ACCOUNTING FOR SMALL AND MEDIUM ENTERPRISES (SMES) - A CONCEPTUAL FRAMEWORK.

Sanjay Ray*

[SMEs sector plays an important role in generating revenue and employment, lending economic stability to the country but accounting for SMEs has become a debateable issue throughtout the world. A constant research studies is going on regarding this issue to overcome the problems arising out of it. A lot of questions are arising regarding accounting for SMEs. Naturally a comparative study is needed to judge the relevance of accounting standards for SMEs of different countries and also with the IFRS. The present paper makes an attempt to give a conceptual framework regarding accounting for SMEs.

Keywords : *Micro enterprise, comprability, generally accepted accounting principles, staff leadcounts.]*

Introduction :

The accounting for small and medium enterprises (SMEs) is one of the most debated issues for more than three decades. Through examination of this debate it is observed that the issue came to the forefront during 1970's when compliance with Generally Accepted Accounting Principles (GAAP) was needed by all the companies irrespective of their size. SME entities were required to comply with GAAP. In most of the cases, this compliance is not only irrelevant but also a cost burden. Some exemptions have been provided in response to it by the Financial Accounting Standard Board (FASB) in the United States. Other countries adopted some form of different financial reporting.

Like other countries in the would, India is also suffering from the most debatable issue of accounting for SMEs. A constant research studies is going on regarding it to overcome the problems arising out of it. Different questions regarding accounting for SME arise-To what extent accounting standards are applicable to SMEs? Where does the overloading in standards lies? Where the accounting gap does exists? How to reduce the gap and reporting burden? Would there will be a separate accounting standard for SMEs in the immediate future? Then what will be the problems of accountant? A comparative study is needed to judge the relevance of accounting standards for SMEs of the different countries and also with the IFRS (International Financial Reporting Standard) for SMEs.

*Assistant Professor in Commerce,
Acharya Girish Chandra Bose College, Kolkata.

With this in the backdrop the paper makes an attempt to give a conceptual framework regarding accounting for SMEs. At the outset, it will be logical to define SMEs and then it will be followed by role and importance of SMEs, need for application of accounting standard for SMEs, Applicability of Indian Accounting Standards for SMEs and finally the conclusion.

Definition of SMEs across Nations SME in foreign countries :

There is no uniform definition of an SME in the global economy. Different countries have defined SMEs in different ways. Some use the criteria of turnover; some use the number of employees whereas in certain countries investment in the enterprise is used to define an SME. These definitions are not static and they will change over times.

In Japan, an SME in the manufacturing sectors defined in terms of the upper limit of paid up capital of 300 million yen or 300 employees. (Small and Medium Enterprise Agency, 2004)

In South Korea, SMEs are defined as firms which are independently owned and employ less than 300 persons in the manufacturing, mining, transportation and construction sectors. (Beak, 2002).

In China,Under the current standards set seven years ago, companies are regarded as medium-sized enterprises if they employ 300 to 2,000 people, have annual sales of 30 to 300 million yuan and own assets worth 40 to 400 million yuan.

Companies that employ fewer than 300 people, earn less than 30 million yuan in annual sales and have assets of less than 40 million yuan are classified as small-sized.

In Indonesia, small business have a maximum net worth (excluding land and building) Rupiahs 200 million or maximum sales of Rupiahs 1 billion, are owned by Indonesian citizens and are independent i.e. not a subsidiary of, or owned by, or affiliated directly or indirectly with, medium size or big enterprises.

[According to Undang-Undang (regulation) no. 9 Tabun (year),1995.]

In Malaysia, SMI (small and medium industries) company is a company with:

- Full time employees not exceeding 150
- Annual sales turnover of not exceeding RM25 million.
- Incorporated under the companies act, 1965.
- Must have at least 70% of their shareholdings held by Malaysians, and
- Involved in the manufacturing sector or companies providing manufacturing related services

SMI Comprises of

- Small scale company
- A company with an annual sales turnover of less than RM 10 million to RM 25 million and not more than 50 employees.

Medium Scale Company

- A company with an annual sales turnover between RM 10 million to RM 25 million and has between51 to 150 full-time employees.

In Singapore, SMEs has

- At least 30% local equity
- Fixed productive assets (defined as net book value of factory building, machinery and equipment) not exceeding$15 million
- Employment size not exceeding 200workers for non manufacturing companies

In Thailand, at present, there is no generally agreed definition of SMEs. Each organization has derived their own definition of SMEs for convenience in their work. The various administrative organizations which deal with the SMEs classify SMEs based on measures of fixed assets, registered capital, sales or number of employees.

a) Ministry of Industry has defined the SMEs as follows:

By size of employment:

- Small Scale: less than 50 persons
- Medium Scale: 50-200 persons

By fixed assets:

- Small Scale: less than Baht 20 million
- Medium Scale: Baht 20-100 million

b) The Industrial Finance Corporation of Thailand (IFCT), the Small Industry Finance Corporation (SIFC) and the Bank of Thailand define small industries as fixed asset investment less than 20 million Baht.

c) Office of the Board of Investment (BOI) has defined small scale industries with fixed assets less than Baht 10 million and medium scale industries with fixed assets more than Baht 10 million but less than Baht 100 million.

In the Philippines, an SMEs is defined as any business activity or enterprise engaged in industry, agri business and| or services whether a single proprietorship, a cooperative, a partnership or a corporation with a value of total assets inclusive of those arising from loans but exclusive of the land on which the office, plant and equipment of a particular business entity are situated, coming under one of the following categories:

Based on the asset size:

Micro : Up to 15,000 pesos

- Cottage : 15,000 -1,500,000 pesos
- Small : 1,500,000-15,000,000 pesos
- Medium : 15,000,000-60,000,000 pesos

Based on the number of employees:

- Small : 10 to 99 workers
- Medium : 100 to 199 workers

Australian Bureau of Stats defined on the basis of number of employees-

Small: less than 20

Medium: 21 to 200

Large: Greater than 200

In South Africa, Small or Medium enterprise is a formally registered business with 20 -250 employees

SME share of GDP (Abedian 2001)

-Survavivalist, micro and very small -24%

- Small and Medium 32%

-Large 44%

The website for small business in USA, define small business either by maximum number of employees which varies from 100 to 1500, or maximum turnover per year, this varies from $ 0.75 to $ 30 million, or the amount of financial assets, this goes upto $ 150 million depending upon the types of business.

In Germany, SMEs normally means organizations with the annual turnover of up to DM 100 million and/or with a maximum number of 500 employees.

In the European Union, SMEs are defined in terms of employment and turnover or balance sheet total. This is shown below in the following chart.

European Union Definition of SMEs

Criteria	Micro enterprises	Small enterprises	Medium enterprises
Number of employees	Less than 10	Less than 50	Less than 250
Turnover (Million Euros)	Less than equal to 2 million	Less than equal to 10million	Less than equal to 50million

Source : United Nations Economic Commission for Europe (2005)

International Institutional definitions :

According to the Organization for Economic Cooperation and Development (OECD) 2, the characteristic of SMEs not only reflects the economic patterns of a country but also the social and cultural dimensions. These differing patterns are noticeably reflected within different definitions and criteria of SMEs adopted by different countries: whereas some refer to the number of employees as their distinctive criteria for SMEs, others use invested capital, and some other use a combination of the number of employees, invested capital, sales and industry type.

This section will examine the different definitions of SMEs among various institutions.

Definitions include those of the European Commission (EC), Multilateral Investment

Guarantee Agency (MIGA)/ International Finance Corporation (IFC), Asia Pacific Economic

Cooperation (APEC), and United Nations Industrial Development Organization (UNIDO).

(1) The European Commission (EC) Definition:

The definition of the EC takes into consideration three different indicators; staff headcounts, annual sales and assets. Though it is mandatory to abide by the staff headcounts' threshold, however, an SME qualifies by falling under either the sales or the assets ceilings. This definition was introduced to ensure that eligible enterprises engaging in different types of economic activities do not lose their status as SMEs. This definition allows enterprises to be treated fairly, as enterprises in the manufacturing industry for example, have lower sales figures than those operating in the trade and distribution industries.

According to the EC, SMEs are those enterprises that employ fewer than 250 people and have annual sales not exceeding $67 million and/or total assets not exceeding $56 million.

Small enterprises are defined as those enterprises employing less than 50 persons and with annual sales or total assets that do not exceed $13 million. Meanwhile, micro enterprises are defined as those which employ fewer than 10 persons and with annual sales or total assets that do not exceed $3 million.

It is worth mentioning that this definition replaced a previous one that was introduced back in 1996; the previous definition had the same staff headcount but a significantly lower financial threshold. The increase in financial thresholds was attributed to the positive economic developments in prices and productivity in the EU member states over the last decade.

(2) Multilateral Investment Guarantee Agency (MIGA) and International Finance Corporation (IFC) Definition of SMEs:

The MIGA and the IFC define small enterprises as those that meet two of the following three conditions:

1. Less than 50 employees
2. Less than $3 million total assets
3. Less than $3 million total annual sales

Meanwhile, medium enterprises are those that meet two of the following three conditions:

1. Less than 300 employees

2. Less than $15 million total assets

3. Less than $15 million total annual sales

Unlike the EC definition, the MIGA and IFC definition do not consider the staff headcount threshold mandatory for an enterprise to qualify as an SME.

(3) Asia Pacific Economic Cooperation (APEC) Definition:

The most common criterion used within the economies of APEC is the number of employed personnel within the business itself, therefore, APEC defines SMEs as enterprises with less than 100 people, whereby, a medium sized enterprise employs between 20 and 99 people, a small firm employs between 5 and 19, and a micro firm employs less than 5 employees which includes self employed managers.

(4) United Nations Industrial Development Organization (UNIDO) Definition:

According to UNIDO the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of classification. Hence, SME definitions vary among various countries as well as within the country over a period of time. For the purposes of policy development, UNIDO generally advises countries to take into account the quantitative and qualitative indicators for SME definition.

UNIDO Investment Promotion Unit (UNIDO/IPU) offices in Amman refer to the local definition that has been set by the Ministry of Industry and Trade (MIT), which defines SMEs as follows;

- Micro-sized enterprises are those employing between 1 and 9 employees and/or have a registered capital of less than $42,300
- Small enterprises employ between 10 to 49 employees and have a registered capital of more than $42,300
- Medium enterprises employ between 50 to 249 employees and have a registered capital of more than $42,300
- Large enterprises, on the other hand, are those employing more than 250 employees and have a registered capital of more than $42,300

SMEs in India:

In Indian Context, primarily the concept of small scale industry has been in vogue and the medium enterprise definition is of more recent origin. Currently a unit having gross investment in productive plant and machinery upto Rs. 1Crore is classified as an SME enterprise.

In certain sectors as Drugs and Pharmaceutical, Hosiery, Stationary, Hand tools etc. this limit has been raised to Rs. 5 Crores in the past few yeas.

As per the current scheme of things, there is no definition of Medium enterprise, although it is expected that this segment would also be defined soon. A shift from small scale to medium enterprises is under consideration of the government. Reserve Bank of India has meanwhile, set up an internal group which has suggested that units having investment in plant and machinery upto Rs.10 Crores may be treated as Midium Enterprise.

As per Micro, Small and Medium Enterprise Devolvement Act.(MSMED ACT), 2006, following enterprises whether proprietorship, Hindu Undivided Family, Association of persons, Co-operative society, partnership undertaking or any other entity by whatever name called.

In case of enterprise engaged in the Manufacturing or Production of goods pertaining to any industry as per first schedule to the Industries (Development and Regulation) Act. 1951 as-

Micro Enterprises: In which the investment in fixed assets in plant and Machinery does not exceed Rs. 25 Lakh.

Small Enterprises: In which the investment in plant and Machinery is more than Rs. 25 Lakh but does not exceed Rs. 5 Crores

Medium Enterprise: In which the investment in fixed assets in plant and machinery in more than Rs. 5 crores but does not exceed Rs. 10 crores.

In case of enterprises engaged in providing or rendering services as

Micro Enterprise: In which the investment in fixed assets in plant and machinery does not exceed Rs. 10 lakhs.

Small enterprises: In which he investment in fixed assts in a plant and Machinery is more than Rs. 10 lakhs but does not exceed Rs. 2 crores.

Medium Enterprises: In which the investment in fixed assets in plant and machinery in more than Rs. 2 crores but does not exceed Rs. 5 crores.

The concept of size is also a relative phenomenon with reference to the local economies since a large company in a small country could possibly be considered as a small company in a larger country.

Role and Importance of SMEs:

The small scale sector plays a significant or catalytic role in nation building. It has a high potential for i)

employment generation ii) Contribution to industrial production iii) Disposal of units to rural and backward areas, iv) Promoting Entrepreneurship and v) foreign exchange earning.

This is the reason why small scale sectors have been accorded an important position in the successive industrial policy formulation and the five year plans. The role of the SME sector in nation building is well recognized not only in India but also across the globe. The industrial engine of Japan, Germany and Tiwan are driven by the SME sector. Even in the US the home of many transnational corporations, SMEs enjoy an important place and are actively supported by the small business administration through a number of policies and programmes. A small enterprise in generally born as an idea. It is only later that such ideas grow, find their place on the world stage and then become a mega corporation.

Over the years the small scale sector in India has continued to remain in an important Sector of the economy with its noteworthy contribution in the gross domestic product, industrial production, employment generation and exports. It is the secondly largest man power employed sector after agriculture and the out put from the SSI sector alone constitutes 40% share of the value added in the manufacturing sector and one third of national export.

As per the 3rd all India Census of SSIs (2001-2002) there were 10.52 million SSI units in the country of which 1.37 million are registered and 9.15 million are unregistered units. For the year ended March 2004 the said number increased to 11.52 million, providing employment to 27.40 million persons and contributing an output level over Rs. 3480 Billion in Financial year 2004.

The 10th plan for the Indian Economy has set a target of 8% growth per annum in GDP and to bring down the poverty ratio to 11% over the next decade. The plan has also noted that achieving and sustaining such ambitious growth targets would require adequate attention to SMEs which have great potentials to offer wage employment. In order to pursue the growth with employment agenda, heavy reliance is placed on the SME sector.

Need for Application of Accounting Standards for SMEs

Most of the countries of the world have their own National Accounting Standards. Also there are so many International Accounting Standards issued by IASB. National standards were made by taking a broad guidelines from international standards though both are not almost the same. Now there is coming IFRS (International Financial Reporting Standards) suitable for all entities, where accounting for SMEs has given a specific importance.

Primarily there was no specific emphasis on accounting for SMEs. Standards were prepared and increased day by day. There is question of compliance with GAAP of all companies regardless of their size. Too many standards created an overloading problem, specifically in case of SMEs. Compliance with accounting standards imposed a huge financial burden on small companies and produces information which are irrelevant to the decision makers.

During the last three decades accountants, owners, Certified Public Accountants and other SME users were debating the need for separate financial reports and application of Accounting Standards for SMEs. The needs are as follows :

i) There is a need to reduce the high cost of compliance with GAAP for SMEs. Cost of compliance includes accounting administrative cost and opportunity cost also.

ii) There is the need to reduce the accounting standard overload problems that is unnecessary details in standards should be avoided.

iii) There is a need to over come the problem of lack of trained and skilled people who are capable enough to lead such a reform in practice.

iv) There is a need to improve the appropriate knowledge of SME accounting.

v) There is the need to reduce the information irrelevance because small business has to produce complex information in their financial statements in compliance with GAAP which is seen as irrelevant to their decision making needs.

vi) There is a need to bring a break in traditional accounting system by making it comparable across national boundaries.

vii) There is the need for general or wider application of new accounting system.

viii) There is a need to bring a proper linkage between accounting and fiscal practices.

ix) There is the need for application of separate accounting standard in a very short time to take up the competitive advantages.

x) There is the requirement arising from other related laws and regulations.

Applicability of Indian Accounting Standards for SMEs:-

In India, all accounting standards are formulated by the Accounting Standard Board (ASB) which was established by

the ICAI on 21-04-77. Presently there are 28 effective standards issued by the ICAI till date.

Applicability of these standards varies from company to company. For example, there are certain standards which do not apply to the SMEs. Many argued that SMEs find it costly and cumbersome to comply with the detailed provision of accounting standards. It is also argued that such enterprises involve only a limited degree of Public interest and therefore their financial statement can be less detailed. Recognizing this the council of ICAI at its 236th meeting held in 2003 considered the matter relating to SMEs and has classified all enterprises into three categories for the purposes of applicability of accounting standards. These are Level-I, Level II and Level-III enterprises.

Level I comprises enterprises whose equity or debt securities are listed (whether in India or Abroad), enterprise which are in the process of listing their equity or debt securities as evidenced by Board Resolution, Banks including Co-operative Banks, Financial Institutions, Insurance companies, commercial or industrial or business enterprises whose turnover (not including other income) for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crores or whose borrowings including public deposits exceeds Rs. 10 crores at any time during the accounting period and holding a subsidiary enterprises of any one of the above at any time during the accounting period.

Level II comprises commercial or industrial or business enterprises (which are not in level I) whose turnover (not including other income), for the immediately preceding accounting period on the basis of audited financial statements exceeds 40 lakhs but not exceeds Rs. 50 crores or whose borrowings including public deposits exceeds Rs. 1 crore but do not exceed 10 crores at any time during the accounting period and holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level-III comprises enterprises not covered in level I and Level II as stated above. Only level II and Level III enterprises are SMEs.

Accounting Standards issued by the ICAI upto 01-04-2006 and its Applicability.

Sl. No.	Name of the Standard	Issuing Date	Mandatory from	Applicable for
AS1	Disclosure of Accounting Policies	November, 1979	1-4-1991	All
AS2	Valuation of Inventories	June, 1981 (Revised in 1994)	1-4-1999	All
AS3	Changes in Financial Position (Revised as cash flow statement)	June ,1981 Revised date March 1997	1-4-2001 1-4-2001	Level-1 Level-1
AS4	Contingencies and Events occurring after the Balance Sheet Date	November, 1982 Revised in 1995	1-1-1987 1-4-1995	All
AS5	Net profit or loss for the prior period items and changes in Accounting policies	November, 1982 (Revised in 1997)	1-1-1987	All
AS6	Depreciation Accounting	November, 1982 (Revised in 1994)	01-04-1995	All
AS7	Accounting for construction contracts	December, 1983 (Under Revision)	01-04-1991	All
AS8	Accounting for Research & Development (withdrawn and included with AS26)	January, 1985	1-4-1991	Not applicable
AS9	Revenue Recognition	November, 1985	1-4-1991	All
AS10	Accounting for Fixed Assets	November, 1985	1-4-1991	All
AS11	Accounting for effects of changes in foreign exchanges rates	June, 1989 (Revised in1994)	1-4-1995	All
AS12	Accounting for Government	August, 1991	1-4-1994	All
AS13	Accounting for Investment	September, 1993	1-4-1195	All
AS14	Accounting for Amalgamations	October, 1994	1-4-1995	All
AS15	Accounting for Retirement Benefits in Financial Statement of Employers	January, 1995	1-4-1995	All
AS16	Borrowing costs	April, 2000	1-4-2000	All
AS17	Segment Reporting	October, 2000	1-4-2001	Level-1
AS18	Related party disclosures	October, 2000	1-4-2001	Level-1
AS19	Leases	January, 2001	1-4-2001	All
AS20	Earning per share	April, 2001	1-4-2001	Level -1
AS21	Consolidated Financial Statements	April, 2001	1-4-2001	Not applicable for existing Regulation in India
AS22	Accounting for Taxes on Income	June, 2001	1-4-2001	Initially for listed companies. From 1-4-2002 All
AS23	Accounting for Investment in Associates in consolidated financial statements	July, 2001	1-4-2002	Not applicable for existing Regulation in India
AS24	Discontinuing operations	February, 2002	1-4-2004	Level -1
AS25	Interim Financial Reporting	February, 2002	1-4-2002	Level -1
AS26	Intangible assets	February, 2002	1-4-2003	All
AS27	Financial reporting of interests in joint ventures	February, 2002	1-4-2002	Not applicable for existing Regulation in India
AS28	Impairment of Assets	2002	1-1-2004 1-4-2006 1-4-2008	Level -1 Level -2 Level -3
AS29	Provisions, contingent liabilities and contingent Assets	2002	1-4-2004	All

Out of 28 effective accounting standards 8 accounting standards are not applicable for SMEs. Regarding 3 Accounting standards SMEs. get relaxation in disclosure practices. Rest 17 Accounting standards are applicable for all enterprises including SMEs.

Other Requirements:-

- An enterprise that does not disclose certain information pursuant to the above exemptions or relaxations should disclose the fact.
- Where any enterprise has previously qualified for any exemption or relaxations (being under level II or level III) but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period. However, the corresponding period previous period figures need not be disclosed.
- Where an enterprise has been covered in level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption or relaxation available to level II enterprises, until the enterprise ceases to be covered in level I for two consecutive years. Similar is the case in respect of an enterprise which has been covered in level I or level II and subsequently, get covered under level III.

IFRS for SMEs

The International Accounting Standard Board (IASB) after six years long extensive consultations about SMEs worldwide have developed and issued International Financial Reporting Standards (IFRS) for the use of small and medium size entities. IFRS for SMEs is now a reality.

Sir David Tweedie, IASB chairman on introducing the IFRS for SMEs said "The Publication of IFRS for SMEs is a major breakthrough for companies throughout the world. For the first time SMEs will have a common high quality and internationally respected set of accounting requirements, we believe the benefits will be felt in both developed and emerging economies.

SMEs represent more than 95% of all the companies. The standard has been framed according to the needs and capabilities of SMEs. It's foundation is built on full IFRS. However, in this standard many of the principles for recognizing and measuring assets,liabilities,incomes and expenses have been simplified.Topics which are not relevant to SMEs have been omitted.The number of required disclosures have been reduced significantly.Application of IFRS for SMEs for small and medium sized entities will be a cost effective affair. In Indian context,this standard has great

implications.ICAI has already issued its draft accounting standard-1'Presentation of Financial Statement'which is corresponding to IAS-1 and it was proposed to be applicable on or after 1st April,2011.Though it is not yet applied but this would be applied very soon. Thus, once SMEs will be required to prepare its financial statements as per revised accounting standards the IFRS for SMEs will play a significant role in preparation of financial statement of SMEs.

The IFRS for SMEs meets the objective of developed and emerging economies. It will provide improved comparability for users of accounts. It will enhance the overall confidence in the accounts of SMEs and it will also reduce the significant costs involved in adopting and implementing standards on a national basis. It will also provide a platform for growing businesses who are preparing to enter public capital markets where application of full IFRS is required.

Revision to the IFRS will be limited to once in every three years. The IFRS for SMEs is separate from full IFRS and is, therefore available for any jurisdiction to adopt whether or not it has adopted full IFRS.

There are 35 sections in the standard which are dealing with issues related to SMEs. Section 1describes the SMEs, section 2 deals with concepts and pervasive principles. Various other sections broadly categories into 3 parts- Presentation related part, statement of financial position part and comprehensive income statement related part.

The standard defines that SMEs are entities that do not have public accountability and do not publish general purpose financial statement for external users.

The standard requires a SME to prepare a) a statement of financial position as at the reporting date, b) either (1) a statement of comprehensive income for the reporting period or (2) a separate income statement and a separate statement of comprehensive income, c) a statement of changes in equity for the reporting period, d) a statement of cash flows for the reporting period and e) notes, comprising a summary of significant accounting policies and other explanatory information.

The IFRS for SMEs requires presentation of the notes in a systematic manner with cross reference to each item in the financial statements. The notes shall contain information about the basis of presentation of financial statements and accounting policies, information required by this standard and other relevant information.

The IFRS for SMEs has structured the accounting of financial instruments into two sections-viz basic financial instruments and other financial

instrument.

The IFRS for SMEs would definitely provide ease of use for SMEs in applying IFRS. It addresses the various issues typically faced by SMEs. The material of full IFRS which would not normally have application for SMEs is not considered in the IFRS for SMEs. Release of IFRS for SMEs is a welcome move by the IASB. The application of IFRS for SMEs for small and medium sized entities will be a cost effective affair. This will greatly benefit the SME practitioners who generally serve the SMEs at large.

IFRS for SMEs in Indian scenario:

The IFRS for SMEs is a self contained standard consisting of 255 pages, designed to meet the needs and capabilities of small and medium sized entities based on the foundation of full IFRS . In Indian context where SMEs are in overwhelming majority, it is very important to take an early decision to either prepare a separate set of IFRS for SMEs or to adopt the IFRS for SMEs developed by IASB or to have any other appropriate alternative.

The key issue will be how the IFRS for SMEs compare with existing Indian GAAP (Generally Accepted Accounting Principles). In many areas, particularly where the requirements would not constitute a change to current Indian accounting practice, the comparison will favor IFRS for SMEs which deals with topics in a relatively short and straightforward manner. In other areas where the IFRS for SMEs is not consistent with existing Indian practice, the debate will rage.

The Institute of Chartered Accountants of India considering as to whether the IFRS developed by the IASB (IFRS for SMEs) should be applicable for Indian SMEs or another set of similar standard should be developed by the ICAI. The SME sector in India is very large and its contribution to the Indian economy is significant. Though ICAI has decided to implement the IFRS for big and listed companies with effect from 1.4.2011 but not yet applied. It is the right time for ICAI to work on IFRS for SMEs for its development and application.

Conclusion:

Small scale enterprises of all over the world are playing a pivotal role in the economic development of a country. As these entities has a great importance, so their authentic, timely and full accounting disclosure should under no conditions be curtailed. Problems related with accounting practices, complexities and related expense burden should be given a serious consideration. However, the problem will not be completely resolved. The impact of dual standard on the certified public accountants and auditors, society and upon the SMEs should also be considered carefully.

Application of Accounting standard for SMEs is assumed to bring comparability, materiality and consistency in accounting record. Different debates and arguments should be balanced with simplicity and affordable cost. It is a great challenge of the national standard setters to decide how IFRS for SMEs should be effectively applied so that they do not add to the reporting burden of SMEs.

References :

- Chopra, Shri V.K.,Innovation in SME Financing, pp1-4.
- D' Souza, Dolphy, "Applicability of Accounting Standards" The Chartered Accountant, November 2003, pp 480-489.
- Flower J, International Accounting Standard Board's proposals for small an medium sized entities-A fatally project? International Accountant, December, 2004, pp 17-18.
- Gupta Kamal, Contemporary Auditing, Tata MC Graw Hills 6th Edition 2005, pp 21-23.
- Mosso, D, standards overload-No simple solution, CPA journal, 1983, p 53, pp12-23.
- Mantri.Bhupendra;"IFRS for SMEs-Step towards Simplification of IFRS Application ", The Chartered Accountant, December 2009, Volume 58, pp 914-919 .
- Mitra Dr. Gautam; Accounting for small and medium enterprises, Exchange journal of Goenka College of Commerce and Business Administration, 2007, pp 39-59.
- Saini.Dr.A. L; "IFRS for SMEs in Indian Scenario" ,The Chartered Accountant, December 2009, pp 920-922.
- Singh D Ronita and Gray J Gnay, International Financial Reporting Standards (IFRS) for Small and Medium sized Entities (SMEs) : Issues and challenges for National Jurisdictions Indian Accounting Review December, 2006, pp 1-17.
- Thakur L.K. The Micro, Small and Medium Enterprises Development Act, 2006 An Overview EIRC News letter, August 2007, pp 11-12.
- Websites : www. Iasb.org/ current/iasb.asp

  IFRS for SMEs download from website.