



EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

ACCEPTANCE OF THE MICRO-ENTITIES ACCOUNTING OPTION IN EUROPE

MAY 2019

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HIGHLIGHTS

The European Commission has long been committed to easing the compliance burden on small and medium-sized entities (SMEs), especially very small companies that are commonly referred to as micro-entities. In the accounting arena this commitment manifested itself in the European Commission's revision of the Accounting Directives in order to make them less demanding for micro-entities. This is known as the micro-entities option or regime.

In late 2017 EFAA decided to investigate the take-up of the micro-entity option – the extent and the reasons for promoting it or otherwise – by way of a survey of accountants in practice conducted in conjunction with its member bodies.

Over 700 practitioners from 7 countries responded. The key findings include:

- the level of awareness of the existence of the micro-entities option varies significantly from country to country;
- a clear majority of accountants recommended their eligible clients to take-up the micro-entities option and actual rates of take-up closely mirror this;
- the main reasons accountants gave for recommending the micro-entities option were cost savings and greater privacy from reduced disclosures; and
- while most accountants did not expect to change their view of the micro-entities regime, most did expect the take-up to increase in the future.

The survey findings have various implications for regulators, standard setters and accountants, not least the European Commission in light of the fact that in early 2018 it commenced the [EU fitness check on public reporting by companies](#). The survey reveals that, as one might expect, accountants are key drivers of the decision to take-up the micro-entities regime. Nevertheless, many eligible micro-entities are unaware of the option. Hence, if the EU wishes to increase the take-up then it might wish to look at ways of raising awareness including through accountants bringing it to the attention of their eligible clients. On balance the EU initiative to introduce the micro-entities regime has succeeded if success is measured by take-up or acceptance rates. However, the usefulness of the readily available financial information about limited liability companies has been significantly diminished with the reduced requirements of the micro regime. The economic impact of that is a completely different question not addressed by this report but which lends itself to further investigation.

BACKGROUND

In 2012 [an amendment](#) to the Accounting Directive established an optional separate and less onerous regime for micro-entities as a subset of small companies. The accounting was to be less complex than that for small companies, for example by not permitting fair value accounting or revaluations. The main simplification was, however, in limiting the required disclosure. There would be no notes to the financial statements other than a note of contingencies and commitments and of any loans to owners of

the company. The profit and loss account and balance sheet would have few required line items.

The micro-entities accounting option was introduced as a member state option in the [Accounting Directive \(Directive 2013/34/EU\)](#). The take-up by the member states much increased after 2014 when they incorporated the micro-entities regime in the wider change of accounting law prompted by the more complete revision of their national jurisdiction. Micro-entities were defined in the Accounting Directive as those undertakings which on their balance sheet dates do not exceed the limits of at least two of three following criteria:

- balance sheet total EUR 350 000;
- net turnover EUR 700 000; and
- average number of employees during the fiscal year: 10.

Public interest entities, investment entities and financial holding entities were excluded from the benefits of simplifications applicable to micro-entities. There were allowances for maintaining the status where the size criteria might be exceeded on a temporary basis.

The implementation of the micro-entities option was described and analysed in the EFAA study of the implementation of the Accounting Directive '[Implementing the New European Accounting Directive: Making the right choices](#)'. In all cases the member states left it as an option to the entities as to whether to prepare and file micro-entities accounts, or whether to stay with the small entities regime.

OBJECTIVES

The objectives of this current survey were to assess the:

- extent of the take-up by companies in different countries in Europe of the micro-entities option; and
- reasons that might have driven the decision to do so, or not to do so.

METHOD

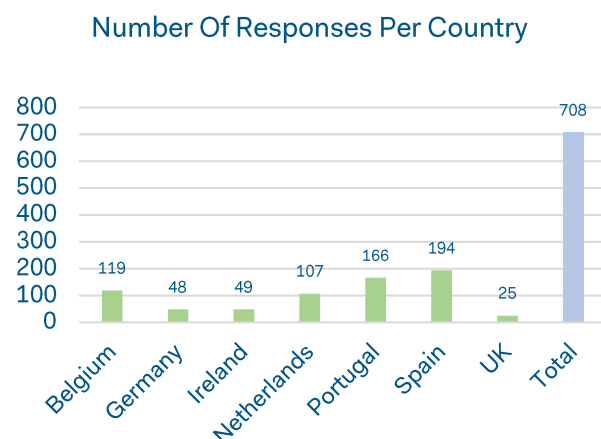
The assumption was made that professional accountants in practice will have been influential in recommending to their eligible micro-entities clients whether to prepare their accounts on one basis or another.

A questionnaire was developed of nine common questions which EFAA member bodies would send out to their members in practice. While the member body might choose to add their own further questions to reflect national conditions, only the responses to the common questions have been reported in this survey.

The surveys were done in 2017 and 2018 and so covered a period when the micro-entities regime had typically been quite recently established by the member states.

RESPONDENTS

The survey elicited over 700 responses from 7 countries as shown in the table below.



The response rate varies significantly from one country to another and the response rate is relatively low for the two largest economies of Germany and the UK. Therefore, conclusions from some countries ought to be interpreted with some reservations.

KEY FINDINGS

The full results are shown in the Appendix.

Awareness

Question 1 (Q1) asked the accountants their perception of how well known the option of the micro regime is among relevant businesses. The results overall are reasonably balanced between widely known (52%) and little known (48%). These proportions vary across countries with much better awareness in Netherlands, Spain and Germany compared to the likes of Belgium and Ireland. This awareness among the businesses

does not always translate into take-up as revealed by Question 4 (Q4) where Spain and the Netherlands show relatively low levels of take-up while Belgium shows greater than average take-up. This disconnect may indicate the importance of the role of accountants in influencing the take-up.

Take-up

Question 2 (Q2) asked the accountants the proportion of their clients that were eligible to take-up the micro regime. The results showed that the accountants answering the questions did deal with micro-entities to a significant extent with only 180 (25,4%) out of 708 estimating they accounted for less than 25% of their practice's client base. This seemed to suggest, therefore, that the survey reached accountants best placed to shed light on the issues.

In terms of the take-up Question 3 (Q3) revealed a clear majority recommended their eligible clients to take-up the micro-entities option (56,9% recommending to most) though the proportions were higher in Portugal and Germany and relatively lower among respondents from the Netherlands and Spain for example. Their estimates of actual take-up in Q4 are broadly in line with their recommendations although slightly lower at 53,4%. Portugal and Germany show the highest rates of take-up with lower levels in Spain, Netherlands and Ireland. Other research by ACCA, the EFAA member body in the UK, indicates a high rate of take-up among eligible companies.

Influencing Factors

The accountants who recommended the micro-entities regime were then asked in Question 5 (Q5) to select the reasons why they did. The predominant reasons were:

- cost savings; and
- greater privacy from reduced disclosures.

Cost savings were particularly important in Belgium and Portugal. In the UK and Ireland, the accounting simplifications that are available to micro-entities was a significant extra factor.

However, there seem to be mixed views on whether briefer accounts will cost less. Question 6 (Q6) revealed that for the accountants who were less inclined to put forward the micro-entities option to their clients one of the key reasons was that cost savings would be insignificant. Cost savings were the main justification put forward in the legislation for the regime. The other reasons for their reluctance were less concentrated but main ones were as follows:

- inertia and insignificant cost savings (as noted above);
- third party (banks, trading partners, shareholders etc) expectations; and
- maintaining transparency and good quality reporting.

In the Netherlands and Ireland some of the comments revealed that banks were not happy to receive micro-entity accounts. In Germany the requirements of the tax authorities meant that the gains in terms of the extent of accounts preparation for the public registry were negated by the continuing tax obligations.

Looking Ahead

Given that the micro-entities regime was often relatively recently introduced Questions 7 and 8 (Q7 and Q8) then asked the accountants whether they expected their attitude to the micro-entities regime to change and whether they thought take-up would change. Most accountants seem to have made up their minds about the micro-entities regime and did not expect to change, although many are waiting to see if market pressures may change things. To the extent that change in take-up may occur the direction of change was expected to increase in all countries surveyed.

IMPLICATIONS AND CONCLUSIONS

The survey findings have various implications for regulators, standard setters and accountants, not least the European Commission in light of the fact that in early 2018 it commenced the [EU fitness check on public reporting by companies](#).

This study was based on a survey of professional accountants who were closely involved with businesses that would qualify as micro-entities and, therefore, be entitled to prepare their accounts on a less complex basis and file on the public record significantly reduced financial information. As might be expected these accountants seem to be key drivers of the decision as to whether to take-up this micro regime or not.

The survey reveals the micro-entities regime to have been chosen by a majority of, but not all, eligible entities on the recommendation of their

accountants. The take-up varies from country to country. The expectations are that the take-up is likely to increase in the future. Many eligible micro-entities are unaware of the option. Hence, if the EU wishes to increase the take-up then it might wish to look at ways of raising awareness including through accountants bringing to the attention of their eligible clients.

The principal reasons for accountants making the recommendation to take-up the micro-entities option were greater privacy and cost savings.

There appears to be some difference of view on the cost savings as those accountants who did not generally recommend the micro-entities regime cited insignificant cost savings as one of their principal reasons for not doing so. The other reservations concerned whether the reduced financial information would meet some users' expectations and the resulting quality of the published accounts.

On balance the EU initiative to introduce the micro-entities regime has succeeded. Whether it has improved the quality of readily available financial information about limited liability companies, is of course a completely different question not addressed directly by this report.

ACKNOWLEDGMENTS

This report was produced by the members of the EFAA Accounting Expert Group. EFAA would like to acknowledge the assistance of the following individuals and institutions in particular:

Richard Martin – ACCA
Association of Chartered Certified Accountants

Esther Ortiz Martínez - CGE
Consejo General De Economistas

Christian Witte – DStV
Deutscher Steuerberaterverband e.V.

Johan de Coster - IEC-IAB
Institut des Experts-comptables et des Conseils fiscaux/
Instituut van de Accountants en de Belastingconsulenten

Hugo van Campen – NBA
Nederlandse Beroepsorganisatie van Accountants

João Ferreira da Silva – OCC
Ordem dos Contabilistas Certificados

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APPENDIX

Country	Belgium	Germany	Ireland	Netherlands	Portugal	Spain	UK	Overall	%
Responses received	119	48	49	107	166	194	25		
Q1. How widely known do you think the micro-entities regime is among eligible businesses?									
Very widely	5	21	1	74	24	71	2	198	28.0
Reasonably widely	10	13	8	16	61	59	4	171	24.1
Among some	37	7	14	10	58	59	9	194	27.4
Very little	67	7	26	7	23	5	10	145	20.5
								708	
Q2. Your client profile – what proportion of your company clients would be eligible to use the micro-entities regime?									
Above 75%	31	13	10	16	113	54	15	252	35.6
50 to 75%	45	7	6	18	28	45	5	154	21.7
25 to 50%	23	8	13	28	12	36	2	122	17.2
Less than 25%	20	20	20	44	13	60	3	180	25.4
								708	
Q3. Do you put forward to your eligible clients the micro-entities regime for their annual accounts?									
Yes to most	83	38	30	31	132	73	15	402	56.9
To some	21	4	8	18	23	41	3	118	16.7
No to most	15	6	11	56	11	81	7	187	26.4
								707	
Q4 What proportion of your eligible clients in your estimation prepare their annual accounts using the micro-entities regime?									
Above 75%	49	26	11	25	107	44	14	276	39.0
50 to 75%	25	4	8	9	25	30	1	102	14.4
25 to 50%	10	6	4	6	9	16	1	52	7.4
Less than 25%	35	12	26	66	25	105	8	277	39.2
								707	
Q5. [for those who answered 'yes' and 'some' to Q3] Why do you put forward the micro-entities regime? (tick all significant reasons)									
Cost savings from reduction in disclosure	79	30	17	19	129	113	10	397	
Greater privacy from reduction in disclosure	20	28	34	46	35	92	13	268	
Clients' expectations	16	16	5	13	35	10	3	98	
Users' (e.g. banks, trading partners,	3	3	5	2	18	14	3	48	
Design and cost of accounting software	1	2	1	6	39	44	3	96	
Other (please specify)	10	7	53	2	15	11	11	109	
Summary of comments, if any, supplied by EFAA member running the survey			Accounting simplifications allowed			Simplifications of accounting			

EFAA SURVEY

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Country	Belgium	Germany	Ireland	Netherlands	Portugal	Spain	UK	Overall	%
Q6. [for those who answered 'no' and 'some' to Q3] Why do you not recommend the micro-entities regime? (tick all significant reasons)									
Inertia and cost savings not significant	32	2	23	17	10	43	6	133	
Not sufficiently different from small company requirements to be worthwhile to use, for example for training reasons	11	6	5	8	12	51	2	95	
Maintaining transparency and good quality reporting with users	12	12	12	35	11	29	9	120	
Concern over attitude of tax authorities	7	0	5	2	6	14	6	40	
Clients' expectations	18	6	14	20	4	3	5	70	
Users' (e.g. banks, trading partners, shareholders etc.) expectations	13	7	20	27	14	29	11	121	
Lack or cost of software support	3	0	5	22	4	12	2	48	
Other (please specify)	35	2	4	7	2	6	5	61	
Summary of comments, if any, supplied by EFAA member running the survey						More sophisticated accounting available			
Q7. How likely is your attitude to the micro-entities regime to change in the near future?									
Likely	11	0	9	6	43	43	5	117	16.5
Unlikely	60	37	25	79	49	60	13	323	45.4
Depends on market	24	8	11	16	47	89	5	200	28.1
Not sure	24	3	4	8	27	3	2	71	10.0
								711	
Q8. Do you think that the take-up of the micro-entities regime will change in the near future?									
Increase	57	26	27	46	90	61	15	322	46.1
Decrease	4	7	0	10	16	21	3	61	8.7
Not sure	58	15	13	51	60	112	6	315	45.1
								698	

Country	Belgium	Germany	Ireland	Netherlands	Portugal	Spain	UK	Overall	%
Q9. Do you have any other comments on the micro-entities regime?									
Summary of comments, if any, supplied by EFAA member running the survey			9 respondents expected take up to remain much as it is now	Most reports for publication use the micro regime		Not considered useful for clients			
General observations, if any, supplied by EFAA member running the survey			Q5 - 15 said that any further requirements for banks for example could be supplied separately and not in the filed version	Standard ISRS 4410 is required for micro accounts Banks do not accept micro accounts		Driven by political reasons not needs of users Entrepreneur does not want to be micro Simplification			

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