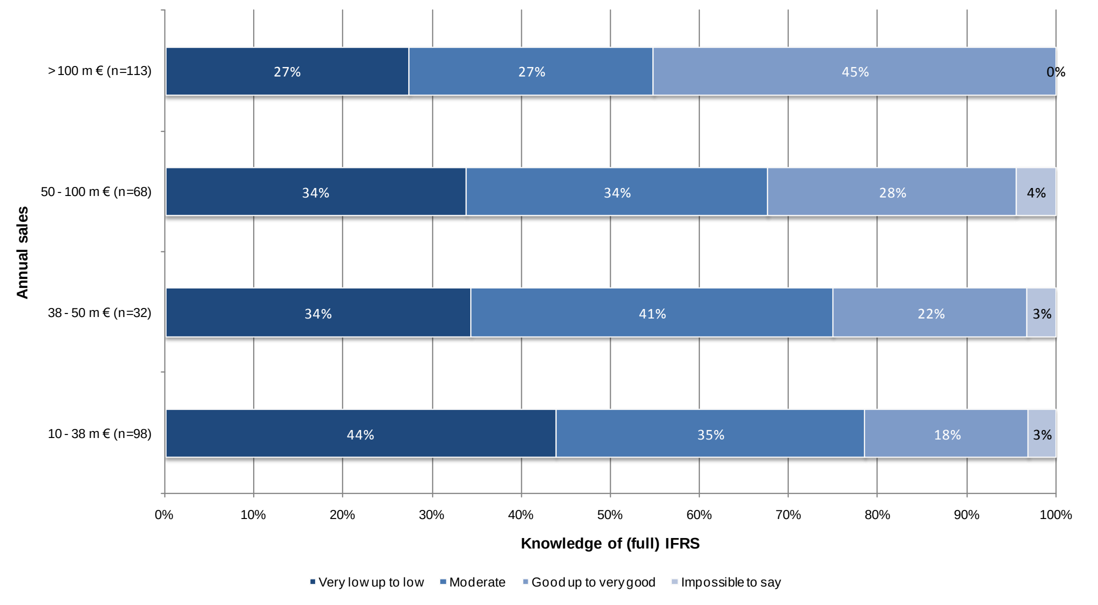


Figure 9: Knowledge level of (full) IFRS in relation to the size of the entity (annual sales)

Question: What is your knowledge level of (full) IFRS?

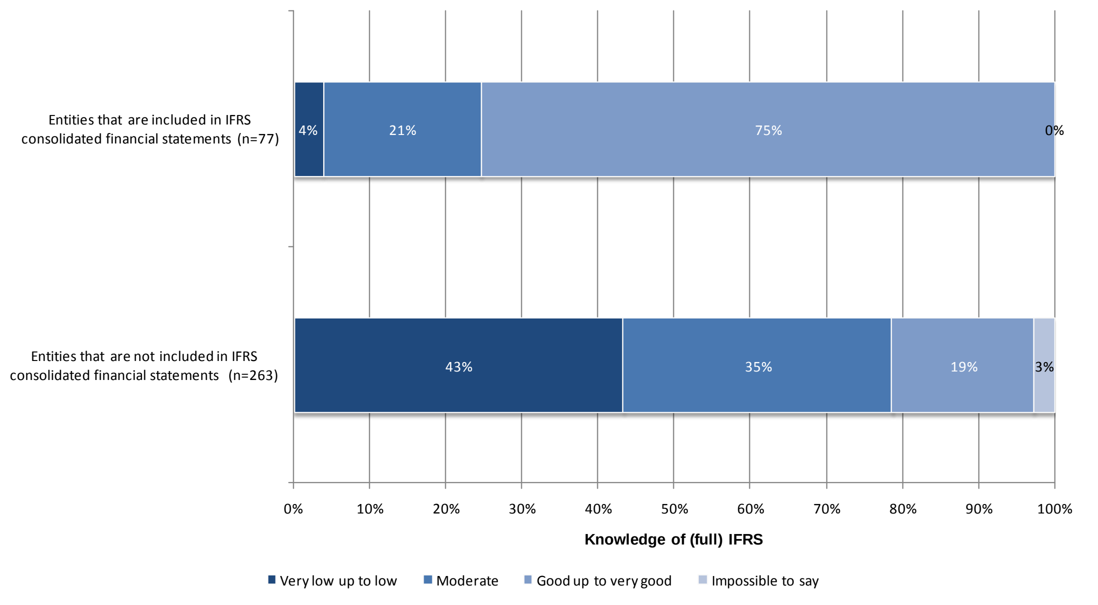


Figure 10: Knowledge level of (full) IFRS in relation to the affiliation to a group preparing IFRS consolidated financial statements

Besides the size of the entity, group affiliation seems to be an even stronger factor for explaining the knowledge of IFRS. While 75% of the persons of entities that are included in consolidated financial statements that comply with IFRS evaluate their (full) IFRS-knowledge as being (rather or very) good, this level of knowledge is only stated by 19% of the persons from entities that are not part of a group with IFRS financial statements (see figure 10).

3 CROSS-BORDER ACTIVITIES AND NEED FOR INTERNATIONALLY COMPARABLE FINANCIAL STATEMENTS

One of the major justifications for the IFRS for SMEs has been the assumption that SMEs do have international activities and relationships and therefore experience the need for internationally comparable information. Therefore the survey contained questions on the cross-border activities of SMEs. The results show that those activities are concentrated on the exchange of goods and services (see figure 11). Thus 41% of the participating entities assess exports as having (rather or very) high relevance (14% indicate a moderate relevance). Almost half of the respondents assessed imports as being of moderate (18%) or (rather or very) high (24%) relevance. The responses also show that cross-border finance is of only moderate relevance; 88% assess foreign equity and 91% foreign credits as having no or only very limited relevance. These results are almost the same over the four different size clusters. Even in the size cluster with the smallest entities (annual sales volume between 10 and 38 m EUR) exports and imports of goods and services do play a considerable role, whereas international finance transactions are of very limited relevance even for SMEs of the cluster with large entities (annual sales volume above 100 m Euros).

Question: How relevant are the following cross-border activities to your entity?

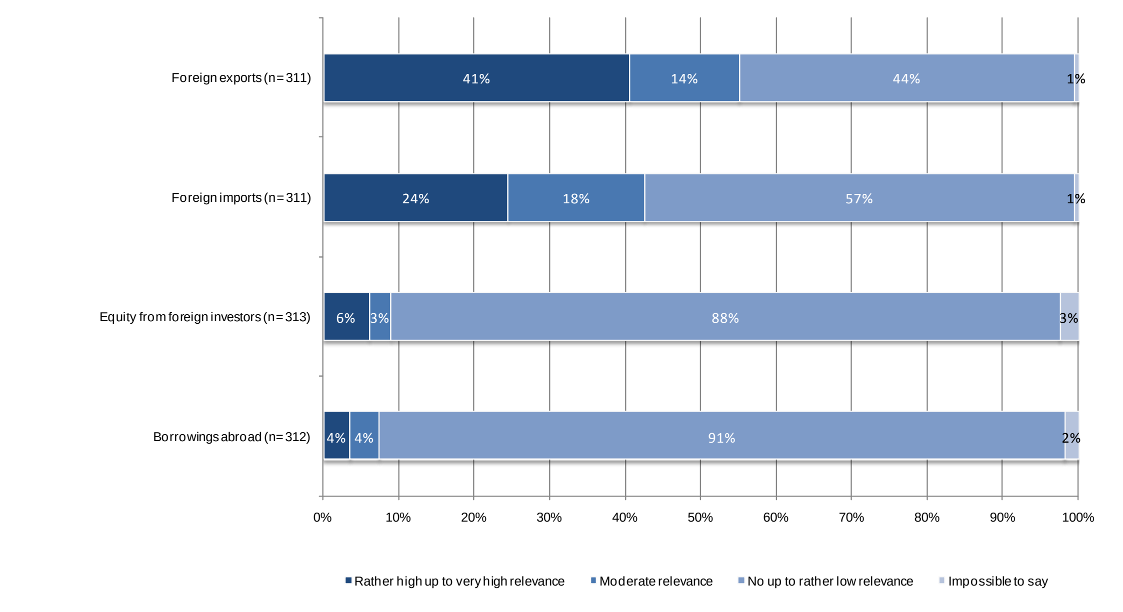


Figure 11: Cross-border activities

The survey further reveals that the SMEs are also quite internationally oriented in terms of foreign investments. 40% of the entities (n=313) stated that they have foreign subsidiaries. As depicted in figure 12 those investments in foreign subsidiaries are twice as frequent within large (58%) than within small (27%) SMEs.

Question: Does your entity have any foreign subsidiaries?

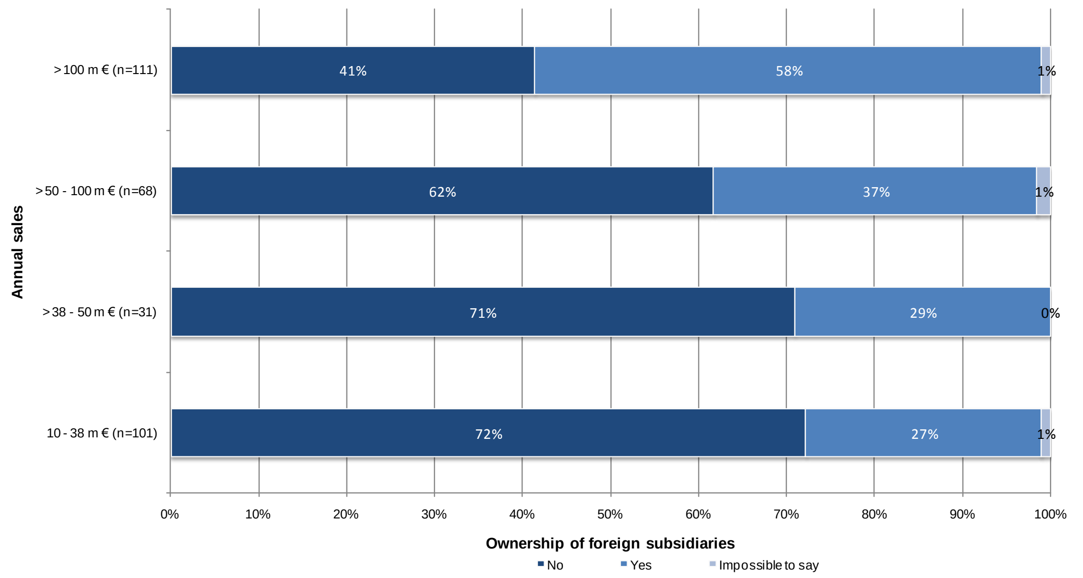
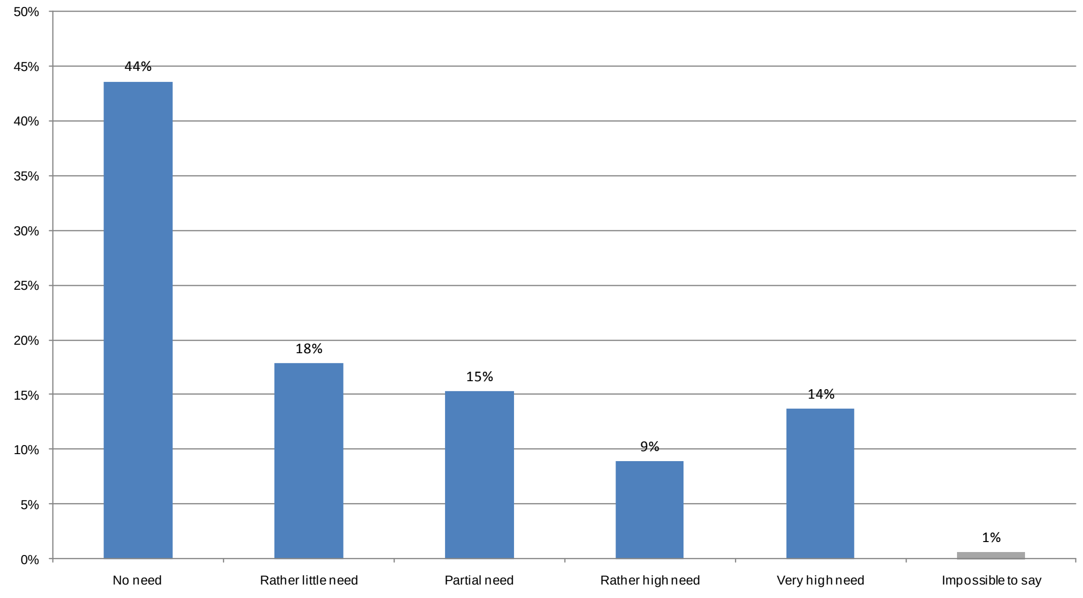


Figure 12: Number of foreign subsidiaries in relation to the size of the entity (annual sales)

These results support the argument of the IASB that SMEs do have international activities. This is also reflected in the answers to the question whether the representatives of the SMEs see any need for their entities to provide internationally comparable financial information, 23% of the persons expressed a (rather or very) high need and still 15% a partial need to provide such information (see figure 13).

A further analysis shows that the perceived need depends on the size of the SME and the importance of exports. Large SMEs and SMEs for which exports are highly relevant indicate a higher need to provide internationally comparable accounting information than small and less export oriented entities (see figure 14 and 15). These findings underline that an entity's size as well as its level of cross-border activities have an impact on an entity's need to provide internationally comparable information.

Question: **Is there a need for your entity to provide internationally comparable financial information?**



Usable answers: n=314

Figure 13: Need to provide internationally comparable financial information

Question: **Is there a need for your entity to provide internationally comparable financial information?**

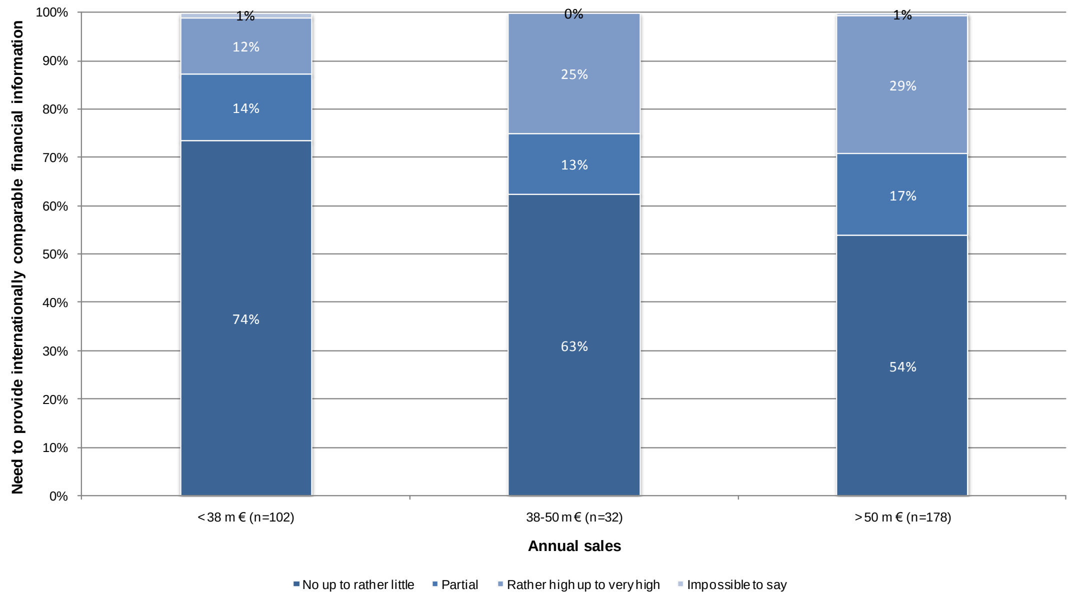


Figure 14: Need to provide internationally comparable financial information in relation to the size of the entity (annual sales)

Question: **Is there a need for your entity to provide internationally comparable financial information?**

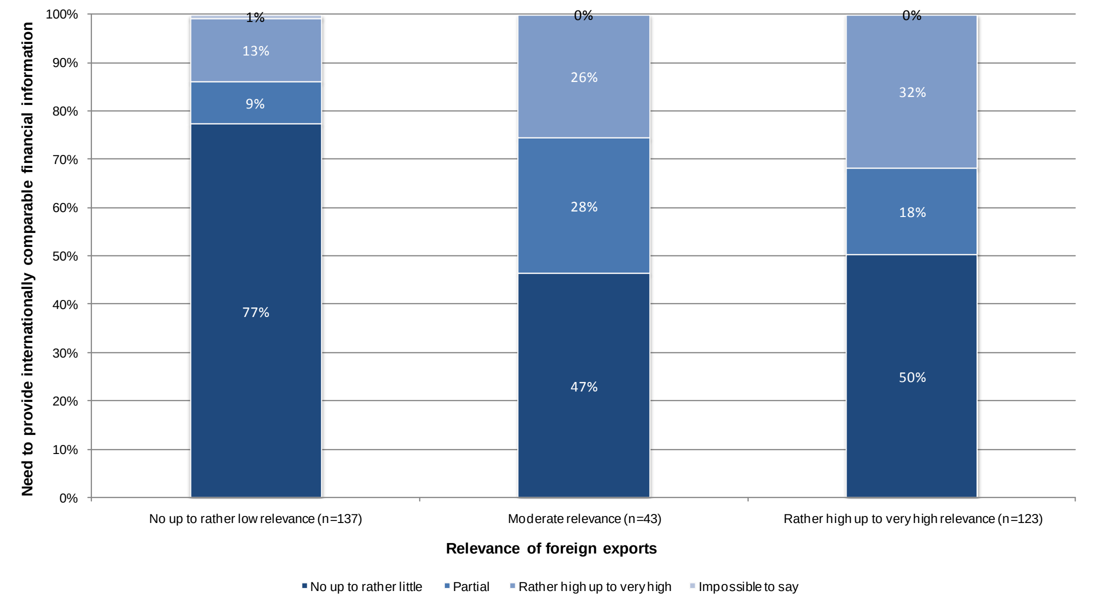


Figure 15: Need to provide internationally comparable financial information in relation to the relevance of exports

Asked about the reasons for the need to provide internationally comparable financial information the responses (multiple answers were possible) reveal that the presentation of group accounts is one major reason, other reasons are increased transparency of the economic situation as well as better comparability with competitors or business partners (see figure 16).

Question: **How relevant are the following reasons for your entity for providing internationally comparable financial information?**

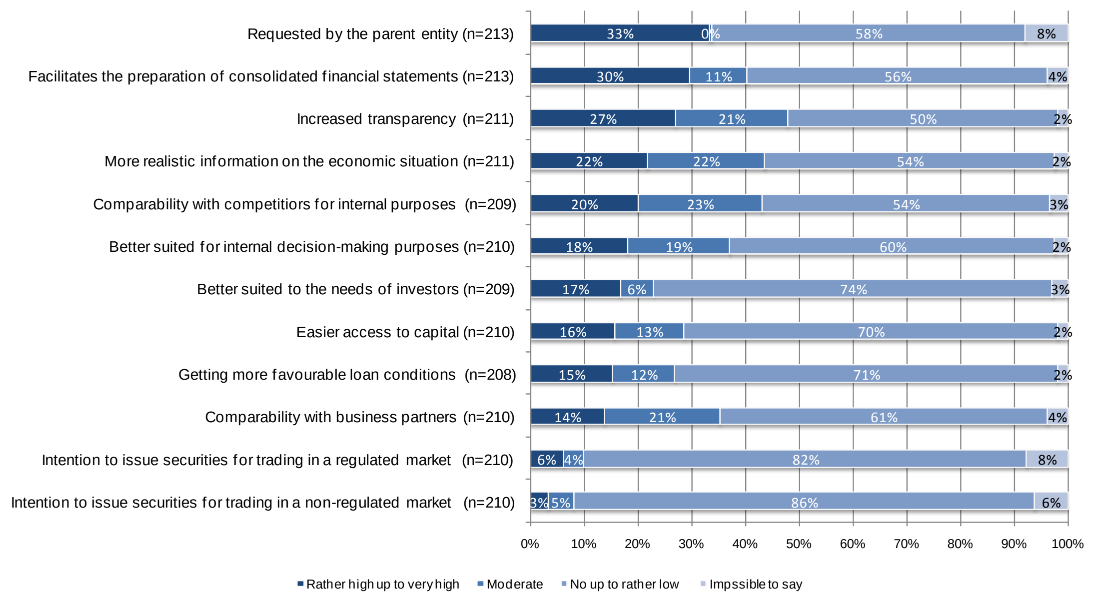


Figure 16: Reasons for providing internationally comparable financial information

4 ASSESSMENT OF PARTICULAR ACCOUNTING ISSUES

A major objective of the study was to gain insight into how German SMEs evaluate the accounting methods promulgated in the IFRS for SMEs with respect to their advantageousness. To investigate whether preparers of accounts perceive the accounting methods under the revised HGB as a better alternative to the IFRS for SMEs (as intended by the German regulator) the questionnaire focused on those accounting methods for which the requirements under the IFRS for SMEs differ significantly from HGB. The respondents had to make their evaluations on the basis of the IASB's considerations for justifying the simplifications included in the IFRS for SMEs, which are the costs of the accounting method as well as the perceived benefit of the provided information for the users of the accounts.[12] In addition the respondents where asked to assess the benefit of the treatment for internal information and control purposes. In order to focus on these three criteria, and because of the intention to avoid the influence of particularities of the national financial accounting framework in Germany, the respondents were asked not to consider any consequences resulting from the current German tax and commercial laws.

In addition to that the content of the questionnaire did not require any level of knowledge of the (full) IFRS or IFRS for SMEs. Therefore, the accounting methods that had to be assessed by the participants were explained in the questionnaire and contrasted with the parallel requirements of the HGB. In order to allow a more precise judgment of the assessments given, the respondents were also asked to assess the relevance of the respective issues for their entity.

4.1 Investment property

Investment property, defined as property that is held to earn rentals or for capital appreciation or both, appears to have a low relevance for German SMEs. 83% of the respondents (n=319) expressed a low importance of this type of assets, only 6% mentioned a (rather or very) high importance, with 11% in small SMEs (annual sales between 10 and 38 m Euros; n=104) and 3% in large ones (annual sales above 100 m Euros, n=113).

With regard to the measurement of such assets, only 23 % assessed the benefit of the requirement to apply the fair value model in the IFRS for SMEs as providing a (rather or much) higher benefit for internal control purposes than the cost model (required in the HGB) (see figure 17). 32% see (rather or much) higher benefits for external users when the fair value model is applied instead of the cost model. Quite clear is the statement concerning the costs involved. They are assessed as being (rather or much) higher when the fair value model is applied instead of the cost model by 46% (see figure 17). The answers seem not to be size sensitive. The relatively high portion of respondents who were not able to assess this issue might be explained by the little relevance that these assets have for SMEs as indicated by the respondents. Even those persons that mentioned to have a (rather or very) good knowledge-level of IFRS chose the category "impossible to say" quite often (between 22% and 27%).

[12] See BC46 IFRS for SMEs.

Required assessment: Please assess the measurement of investment property at fair value compared to the measurement at cost

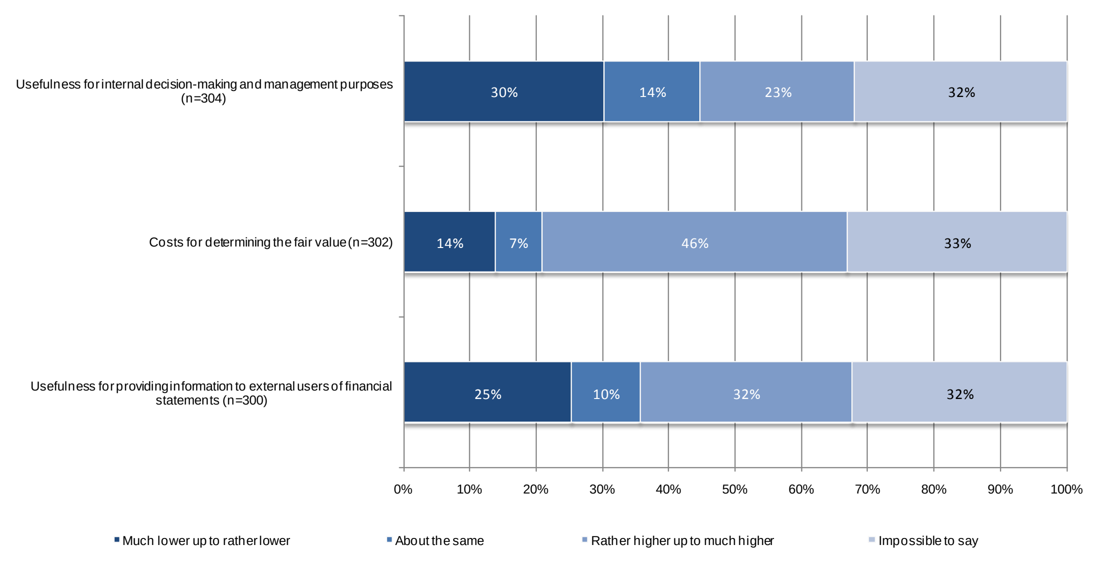
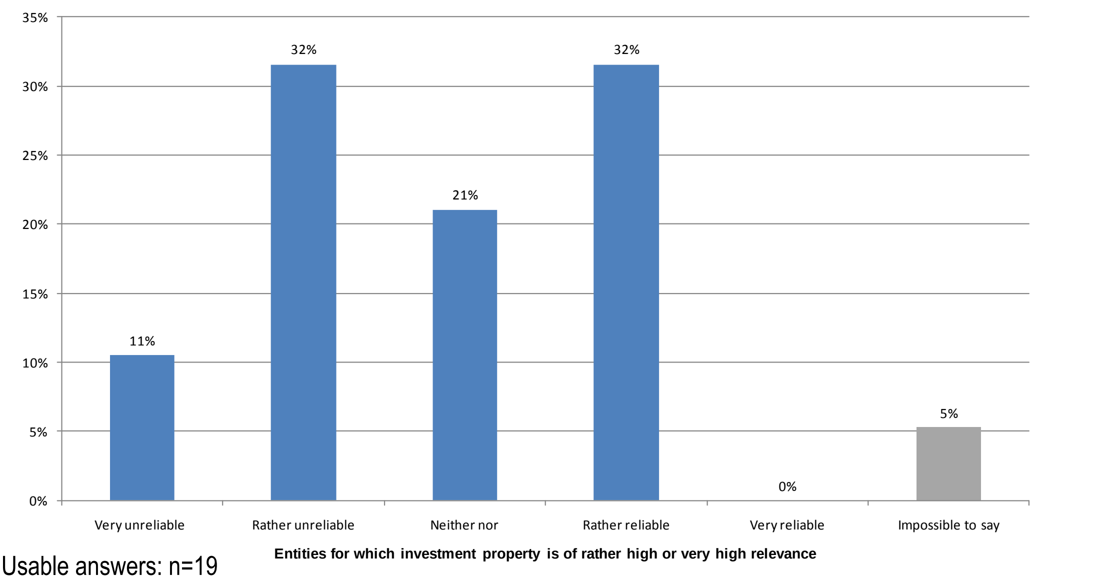


Figure 17: Evaluation of the measurement of investment property

The determination of the fair value for investment property is seen to be (rather or very) unreliable for 47% of the respondents, only 15% classify it as reliable (without material size effects). This result highlights the existing reservations about an objective determination of fair values for property. However these reservations seem to be smaller in entities where investment property has a (rather or very) high relevance (see figure 18); 32% of these entities (n=19) assessed the evaluation of fair values as being reliable (however no one as being very reliable).

Question: How do you generally evaluate the determination of fair values for investment property?



Usable answers: n=19

Figure 18: Evaluation of fair value determination for investment property from entities for which such assets are of (rather or very) high relevance

4.2 Development costs

22% of the respondents (n=316) stated a (rather or very) high relevance of development costs in their entities. This assessment was made almost equally over the different size clusters, although development projects appear to play a slightly more important role in large entities than in smaller ones.

In contrast to Art. 248 HGB that provides an option to capitalise or expense such costs, Sec. 18.14 of the IFRS for SMEs does not allow capitalising but requires expensing development costs. With regard to the assessment of the benefits German SMEs seem to slightly favour capitalising development costs (see figure 19). 33% of the respondents assessed the internal as well as the external information benefit of expensing such costs to be (rather or much) lower than capitalising, while 25% assess the benefits (rather or much) higher. Only 25% expect the expensing to trigger lower costs than capitalising.

Required assessment: Please evaluate the expensing of development costs compared to capitalising them as intangible asset

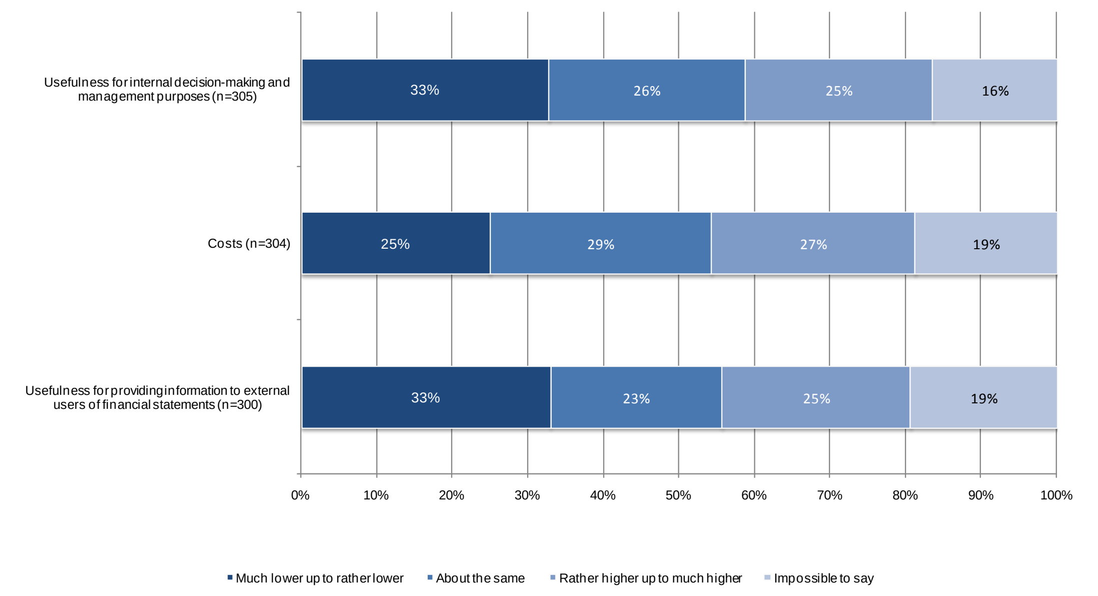


Figure 19: Evaluation of expensing versus capitalising development costs

This preference for capitalising development costs can also be seen by looking at the answers to the question on the capitalisation option in the HGB. 34% (n=307) evaluate this option as positive and 17% as negative, with 32% of the respondents having an indifferent position. An even clearer decision can be observed for entities for which development activities are of relevance. Here the positive evaluations go up to 54% and 60% (see figure 20).

Question: How do you - with respect to your entity - evaluate the option available under German GAAP to capitalise development costs?

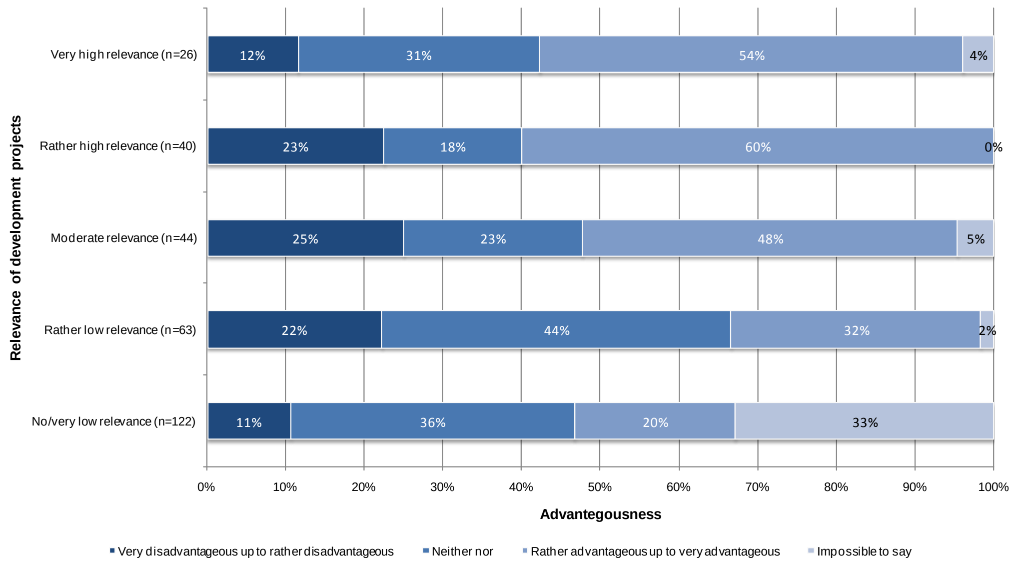


Figure 20: Evaluation of the accounting option to capitalise development costs in relation to the relevance of development projects

4.3 Deferred taxes

The requirement in Sec. 29.9 to recognise deferred tax assets as well as liabilities was assessed quite critically by the respondents (see figure 21). 48% see low information benefit for external users and even 54% for internal control purposes for recognising deferred taxes, whereas 42% assess (rather or very) high costs for determining deferred taxes. This negative assessment is consistent across all four size clusters and does appear to be significantly influenced by the knowledge level of (full) IFRS the respondents stated to have.

Required assessment: Please evaluate the obligatory recognition of deferred taxes

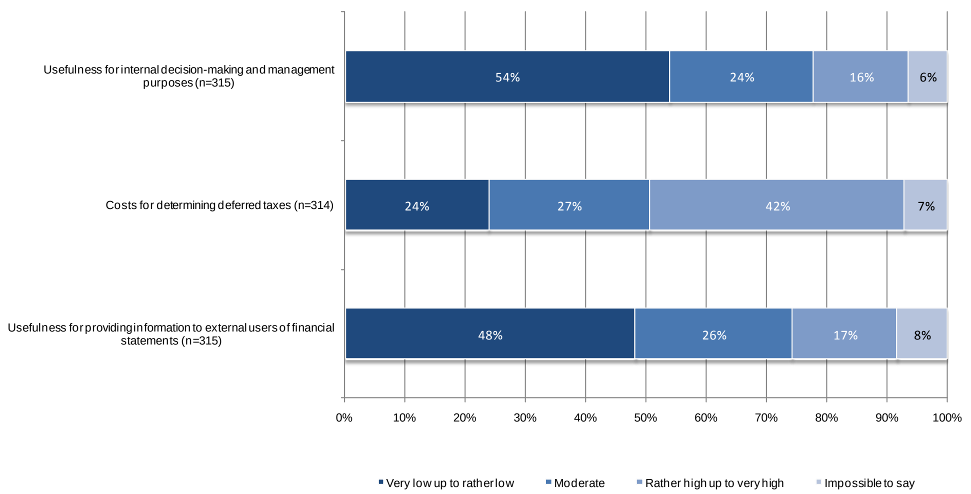


Figure 21: Evaluation of the obligatory recognition of deferred taxes

4.4 Construction contracts

Figure 22 shows that construction contracts, as defined in the glossary of terms in the IFRS for SMEs, are of considerable relevance for SMEs. 22% of the respondents (n= 316) expressed a (rather or very) high importance of such issues. In addition, with 25% of the SMEs in the smallest size cluster (annual sales volume between 10 and 38 m Euros) indicating a "rather high up to very high" relevance of those contracts for their entities they even exceed the proportion of entities in the cluster of large entities (annual sales volume of more than 100 m Euros) were only 18% indicated a "rather up to very high" relevance of construction contracts. In average 64% of the participants stated that construction contracts do have limited or no importance for their entities.

Question: **How relevant are construction contracts for your entity?**

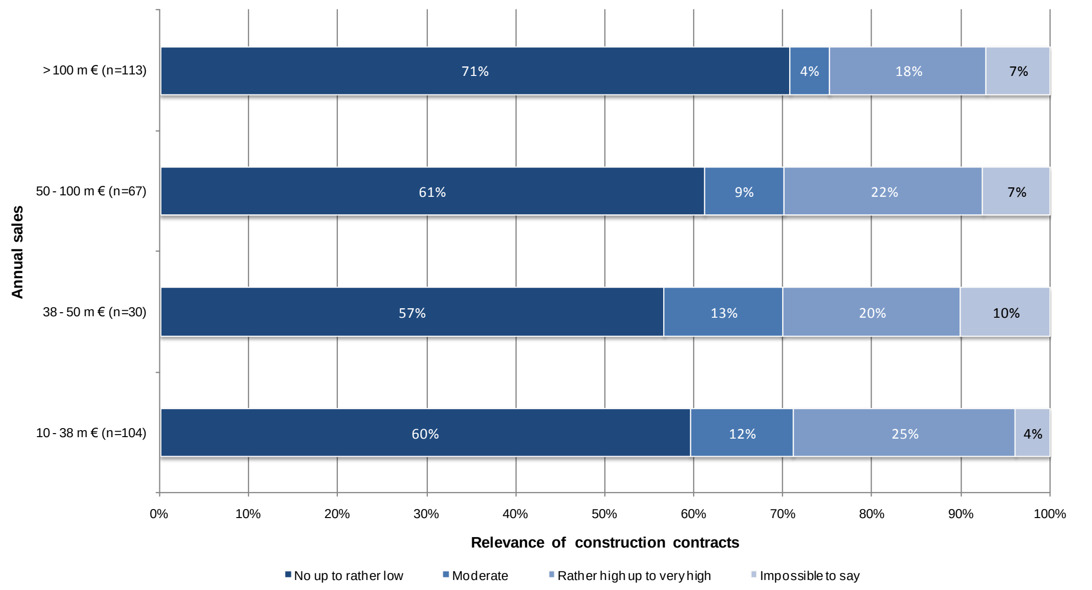


Figure 22: Relevance of construction contracts in relation to the size of the entity (annual sales)

In contrast to German GAAP that require the application of the completed contract method, that requires recognising revenues and earnings of a construction contract at the end of the construction project, when the finished construction is transferred to the customer, Sec. 23.17 of the IFRS for SMEs requires the application of the percentage of completion method (PoC) if special conditions are met. In comparison with the completed contract method the majority of the participants assumed a higher benefit when applying the PoC instead of the completed contract method for both, external information purposes (44%) as well as internal purposes (46%). However, the higher benefit comes with the expectation of higher costs related to the PoC. 51% of the respondents expect the costs for applying the PoC to be (rather or much) higher than those related to the completed contract method, 41% expressed a (rather or much) higher sensitivity of the information provided by applying the PoC (see figure 23)

Required assessment:	**Please assess the recognition of the contract revenues by reference to the state of completion of the contract activity at the end of the reporting period (percentage of completion method) compared to revenue recognition only after completion of the entire contract (according to German GAAP)**

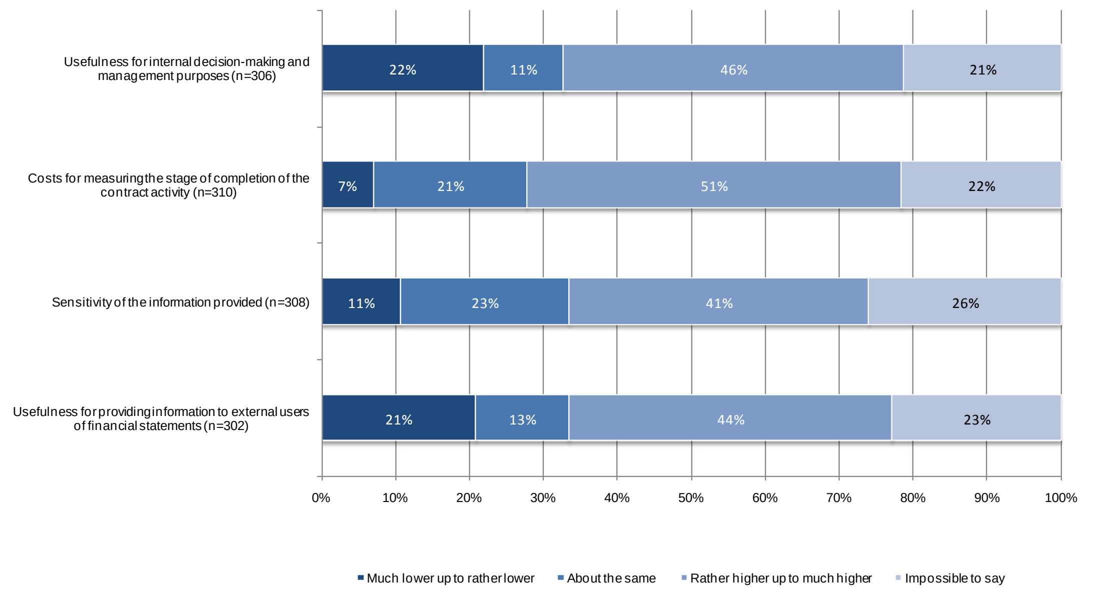


Figure 23: Evaluation of the PoC method in comparison with the completed contract method for construction contracts

These evaluations are more or less the same over all four size clusters, however the entities in the smallest size cluster (annual sales between 10 and 38 m Euros) expect slightly higher internal and external benefits as well as costs than entities of the "large" cluster (annual sales over 100 m Euros). This might be due to the fact that the small entities of the sample expressed a higher relevance of construction contracts for them than larger entities. Figure 24 reveals that respondents of SMEs for which construction contracts are (rather or very) important assessed the benefits as well as the costs of the PoC considerably higher than the other SMEs.

Required assessment:	**Please assess the recognition of the contract revenues by reference to the state of completion of the contract activity at the end of the reporting period (percentage of completion method) compared to revenue recognition only after completion of the entire contract (according to German GAAP)**

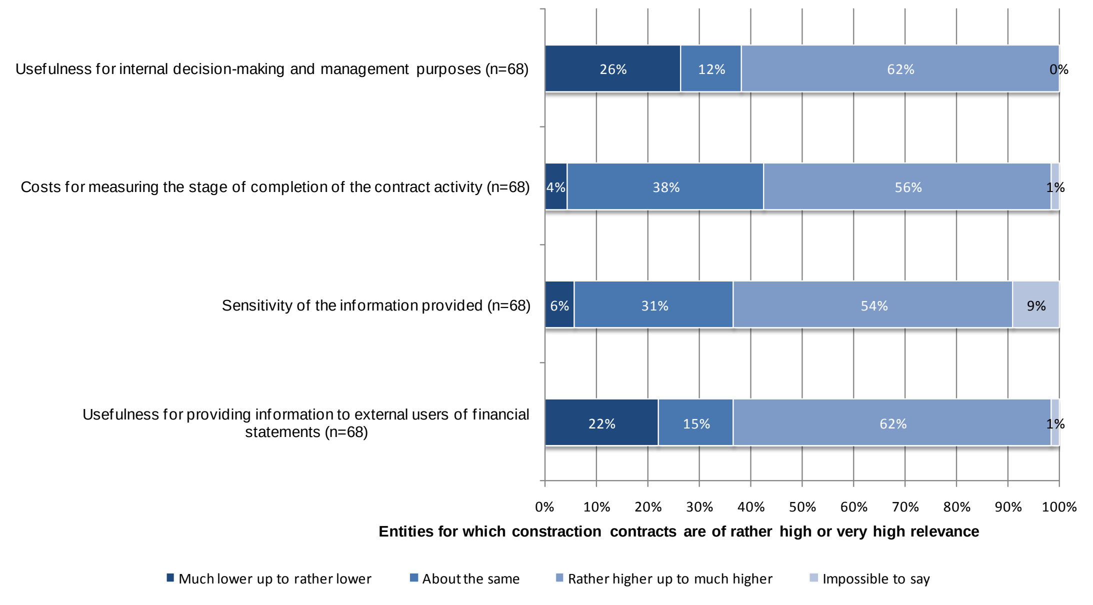


Figure 24: Evaluation of the PoC method compared to the completed contract method for construction contracts of entities for which such contracts have a (rather or very) high relevance

4.5 Cost formulas for inventories

In contrast to German GAAP (Article 256 HGB) Sec. 13.18 of the IFRS for SMEs restricts the applicable cost formulas to measure inventories to the FIFO formula (first in first out) and the weighted average cost formula. The LIFO formula is not allowed. This restriction was not regarded as being critical by the responding entities (see figure 25). The majority of the participants did not see any impact on the benefit as well as the cost situation for the users and preparers. Also the portion of persons who expected increased benefits and/or costs is more or less equal to the number of persons who expected decreased benefits and/or costs. In addition, the answers do not reveal any obvious size effect.

Required assessment: Please evaluate the restriction of cost formulas allowed for measuring inventories to the FIFO- and the weighted average cost formula

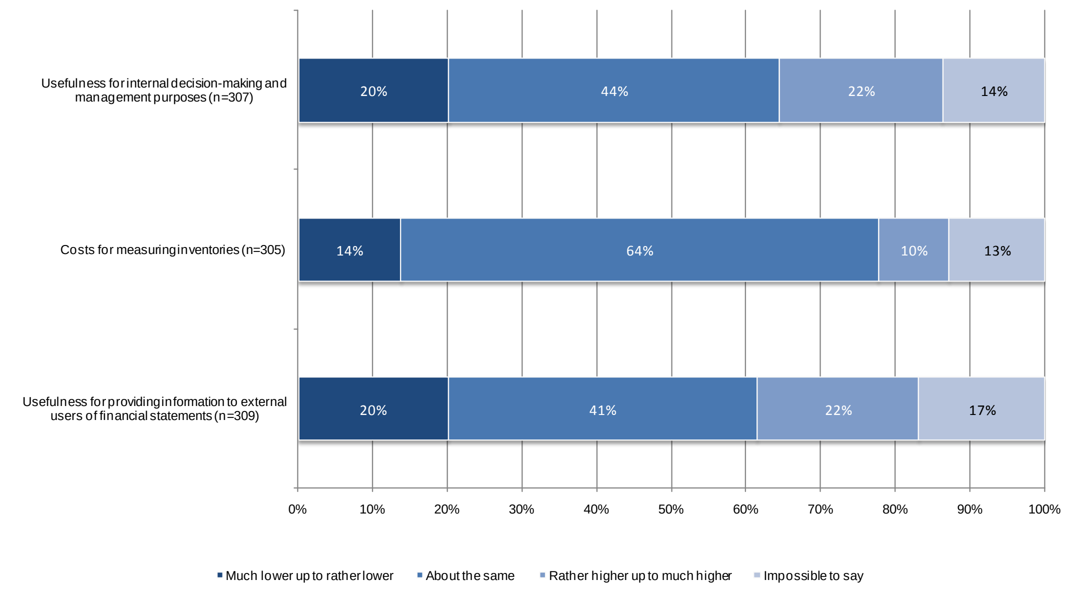


Figure 25: Evaluation of the restriction of cost formulas allowed for the measurement of inventories

4.6 Investments in other entities

According to Sec. 11.14 (c)(i) of the IFRS for SMEs investments in other entities must be measured at fair value with changes in fair value recognised in profit and loss, if the shares are publicly traded or their fair value can otherwise be measured reliably. However, this does not apply for investments in associates, in joint ventures or in subsidiaries. The answers of the participants of the study reveal that the investments in other entities do not play a considerable role in German SMEs. Only 11% of the participants stated that those investments have a (rather or very) high importance, 72% stated little or no importance.

In general, the fair value measurement of investments under the IFRS for SMEs is assessed to have positive effects on the internal and external benefits. 35% see a (rather or much) higher benefit for internal users and 44% for external users compared to the measurement at cost. However, the costs for determining the fair value are also stated to be (rather or much) higher by 61% of the respondents (see figure 26). Concerning this issue, the evaluations differ across the four size clusters. The portion of entities expecting (rather or much) higher benefits and (much or rather) lower costs is larger in the cluster of the large SMEs (annual sales above 100 m Euros) than in the cluster of the small entities (annual sales between 10 to 38 m Euros).

Required assessment: Please evaluate the measurement of investments in other entities at fair value compared to their measurement at cost

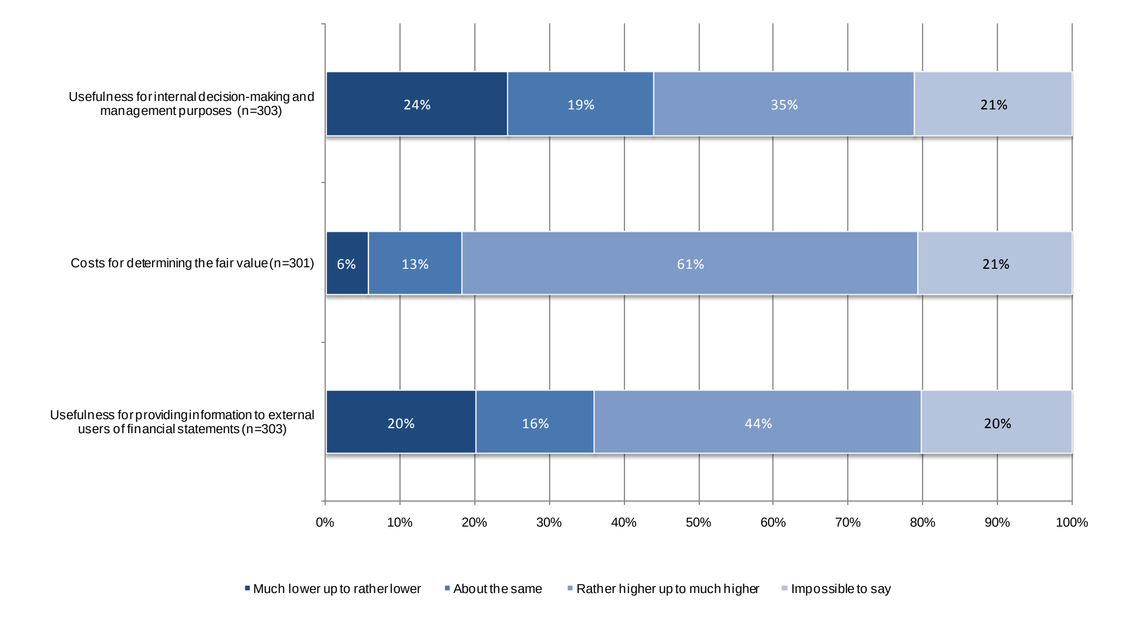


Figure 26: Evaluation of the fair value measurement of investments in other entities compared to the cost model

4.7 Employee benefits – defined benefit plans

Defined benefit plan obligations do have a (rather or very) high relevance for 15% of the participating SMEs (n=315), with even a higher percentage (31%) in the cluster of large entities (annual sales above 100 m Euros, n= 112).

According to Sec. 28.15 and the following paragraphs of the IFRS for SMEs defined benefit obligations have to be measured individually on a discounted present value basis by reference to market yields at the reporting date on high quality corporate bonds. Article 253 Para. 2 HGB provides an option with regard to the discount rate. It is possible to measure the obligations either individually using for each defined benefit obligation an average market yield of the last seven years consistent with the estimated period of the future payments or to measure all defined benefit obligations as a portfolio with an average market yield for obligations with a term of 15 years, without determining an individual discount rate.

These measurement methods are assessed indifferently by the respondents (see figure 27). Approximately a third estimated that neither the individual measurement nor the portfolio measurement generates a higher information benefit for internal or external users. However there are more people who expect a higher benefit (23% for internal purposes and 27% for external purposes) form the individual determination of the present value of the defined benefit obligation according to the IFRS for SMEs. Obviously a majority (49%) however expected (rather or much) higher costs related to the individual measurement compared with the portfolio measurement (see figure 27).

Required assessment: Please evaluate the individual measurement of defined benefit obligations under the IFRS for SMEs compared to the measurement options available under German GAAP

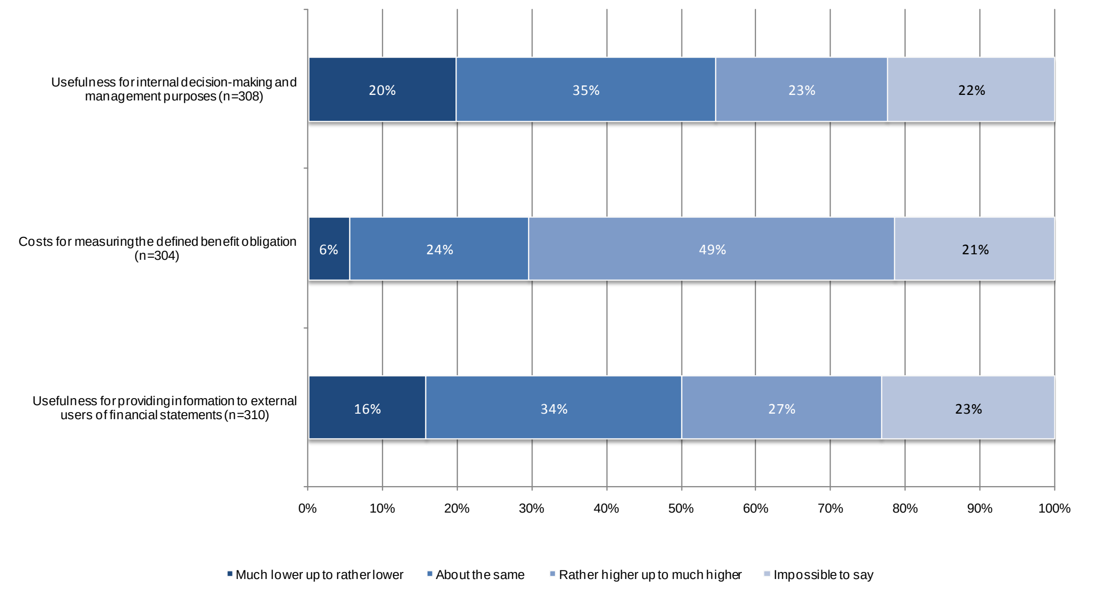


Figure 27: Evaluation of the individual measurement of defined benefit obligations under IFRS for SMEs compared to the measurement options available under German GAAP

A size effect is obvious with regard to this evaluation. The assessments of the benefits as well as the cost of the individual measurement are higher in the cluster of the large entities (annual sales above 100 m Euros) than in the cluster of the small entities (annual sales between 10 and 38 m Euros). This might be related to the higher importance of these types of obligations in such entities.

The questionnaire also raised the question about the advantageousness of the measurement option provided in Article 253 para. 2 HGB. This option allows either to use an individual average discount rate or the average discount rate for obligations with a term of 15 years. 34% of the participants (n=303) expressed that they assess the option as being (rather or very) favourable, while 11% expressed the contrary. 28% stated that they are indifferent. 18% of the respondents mentioned that they use the portfolio measurement and 65% rejected the application. Taking a closer look at the responses, it becomes obvious, that the portfolio measurement is applied more often (29%) in entities where defined benefit plans play a more important role than in entities where they play a minor role (8%) (see figure 28). With regard to the size the picture is different. Here the clusters with the largest (annual sales above 100 m Euros) and the smallest SMEs (annual sales between 10 and 38 m Euros) show almost the same percentage of entities applying the option (approx. 20%) whereas entities from the clusters with the middle-sized SMEs the portion of entities exercising the option is smaller.

Question:	**Do you use the accounting option available under German GAAP to measure defined benefit obligations using a discount rate based on an estimated fixed term of the post-employment benefit obligation of 15 years?**

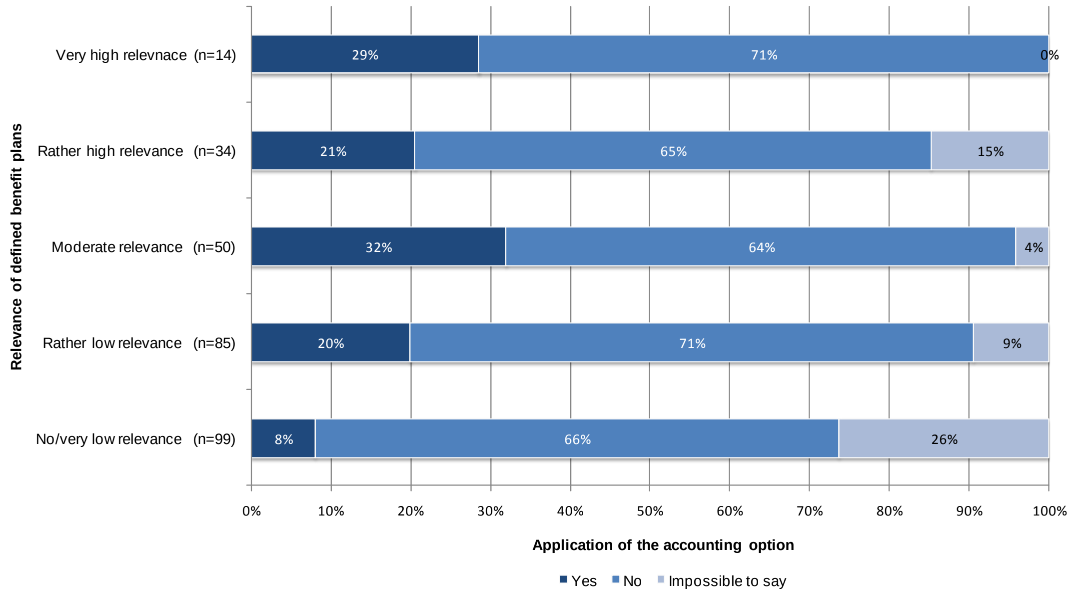


Figure 28: **Application of the measurement option available under German GAAP to measure defined benefit obligations using a discount rate based on an estimated fixed term of the post-employment benefit obligations of 15 years in relation to the relevance of such obligations**

Sec. 28.24 of the IFRS for SMEs provides an option with regard to the recognition of actuarial gains and losses. They may be either recognised in profit or loss, or in other comprehensive income. This accounting policy option has to be applied consistently to all defined benefit plans and all actuarial gains and losses of an entity. Actuarial gains and losses arise from changes in the actuarial assumptions that are the basis for the measurement of the defined benefit obligations. The recognition of these gains and losses in other comprehensive are judged sceptically by the respondents of the survey (see figure 29). 31% perceive the benefit of the recognition in other comprehensive income for internal purposes as being (rather or much) lower than the recognition in profit and loss, the same is true for 33% of the respondents with regard to external purposes. Only 20% (for internal purposes) and 19% (for external purposes) assessed a (rather or much) higher information benefit (see figure 29).

The advantageousness of this accounting policy option available under the IFRS for SMEs for actuarial gains and losses is evaluated indifferently by the respondents. 32% stated that it is neither favourable nor unfavourable. 21% see it as being (rather or very) favourable, while 20% assess it as being (rather or very) unfavourable (n=303). To the question whether they would recognise actuarial gains and losses in their entity in other comprehensive income 23% responded with “yes” and 47% with “no” (n=207; with 37% who stated to be unable to answer the question). However, the rate of “yes”-votes are much higher (62%) in the group of SMEs (n=13) where defined benefit plans have a (rather or very) high importance compared to the ones (n=102) where this issues has no or a limited importance (15%).

Required assessment: Please evaluate the recognition of actuarial gains and losses in other comprehensive income compared to an obligatory recognition as part of the profit and loss as required under German GAAP

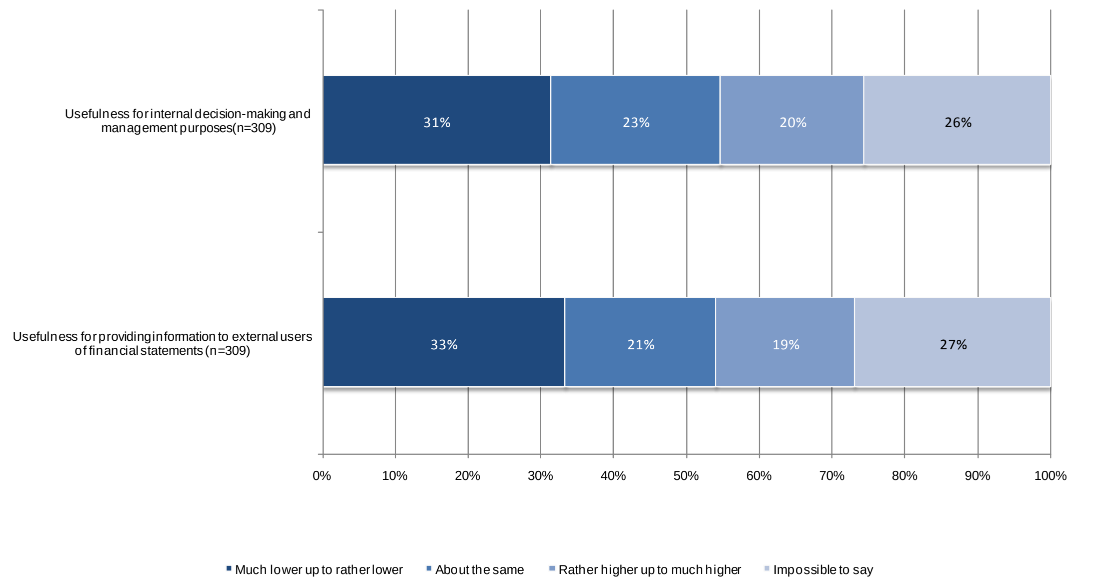


Figure 29: Evaluation of the recognition of actuarial gains and losses in other comprehensive income

4.8 Lack of prescribed layouts of the statement of financial position and the statement of income

The SMEs were also asked in the survey to assess the fact that the IFRS for SMEs provides very limited guidance on the formal structure of the statement of financial position and the statement of income – in contrast to the HGB that requires minimum layouts for these statements. With regard to this issue the attitude of German SMEs seems to be quite clear. The majority of the respondents assess the lack of a prescribed minimum layout of these statements very negative. 62% see a (rather or much) smaller information benefit for internal purposes and 74% for external purposes. In addition 85% of the persons stated that such a requirement would not lead to higher costs for the preparers. In tendency these assessments are the same across all size clusters; however large entities seem to be even more in favour of prescribed layouts than small ones.

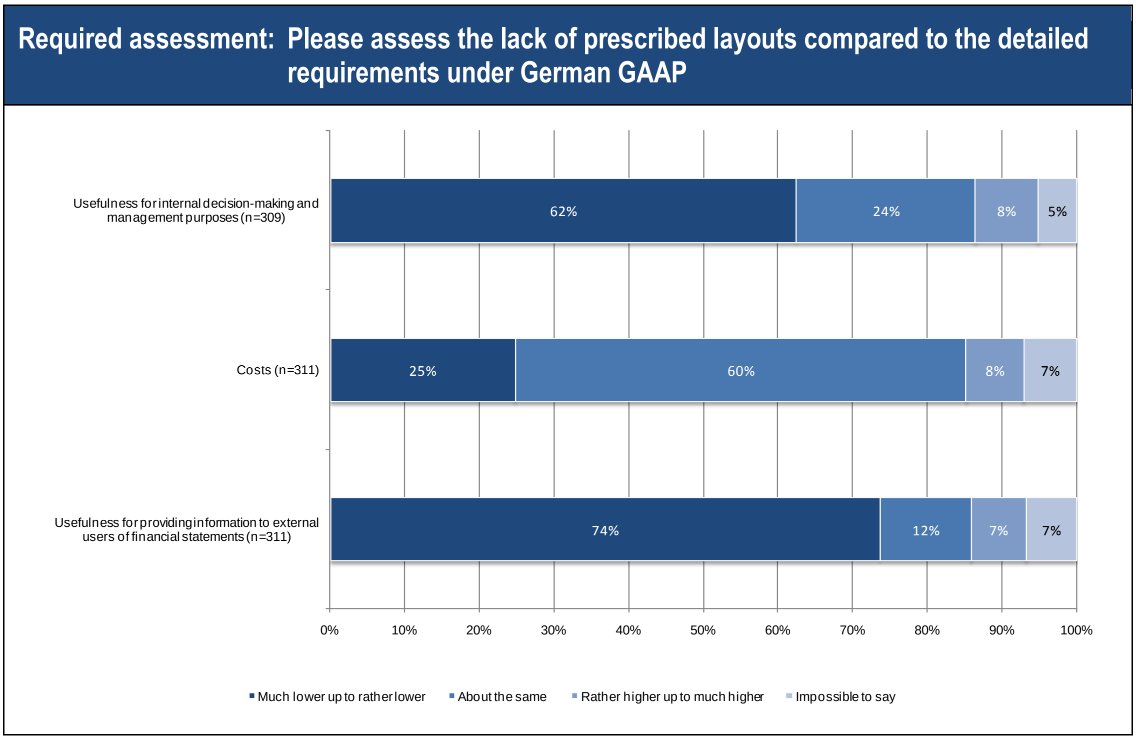


Figure 30: Evaluation of the lack of prescribed layouts for the statement of financial position and the statement of income

4.9 Statement of cash flows

Another issue that is assessed more or less positively by the majority of the participating entities is the prescribed statement of cash flows in Sec. 7 of the IFRS for SMEs. As figure 31 reveals, 54% associate (rather or very) high benefits with the presentation of a statement of cash flows for internal information purposes and 51% for external purposes, while only 16% of the respondents expect (rather or very) high costs for presenting a statement of cash flows (see figure 31). Against this background it is comprehensible that 78% of the responding entities already present such a statement together with their separate accounts, although there is no legal requirement so far in Germany for this. The size specific analysis shows that there are 86% of the responding entities of the cluster of large entities (annual sales above 100 m Euros) that present a statement of cash flows versus 73% in the cluster of the smallest ones (annual sales between 10 and 38 m Euros).

Required assessment: Please evaluate the presentation of a statement of cash flows

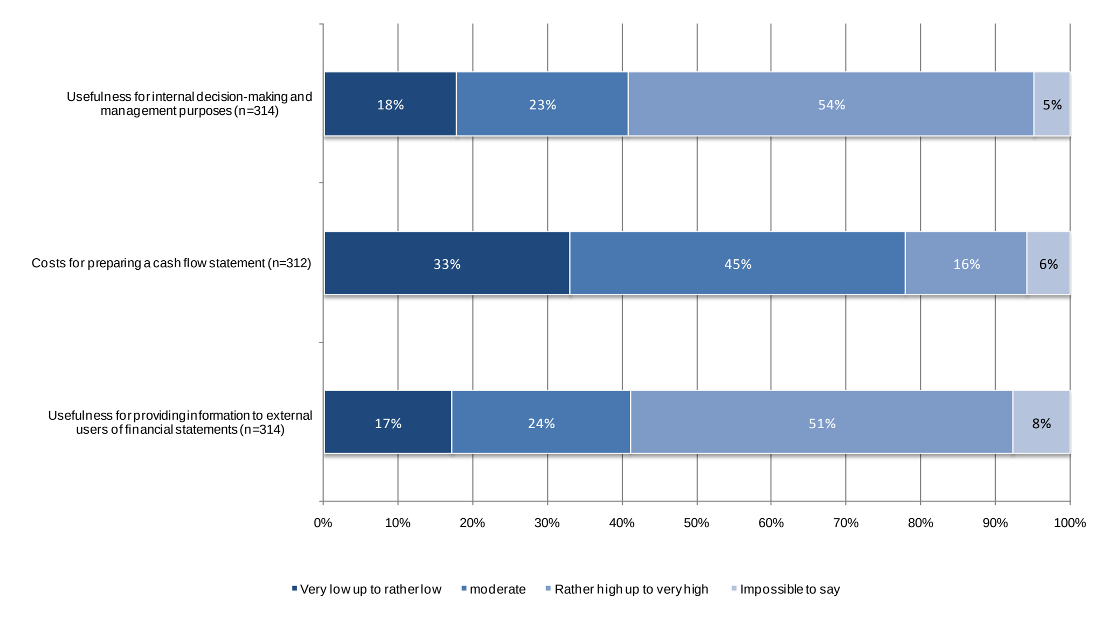


Figure 31: Evaluation of a statement of cash flows

5 POTENTIAL APPLICATION OF THE IFRS FOR SMEs

At the end of the questionnaire the participants were asked whether they assess – based on the limited insight into the content of the IFRS for SMEs provided by the questionnaire – the IFRS for SMEs as “attractive” enough that they would consider applying the standard in their single and/or consolidated accounts if it were legally possible in the future. 14% of the responding entities (n=316) answered with “yes” and 83% with “no” (3% stated that an answer is not possible). 73% of those that answered with “no” stated that they prefer German GAAP, 17% noted a preference for (full) IFRS and 10% mentioned “other reasons” (n=259).

Analysing the answers of the persons in relation to their indicated level of knowledge of the IFRS for SMEs it becomes obvious that persons with good or moderate knowledge are more likely to consider the application of the standard than persons with very limited knowledge. However, no person that evaluated his or her knowledge as “very good” considers applying the standard (see figure 32).

Question: Do you regard the IFRS for SMEs “attractive” enough to consider its application in the near future?

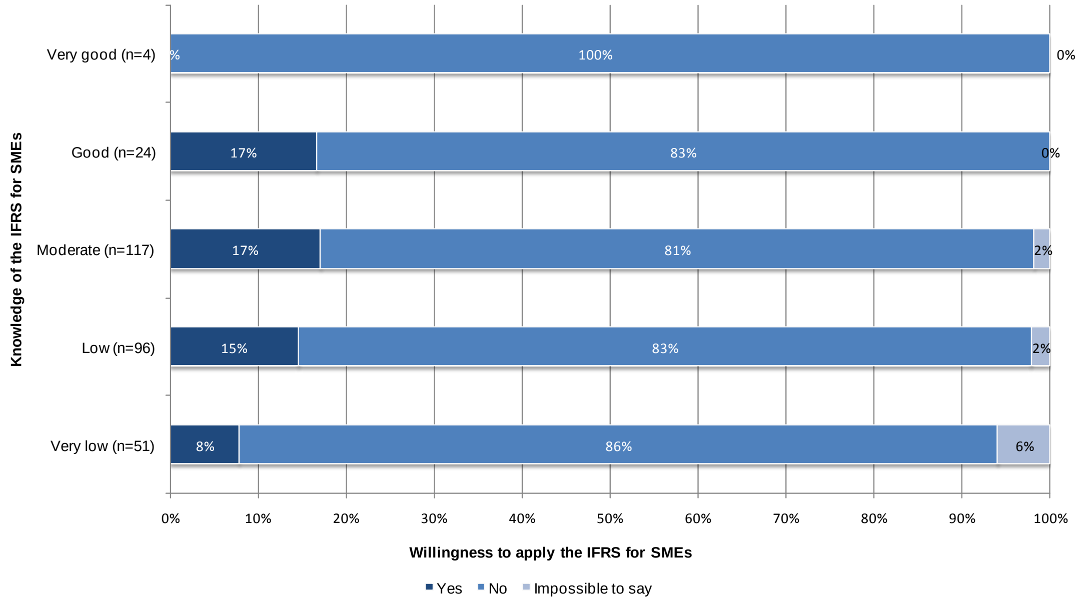
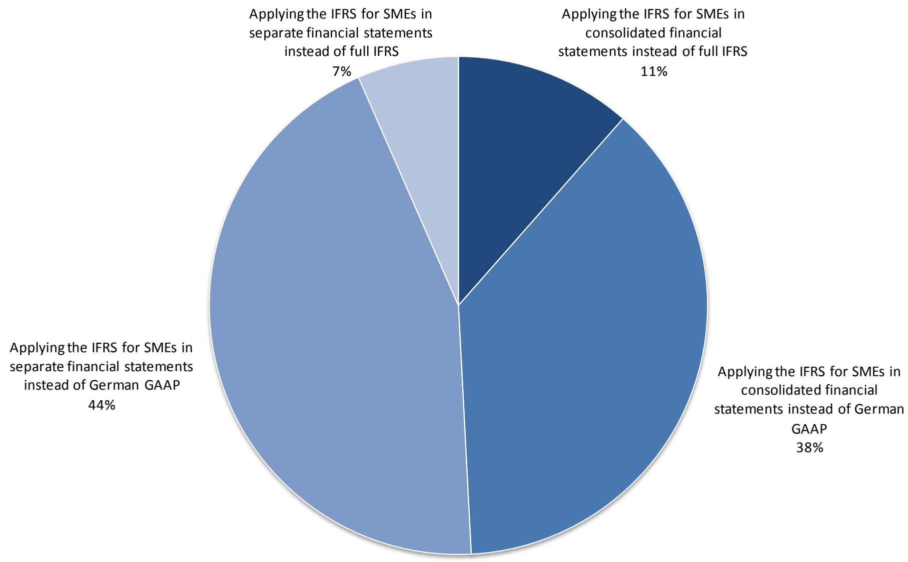


Figure 32: Willingness to apply the IFRS for SMEs in relation to the knowledge of the IFRS for SMEs

It is interesting to see that the entities that consider to switch over to the IFRS for SMEs would more likely leave German GAAP (in the separate accounts as well as the consolidated accounts) than (full) IFRS (see figure 33).

Question: For which financial statements would you like to use the IFRS for SMEs?



Usable answers: n=61

Figure 33: Switching directions

Obviously the reasons for rejecting to switch to the IFRS for SMEs are not primarily motivated by the content of the standard (as depicted in the results of the study presented in chapter 4) but by the specific environment and framework of the standard as well as financial reporting in

Germany. A majority of the participants, including the ones that do not consider an application of the standard, expressed that one of the prerequisites for a potential application of the standard are that changes of the standard happen less often, that the presentation of financial statements under the IFRS for SMEs exempts reporting entities from the presentation of statements under German GAAP, that the IFRS for SMEs based financial statements are accepted by banks and the tax authority (see figure 34).

Question: Which conditions must be met that your entity would apply the IFRS for SMEs?

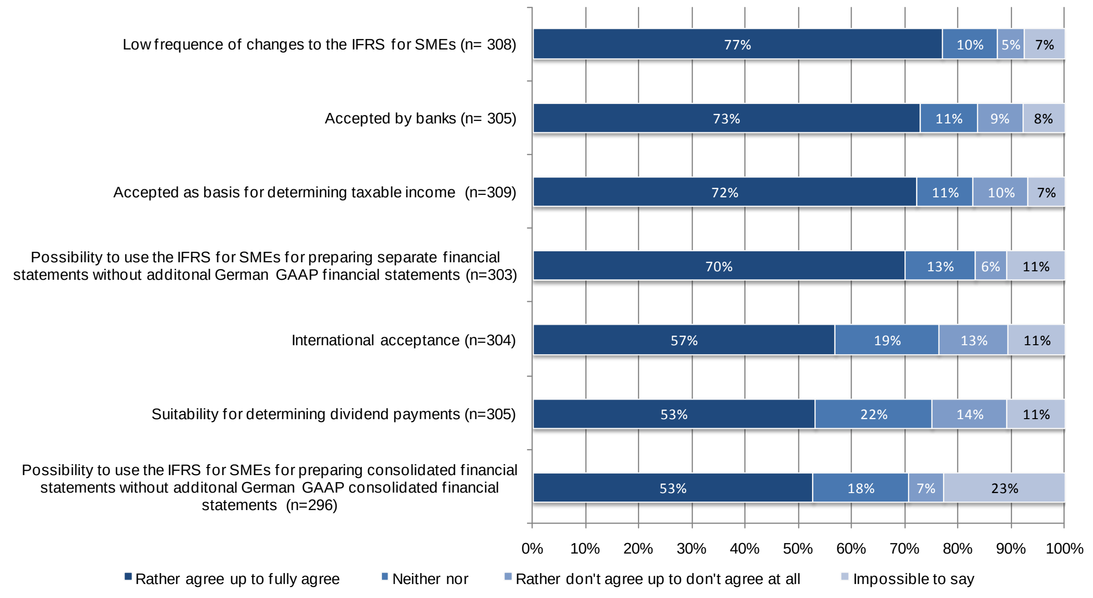


Figure 34: Prerequisites for applying the IFRS for SMEs

6 SUMMARY

The results of the survey underline – at least for the participating entities – in several respects some characteristics of SMEs that were mentioned by the IASB during the development process of the IFRS for SMEs. The majority of German SMEs (67%) are not managed only by their owners, but have entirely or partially non-owner- managers (see figure 4). This can be taken as a reason for a need to provide relevant and reliable accounting information for owners to reduce information asymmetries. The study also shows that a German SME has on average only seven owners, which can be considered as quite small (see figure 5). In addition it becomes obvious that a lot of SMEs (66%) are part of groups (see p. 8), with 40% mentioning the existence of foreign subsidiaries (see p. 12). This might be one cause for a material need for internationally standardised regulation of financial reporting. 23% of respondents state a (rather or very) high need for internationally comparable accounting information (see figure 13), which is in turn quite often justified by the necessity to present group accounts (see figure 16).

Besides the investments in foreign subsidiaries, German SMEs also prove to be internationally oriented with regard to exports and imports of goods and services. However, foreign financing doesn´t seem to be of major importance (see figure 11). The international orientation is also underlined by the broad application of (full) IFRS in consolidated and – in 8% of the responding entities – even separate accounts (see figure 8). Against the background of this fact, it is not astonishing that more than 60% of the responding persons of the survey evaluated their knowledge of (full) IFRS as moderate and better (see p. 10).

The assessments of particular requirements and accounting methods included in the IFRS for SMEs reveal a heterogeneous picture (see the synopsis in tables 1 to 3). Relatively clear conclusions can be drawn with regard to five issues. The majority of representatives of SMEs assessed the lack of a required minimum structure of the financial statements as being unfavourable, because of an expected lower information benefit for internal as well as external purposes. Also a negative evaluation was made with regard to the general requirement to recognise deferred tax assets and liabilities according to the IFRS for SMEs, and (although to much lesser extent) with regard to the recognition of actuarial gains and losses of defined benefit obligations in the other comprehensive income.

Assessment of the usefulness of the accounting rule mentioned ***for providing information to external users of financial statements***	**(rather or very) high/ (rather or much) higher**	**about the same/ neither nor**	**(rather or very) low or/ (rather or much) lower**
Measurement of investment property at fair value according to the IFRS for SMEs compared to a measurement at depreciated cost (n=300)	32%	10%	25%
Expensing development costs according to the IFRS for SMEs compared to capitalising (n=300)	25%	23%	33%
Obligatory recognition of deferred tax assets and liabilities under the IFRS for SMEs (n=315)	17%	26%	48%
Application of the percentage of completion method according to the IFRS for SMEs compared to the completed contract method (n=302)	44%	13%	21%
Restriction of the cost formulas of inventories to FIFO and weighted average cost formula under the IFRS for SMEs (n=309)	22%	41%	20%
Measurement of investments in other entities at fair value according to IFRS for SMEs compared to a measurement at amortised cost (n=303)	44%	16%	20%
Individual measurement of defined benefit obligations according to the IFRS for SMEs compared to the measurement according to HGB (n=310)	27%	34%	16%
Recognition of actuarial gains and losses in other comprehensive income according to the IFRS for SMEs compared to a recognition in profit and loss (n=309)	19%	21%	33%
Lack of prescribed minimum layouts for financial statements according to the IFRS for SMEs compared to required layouts under the HGB (n=311)	7%	12%	74%
Presentation of a statement of cash flows (n=314)	51%	24%	17%

Table 1: Evaluation of the usefulness of particular accounting requirements for the provision of information to external users of financial statements

In contrast the requirement in the IFRS for SMEs to present a statement of cash flows was assessed as having an advantageous benefit/cost-relationship. Another primarily positive assessment was made for the application of the percentage of completion method for construction contracts and the measurement of investments in other entities at fair value. However, these methods are also associated with high costs, what makes an unambiguous statement about the advantageousness of the methods with regard to the benefit/cost - relationship impossible.

There is little homogeneity in the benefit/cost-evaluations with regard to other investigated issues. Here it is impossible to make sound statements about the advantageousness of specific methods because the positive and negative judgments were quite balanced. Striking are the relatively high differences in the assessments of the unavailability of the LIFO-formula for measuring inventories as well as the required individual measurement of defined benefit obligations in the IFRS for SMEs. With regard to these issues the respondents assessed the requirements of the IFRS for SMEs as providing more or less the same level of benefits as the requirements of the HGB. However, the individual measurement of defined benefit obligations is perceived to be more costly than the portfolio approach allowed under HGB, while the abolishment of the LIFO-formula is not expected to have considerable cost-effects.

Assessment of the usefulness of the accounting rule mentioned ***for providing information for internal control purposes***	**(rather or very) high/ (rather or much) higher**	**about the same/ neither nor**	**(rather or very) low or/ (rather or much) lower**
Measurement of investment property at fair value according to the IFRS for SMEs compared to a measurement at depreciated cost (n=304)	23%	14%	30%
Expensing development costs according to the IFRS for SMEs compared to capitalising (n=305)	25%	26%	33%
Obligatory recognition of deferred tax assets and liabilities under the IFRS for SMEs (n=315)	16%	24%	54%
Application of the percentage of completion method according to the IFRS for SMEs compared to the completed contract method (n=306)	46%	11%	22%
Restriction of the cost formulas of inventories to FIFO and weighted average cost formula under the IFRS for SMEs (n=307)	22%	44%	20%
Measurement of investments in other entities at fair value according to the IFRS for SMEs compared to a measurement at amortised cost (n=303)	35%	19%	24%
Individual measurement of defined benefit obligations according to the IFRS for SMEs compared to the measurement according to HGB (n=308)	23%	35%	20%
Recognition of actuarial gains and losses in other comprehensive income according to the IFRS for SMEs compared to a recognition in profit and loss (n=309)	20%	23%	31%
Lack of prescribed minimum layouts for financial statements according to the IFRS for SMEs compared to required layouts under the HGB (n=309)	8%	24%	62%
Presentation of a statement of cash flows (n=314)	54%	23%	18%

Table 2: Evaluation of the usefulness of particular accounting requirements for the provision of information for internal control purposes

In general it is obvious, that for a lot of questions a quite high portion of respondents (partly around 20% and higher) gave the answer that they assess the particular accounting alternative presented in the questionnaire as having an equal cost/benefit effect, meaning that neither the method of the IFRS for SMEs nor the method of the HGB are seen to have an advantage or disadvantage. This response behaviour could be explained the participants' lack of judgmental ability. However this explanation can be largely excluded since quite often when this situation occurred a relatively large portion of the respondents did choose the answer category "impossible to say". Here, smaller entities did choose this type of answer in most of the cases more often than larger ones (all entities often around 20%, and small entities partially even up to 30%).

Looking at the expected costs of the investigated requirements the majority of the respondents gave a negative assessment with regard to fair value measurements (investments in subsidiaries and investment property), the recognition of deferred taxes, the application of the percentage of completion method as well as the individual measurement of defined benefit obligations.

*Assessment of the **costs** connected with the application of the accounting method mentioned*	**(rather or very) high/ (rather or much) higher**	**about the same/ neither nor**	**(rather or very) low or/ (rather or much) lower**
Measurement of investment property at fair value according to the IFRS for SMEs compared to a measurement at depreciated cost (n=302)	46%	7%	14%
Expensing development costs according to the IFRS for SMEs compared to capitalising (n=304)	27%	29%	25%
Obligatory recognition of deferred tax assets and liabilities under the IFRS for SMEs (n=314)	42%	27%	24%
Application of the percentage of completion method according to the IFRS for SMEs compared to the completed contract method (n=310)	51%	21%	7%
Restriction of the cost formulas of inventories to FIFO and weighted average cost formula under the IFRS for SMEs (n=305)	10%	64%	14%
Measurement of investments in other entities at fair value according to the IFRS for SMEs compared to a measurement at amortised cost (n=301)	61%	13%	6%
Individual measurement of defined benefit obligations according to the IFRS for SMEs compared to the measurement according to HGB (n=304)	49%	24%	6%
Lack of a prescribed minimum layouts for financial statements according to the IFRS for SMEs compared to required layouts under the HGB (n=311)	8%	60%	25%
Presentation of a statement of cash flows (n=312)	16%	45%	33%

Table 3: Evaluation of the costs related with particular accounting requirements

Table 4 shows the attitude of German SMEs with regard to accounting options available under the IFRS for SMEs or in the HGB. While the options in the HGB concerning the recognition of development costs as well as the portfolio measurement of the defined benefit obligations are assessed by a majority as being advantageous, the option included in the IFRS for SMEs concerning the recognition of actuarial gains and losses seems to be equivocal. The majority of SMEs evaluates this option as neither advantageous nor disadvantageous (see table 4).

Assessment of options	(very) advantageous	neither nor	(very) disadvantageous
Option to capitalise development costs according to HGB (n=307)	34%	32%	17%
Option to measure defined benefit obligations on a portfolio basis according to HGB (n=303)	34%	28%	11%
Option to recognise actuarial gains and losses in other comprehensive income or in profit or loss according to the IFRS for SMEs (n=303)	21%	32%	20%

Table 4: Evaluation of accounting options

A size effect cannot generally be discovered in the results of the study. However some of the investigated issues seem to be influenced by an entity's size. This can be observed for measuring investments in other entities at fair value and the portfolio measurement of defined benefit obligations. An influencing factor for the assessments seems to be the level of importance of an issue for the particular entity. This holds for answers concerning the regulation of investment property, construction contracts or the recognition of actuarial gains and losses.

Although there are only 14% of the respondents that evaluate the IFRS for SMEs as "attractive" enough to consider its application, it is interesting that the clear majority of these entities would switch in their consolidated and/or separate accounts from the HGB to the IFRS for SMEs (see figure 33). For these entities the HGB (even after its revision by the BilMoG) doesn´t seem to be an "equivalent alternative" to (full) IFRS/IFRS for SMEs. The survey also reveals that the proportion of SMEs that would be willing to move to the IFRS for SMEs would be even higher, if the accounting environment changed and met specific conditions, such as the acceptance of the IFRS for SMEs by banks or the tax authorities, exemption from presenting financial statements under German GAAP if the statements were presented under the IFRS for SMEs and a longer revision cycle for the IFRS for SMEs etc. (see figure 34).

7 INTER-TEMPORARY COMPARISON

One objective of this study was to find out, whether the assessment of German SMEs with regard to the internationalisation of financial reporting in general and the IFRS for SMEs as well as its requirements in particular has been changed by of the revised accounting regulations in Germany as a result of the BilMoG. To investigate this issue the results of the study are compared with the results of a study that was also commissioned by the GASC and carried out with almost the same partners in the year 2007.[13] In order to be able to make such an inter-temporary comparative analysis the current study was designed similarly to the one in 2007. Although the sample did not include the same entities, the sample selection (however the size criteria were adapted to the changes provoked by the BilMoG) and the sample size were identical in the two studies. In addition, the same survey and sampling method were applied, meaning that the questionnaires were sent out by mail to SMEs that were selected from the "Markus-Datenbank" by using a disproportionate stratified random sampling. The content of the questionnaires were partly different; however for inter-temporary comparability a certain number of questions were identical.

[13] See Eierle, B./Haller, A./Beiersdorf, K. (2007).

The number of SMEs participating in the study was smaller in 2010 than in 2007 (n=322 compared to n=410; return rate of 8.05% versus 10.3%). However, the overall representation of firms in terms of characteristics, such as size, number of owners as well as industry[14] is more or less comparable. With regard to the legal form, partnerships and sole proprietorships were stronger represented in 2007 (in total 19%) than in 2010 (in total 8%).

The results from 2010 reveal a slight increase of SMEs that are part of a **group**. While in 2007 60% (n=409) stated to be included in consolidated statements, in 2010 this was true for 66% (n=307).

Another increase becomes obvious with regard to the **knowledge level of (full) IFRS** of the SMEs´ accountants. In the current study 31% of the responding persons (n=313) evaluated their knowledge of (full) IFRS to be "(very) good", three years before it were only 20% (n=408) stating such a knowledge level.

The **cross-border activities** of SMEs prove to be quite stable; the comparison does not reveal any material changes in average as well as with regard to the different firm sizes. International exchanges of goods and services (exports and imports) are still the most important cross-border activities for SMEs; international financing has remained on the same low level. In addition, the answers on foreign subsidiaries do not show material changes (in 2007 36%, n=363, mentioned to have those subsidiaries, in 2010 it were 40%, n=313).

Although international activities rested on quite the same level SMEs nevertheless expressed a higher **need for internationally comparable accounting information** in 2010 compared to 2007. In the current study it were 23% of the responding SMEs (n= 314) mentioning a (rather or very) high need for internationally comparable information, while it were only 12% in 2007 (n=410). This trend is underlined by a decrease of SMEs that do not experience any need for international comparable accounting information from 48% in 2007 to 44% in 2010.

The inter-temporary comparison of the evaluations of accounting methods included in the IFRS for SMEs gives a heterogeneous picture.

A clear change can be recognised concerning the evaluation of the treatment of **development costs**. The expensing of those costs is evaluated less beneficial for internal as well as external information purposes in 2007 compared to 2010. In 2007, only 10% (for internal purposes) and 13% (for external purposes) of the respondents (n=403 and n=399) assessed a higher information benefit for expensing than for capitalising; in the current survey it were 25% for each purpose (see figure 19 above). Investigating the option to capitalise development costs as available under HGB since it has been revised by the BilMoG the results of the studies lead to the assumption that the positions have become polarised. Those in favour of the capitalisation option have increased from 29% (n=402) in 2007 to 34% (n=307) in 2010, however the same is true for those that were against this option (increase from 10% to 17%).

Obviously the positive assessments regarding the advantageousness of the recognition of **deferred taxes** has decreased. 54% (in 2007 35%, n=401) assess the benefit of recognising deferred taxes for internal purposes as being small, 48% (in 2007 26%) do so for external purposes. However, in 2010 only 42% (in 2007 54%) state that the related costs are (rather or very) high. Obviously this change in the assessment might be related to the longer experience with the recognition of deferred taxes leading to a polarised view concerning the benefits and a more realistic view concerning the costs for the recognition of deferred taxes. This increase in

[14] A precise comparison of the industries of the participating entities is not feasible because the official classification of industries by the federal statistical office was changed from WZ 2003 to WZ 2008.

experience might also be the reason for the fact that the results of 2010 do not reveal a material size effect and an impact of the knowledge level of the (full) IFRS on the assessments.

Polarised views are also revealed with regard to the assessment of the reduced number of allowed **cost formulas for measuring inventories** in the IFRS for SMEs. The portion of participants that rate the abolishment of the LIFO-formula indifferently has decreased on average by 15 percentage points during the last three years, while the ones that expect advantages or disadvantages of the reduction of formulas have increased on average by 13%.

The evaluation of the advantageousness of the percentage of completion method by SMEs for which **construction contracts** have a (rather or very) high level of importance seems to have improved during the last three years. The proportion of participants expecting higher costs when applying the percentage of completion method instead of the completed contract method has decreased by 12 percentage points and 3 percentage points with regard to the sensibility of the information provided; while the expected benefits for internal (9 percentage points) and external (11 percentage points) information purposes have increased.

The results of all the other questions in the current study cannot be compared inter-temporarily because they were not included in the questionnaire of 2007.

The **general attractiveness of the IFRS for SMEs** for the entities included in the study decreased between 2007 and 2010. In 2007 16% of the respondents (n=398), stated that they assess the IFRS for SMEs as "attractive" enough that they would consider applying the standard in their separate and/or consolidated accounts if it were legally possible in the future, in 2010 only 14% (n=316) made that statement. 70% rejected an application in 2007, 83% in 2010.

8 CONCLUSION

In interpreting the presented results of the current study it has to be kept in mind, that they reflect only the evaluations of entities that meet the SME-Definition of the IASB, that have an annual sales volume of more than 10 Mio. Euros, that are seated in Germany, and that were willing to participate in the survey. The results may therefore not be generalised to evaluate the appropriateness of the IFRS for SMEs to serve adequately on a worldwide basis for non-publicly traded entities, without regard to their legal and socio-economic environment.

However, the following findings can be stated:

- Cross border transactions on markets for goods and services as well as investments in foreign subsidiaries do play an important role for a material number of SMEs in Germany.
- A considerable number of SMEs is part of a group. This fact can be seen as one of the major reasons for the experienced need of SMEs to provide internationally comparable accounting information.
- The expressed need for providing internationally comparable accounting information has obviously increased during the last three years and has now reached a considerable level. The same is true for the knowledge level of (full) IFRS.
- SMEs seem to experience a positive benefit/cost-relationship with regard to the presentation of a statement of cash flows. Concerning the application of the percentage of completion method as well as the measurement of investments in other entities at fair value the respondents made positive benefit assessments, however also negative cost assessments, which makes it difficult to derive a solid conclusion.

- The following issues seem to be assessed negatively in terms of the benefit/cost-relationship: the lack of prescribed minimum layouts for the statement of financial position and the income statement, the obligation to recognise deferred tax assets, as well as the recognition of actuarial gains and losses in other comprehensive income.
- The assessments of SMEs seem to have changed over the last three years with regard to some issues. While in the current study the evaluation of the benefits for external and internal information purposes was more positive compared to the results from 2007 concerning the expensing of research and development costs and the application of the percentage of completion method, it was less positive concerning the required recognition of deferred tax assets. With regard to other requirements tendencies of polarisation can be depicted over the years, e.g. concerning the non-acceptance of LIFO in the IFRS for SMEs and the option to capitalise development costs in the HGB. The changes may be interpreted as a reaction to the BilMoG and/or the discussions that took place during the development of this revision act.
- Not all German SMEs do perceive all of the accounting issues covered by the “modernised” HGB as a favourable alternative to the IFRS for SMEs. With regard to some issues the respondents of the survey stated a higher “attractiveness” of the requirements of the IFRS for SMEs than the ones of the HGB. These partially positive evaluations of the IFRS for SMEs may be regarded as directions for further revisions of the German accounting law in the future.
- In combination with the results of the study in 2007 it becomes obvious, that there are more than 10% of SMEs in Germany, that are interested in applying the IFRS for SMEs due to their particular needs and the demands in their environment. The fact that this standard is not applicable under European and German law may be experienced by those entities as a restriction of their freedom, in particular when in their international environment more and more financial statements might be presented on the basis of the IFRS for SMEs in the near future.

Despite these findings, the study does not allow to draw clear direct conclusions for the regulatory practice. However, it reveals that the SMEs that participated in the study look at the IFRS for SMEs and its requirements in a differentiating way, and that they assess the “attractiveness” of its application in relation with the regulatory and structural environment of their business. As it can be expected that this environment is going to evolve on the international as well as European and national level in the future, it may be regarded as a matter of time, whether the IFRS for SMEs will – as already in numerous other countries – be assessed more and more as advantageous in Germany and that its applicability will be demanded by an increasing number of SMEs and their stakeholders.

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