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ACCOUNTING BY SMALL AND MEDIUM-SIZED ENTERPRISES

Report by the UNCTAD secretariat

Executive summary

At its sixteenth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) decided to devote its seventeenth session to examining the accounting needs of small and medium-sized enterprises (SMEs). The existing transparency and disclosure mechanisms, including the international accounting framework, are intended primarily to meet the accounting and reporting needs of large, listed enterprises. However, transparency and disclosure are not any less important for SMEs if they are to compete, grow and access finance and partners. In almost all countries, the majority of enterprises are small or medium-sized. Since accounting and reporting regulations are not usually specifically designed for them, SMEs are required to conduct their accounting and reporting in accordance with regulations developed for large companies. In most cases, they are not well positioned to do so. SMEs lack expertise, infrastructure and other resources to implement them successfully. When SMEs prepare their financial reports in accordance with regulations that are not intended for them, the result is financial reports that are not useful for better internal management. This report is intended to facilitate ISAR's deliberations on the accounting needs of SMEs, current regulations, practices and problems. Possible solutions in terms of suggested approaches to accounting systems for SMEs are also outlined. The deliberations of the Group are expected to result in agreement on how to take the work forward so that a guideline can eventually be formulated.

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Chapter I

NATURE AND SCOPE OF THE PROBLEM

A. Introduction

1. The lack of a developed accounting infrastructure has been identified by many multilateral agencies (e.g. the World Bank, OECD, UNCTAD) as a major obstacle to economic development. A lack of accountability contributes to financial instability, discourages foreign direct investment and acts as a brake on aid projects. Within a country, lack of transparency and adequate financial disclosure within local enterprises leads to difficulties in obtaining finance and lack of knowledge with which to better manage the enterprise, and therefore to loss of competitivity. For Governments, lack of transparency and adequate financial disclosure by businesses leads to difficulties in raising tax revenues and in targeting economic development programmes and formulating proper policies. Such a situation may result in counter-productive measures which harm the private sector rather than help it and lead to the disappearance of resources rather than their creation.

2. The aim of this study is to review the issue of accounting needs in as wide a range of countries as possible and to attempt to draw from that certain conclusions about how development may be encouraged by improving the accounting infrastructure. The objective of the first part of the report is to identify the nature of the problem, while the second part examines actual accounting rules and practices followed by SMEs in a number of countries, and the third part makes some suggestions for improvements.

B. Contribution of SMEs to economic development

3. There are a number of ways in which a Government may try to promote economic development. These include attracting foreign direct investment, typically from transnational corporations, and developing parastatal corporations to become indigenous suppliers that can replace imported expertise from transnational corporations. However, as developed countries have come to realize, all large enterprises in the private sector started out as small enterprises, and therefore encouraging indigenous small business is one track which could ultimately lead to indigenous large business.

4. In addition, in many African countries for example, the majority of the working population is engaged in small business, often at a subsistence level. Small business is a major source of employment, and in helping small business a Government opens up the possibility of creating employment. For example Nthejane (1997) reports that in Lesotho there are 125,000 micro-enterprises providing employment for 200,000 people and that about three quarters of these enterprises are headed by women. There are also approximately 2,000 enterprises which employ six or more people, and these have mostly grown from the micro-business sector. However, these SMEs do face considerable obstacles to their evolution. Nthejane says:

> *"Their owners are generally better educated, more experienced and have better resources than the micro-business operators. However, they still operate in a discriminatory economic environment. These SMEs are excluded from incentives available to large*

> *(foreign) industries and subjected to onerous bureaucratic procedures. Almost invariably, SMEs are unable to comply with the cumbersome and complex licensing procedures, import control measures, taxation etc., hence they cannot access the incentives."*[1]

There are also similar findings by other researchers.

5. While these problems may be particularly critical in some African countries, the path of evolution from an informal one-person business to even a small enterprise with several employees is difficult in any country and requires the entrepreneur to develop a range of managerial and administrative skills in addition to those which are being exploited in the manufacturing operation or service which is the motor of the business[2]**.** These skills and the acquisition of knowledge about even basic issues such as taxation, licences, etc., form an immense barrier to the growth of a business and its progression from the informal to the formal sector.

C. What is an SME?

6. There is no universally agreed definition of an SME, and there is probably a good reason for this. According to the International Labour Organization, no single definition can capture all the dimensions of "small" or "medium" business size. Nor or can it expect to reflect the differences between firms, sectors, or countries at different levels of development. Most size definitions are based on measures such as number of employees, balance-sheet total, or annual turnover. However, none of these measures necessarily travel very well across borders. An annual turnover of less than $100,000 would probably define a micro-business in the United States of America but could well include a medium-sized company in other economies. According to the Organization for Economic Co-operation and Development, 95 per cent of small or medium-sized enterprises employ less than 100 workers. Even definitions based on employment are subject to the same contextual problems – a company with 100 employees is not considered very large in Switzerland, but there are few companies with more employees in some developing countries.

7. This study is based on the assumption that size is an important factor in the economic nature of business entities, and that one should identify different economic types because their needs are likely to be different. For the purposes of this study, therefore, the definitions set out below are used.

8. *Micro-enterprise*: this refers to a business involving one to five persons (typically a sole trader). Its character would be such that its activities are simple enough to be managed directly on a person to person basis, and the scale of the operations means it is unlikely to need or be able to afford to devote significant staff time to accounting. Its operations are likely to concern a single product, service or type of operations. Only basic accounting is needed to record turnover, control expenses and profitability, and, if necessary, compute profits for tax purposes. It is unlikely to have extensive credit transactions.

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1 Pule Nthejane (1997). "The process of policy formation in Lesotho". In Franz, J & Oesterdiekoff, P (eds). *SME Policies and Policy Formulation in SADC countries.* Botswana. Friederich Ebert Stiftung.

2 International Labour Organization. General Conditions to Stimulate Job Creation in Small and Medium-Size Enterprises, Report of an International Labour Organization Conference, 85th Session, Geneva, 1997.

9. *Small enterprise*: this is taken to mean a business employing 6 to 50 persons. Such a business would probably have several lines of activity and conceivably more than one physical location. It would probably need loan finance and have to report to lenders. Its payroll would potentially be quite large and relatively complex, and it would need management information on turnover and costs analysed by product line. It would potentially do a substantial proportion of its business on credit. It would therefore need a more sophisticated accounting and control system, but probably without having to consider issues such as pensions, provisions, leases, and financial instruments. It would probably need a full-time book-keeper to maintain records and information flows to management.

10. *Medium-sized enterprise*: this refers to an enterprise employing 51 to 250 employees. Such an enterprise would almost certainly be located on more than one site and involve communication between a number of managers. It would have several product lines, and would do a great deal of business on credit, possibly with export sales and imports. It would require a reasonably sophisticated accounting structure with internal controls and detailed management accounts for different product managers. It would probably have several accounting staff. The economic significance of such a company would probably justify fairly extensive reporting requirements.

11. These size definitions (in terms of employee numbers) are to an extent arbitrary, and should be interpreted flexibly in the light of actual circumstances in any one country. However, since 95 per cent of all SMEs have less than 100 employees, these boundaries, while arbitrary, capture the target group. The more important issue is to identify the nature of the entity, the complexity of its operations, and the need for information to manage the company.

12. For the purposes of this study, all of the above-mentioned enterprises are considered to be part of the *formal* economy. Entities which keep no accounts and pay no taxes are part of the *informal* economy. While it is an important part of this study to lead to systems which will encourage entities to move into the formal economy, it is not concerned with the informal economy as such. Equally, while the main focus of the study is SMEs, one cannot make proposals concerning accounting for SMEs without taking into consideration the whole gamut of accounting, from the informal sector to listed companies, so that the small company sector is consistent with the economic realities in which it operates and offers systems capable of being expanded into those used by large companies.

D. Accounting by SMEs

13. Accounting has a key role to play in any business. At its most basic, accounting is needed to “keep the score” so that the entrepreneur knows what is happening in the business, how much has been sold, what the costs are, what activities are profitable, whether selling prices leave a suitable margin against cost, etc. Accounting is also critical in managing relationships with the outside world: it records which suppliers money is owed to and which customers money is due from (if credit is given), and also enables the entrepreneur to represent the business to outside interests, particularly potential lenders and also the tax authorities.

14. As a business grows, it needs to seek further financing, investors and trading partners, and, particularly where operations may take place across the world through electronic commerce and

networking with other small and medium-sized enterprises, it needs an accounting “passport” - clear financial statements that are prepared on a basis that is understood across the world. Hence, the need for promoting transparency and adequate financial disclosure early on in the developmental phase of SMEs becomes paramount.

15. Accounting represents an essential tool for the management and evolution of a business, and yet it also poses an immense obstacle for many reasons. While its utility resides in the fact that it “makes visible” the nature and extent of the business, the entrepreneur may feel that this visibility might be exploited by the state to tax the business or impose licences or other controls. Entrepreneurs are often reluctant to keep adequate accounts because they fear the tax consequences, and yet without taking this step they have no information for managing the company or for enabling lenders to assess the viability of the business and to offer finance for expansion.

16. In the minds of many if not all small business entrepreneurs, accounting is seen primarily as a tool of taxation. After taxation, its next use is seen as a requirement for raising loan finance. Accounting is frequently perceived as a tool of oppression. Its positive uses in providing a model of the company to enable it to become more profitable and more manageable are generally not understood (perhaps because the business person has no management training) or are underrated.

17. Another frequent obstacle of this kind is the lack separation of the business from the owner. In some cultures, the concept of property is fairly fluid, and rigid boundaries between what is personal and what belongs to the family or another group do not necessarily exist. Beyond that, even in cultures where individual property concepts are well established, entrepreneurs often have difficulty in separating their business expenses from their personal expenses, which is essential for an evaluation of the business.

18. Aside from these fairly considerable psychological blocks, there are the problems of how to access accounting for the business. If entrepreneurs are to look after their own accounts, this presumes that they are already literate, and preferably numerate as well, which already excludes a large slice of the entrepreneur population. For the entrepreneur to be trained in accounting supposes that courses are available and that the entrepreneurs can afford to take time away from working to acquire the knowledge (or can be subsidized to do this).

19. The alternative is for accounting services to be provided from a specialist supplier, which is the solution adopted by many SMEs in developed countries but is rare in developing countries. Here there arises the question of cost and the problem of providing value for money. Entrepreneurs do not see any merit in paying an outside accountant to prepare figures which are used exclusively for tax purposes. Accounting services must be able to demonstrate the management utility of the information. The service provider must be able to offer a wider range of services, including regular management accounting data to measure and improve performance.

E. Accounting infrastructure

20. The development of financial reporting is something that occurred as a consequence of the industrial revolution. Accounting is considered a necessary prerequisite for the organization of business. On the other hand, in countries where the prime activity has been agriculture, there has

historically been no great need for accounting. In many situations, such accounting regulations as exist have often been created in an ad hoc manner and have not resulted in a homogeneous accounting environment. This in turn makes the provision of accounting education and accounting services less efficient because of the lack of an organized or uniform approach.

21. Many developing countries have, of course, some colonial heritage, and this manifests itself most clearly in former French and British colonies. In francophone Africa, many countries use an accounting plan and have detailed accounting requirements for small enterprises, while anglophone countries often have legislation modelled on the United Kingdom 1948 Companies Act. Many commentators have discussed the suitability or lack of it of these imports. One possible argument may be that the French system is at least designed for small and medium-sized enterprises, although it requires a fairly elaborate system of accounting for even the smallest kind of enterprise. As a result, this presents a hurdle, discouraging micro-enterprises in the informal sector from moving to the formal sector. The British system is designed more around the needs of large, listed companies and is to a large degree unsuitable for the vast bulk of SMEs in developing countries.

22. In many developing countries, subsidiaries of foreign transnational corporations (TNCs) and parastatal organizations are major players in the economy. Subsidiaries of TNCs bring in major investments and generate employment, but they are frequently able to negotiate special deals with the host Government which bear on taxation and other reporting issues. In any event, subsidiaries of TNCs are likely to maintain internal records which satisfy the needs of the group’s global accounting information system, rather than observing local rules.

23. In many countries, Governments have taken steps to encourage development by setting up enterprises themselves, or sometimes by taking over activities from TNCs. The resulting parastatal organizations cover a wide variety of activities ranging from banking to marketing prime commodities. These parastatal organizations generally escape accounting regulations. They are frequently created by special statute, and their accounting requirements are set out in this statute. However their special status usually means they are not covered by the accounting rules which apply to other companies. In many cases such parastatals have poor accounting systems and report with several years’ delay, if at all.

24. Where small and micro-enterprises form a very large part of the economy, the only rules which affect them are likely to be tax-based rules. It is only in economies with a substantial number of medium-sized companies that indigenous private business is likely to be covered by accounting legislation as such. A number of developing countries are keen to develop stock exchanges, and more recent regulatory activity is often directed to this end, rather than to the needs of the SME sector. Where a stock exchange is the focus, new regulations are typically based on the standards of the International Accounting Standards Committee (IASC).

25. This means that in most developing countries the local accounting rules include a range of different and possibly competing rules; there is a discontinuous patchwork of regulations developed at different times with different objectives. The colonial heritage means that rules may have been imported without any thought for adaptation to local circumstances, and the tendency of regulations to be enacted to meet specific situations as they crop up means that the initial framework has been complicated by a variety of ad hoc measures. The political will to scrap these

and start again with a coherent all-embracing approach is often absent, and accounting is low on the list of priorities for government attention.

26. In countries in transition, the position is different but no less complicated in that the existing systems are not easily adapted to market economy use, but imported systems depend upon being supported by an infrastructure of ethical and professional approaches, support services and concepts which are to a large degree absent. Countries face a puzzling plethora of “solutions” offered by the West, which will take many years to assimilate and adapt.

F. Differential reporting

27. For most of the last 200 years (during which financial reporting as we know it has evolved), it has been taken as axiomatic that there could be only one system of financial reporting for commercial entities. This has been an article of faith, despite the fact that accountants could comfortably believe that the public sector did not need to use accounting which remotely resembled commercial accounting, and that therefore in principle it was not possible to argue that there is only one “correct” form of accounting. Nevertheless, one of the problems which has been endemic in accounting in developed countries is that, even if some developed countries are beginning to address the issue of differential reporting at home, they continue to export the concept of a single system of financial reporting.

28. The common position in commercial accounting is that there is no justification for one entity accounting for the same transaction in a different way from another entity. Nevertheless, the fact that the impact would vary between businesses of different sizes is not greatly disputed.

29. However, the premise that all commercial entities should report under the same framework is probably a key obstacle to the development of useful accounting, because it ignores the fact that, economically and commercially speaking, there is simply no comparison, for example, between the impact of a $10,000 transaction on a one-man business and its impact on a TNC. Let us say that the transaction is a sale. There is no question that it should be accounted for in both cases as a sale transaction. However, economically, the framework is quite different, and accounting should be able to reflect that difference. The argument simply is that, while the basic nature of the transaction does not change, the framework within which it takes place is different, so its consequences may be different, and this should be accepted in designing regulations. Equally, it is perfectly possible, even probable, that the transactions of TNCs are likely to be mostly different in nature and scale from those of the one-man business, and the regulations should not make a “one size fits all” assumption.

30. The conviction that accounting rules should be the same for all enterprises is part of the reason for there being a major accounting hurdle to face when a business moves from the informal to the formal sector. The small business is in effect moving in one step from having no accounts to having to follow the same rules as a TNC. Some countries, such as Australia, have recognized this and removed all reporting requirements for small entities. Other countries, including France, Germany and the United Kingdom, have at least recognized that in principle the reporting environment for small business is different from that of large business.

31. However, in developed countries the accounting problem lies not so much in getting companies to keep accounts, since the general level of education is higher and accounting services are more easily obtained, but rather in how to reduce the administrative burden for small companies so that the financial reporting requirements (which are designed for large companies) are not more onerous than they need to be. A recent study by the Canadian Institute of Chartered Accountants[3] identifies the problem as follows:

> "*Given the concept of a single set of generally accepted accounting principles for all enterprises, entities not active on financial markets are required to follow substantially the same accounting standards as publicly listed companies.*"

32. As is the case in Canada, countries with an Anglo-Saxon accounting tradition generally (a) aim their accounting regulation at listed companies and (b) require small companies to follow substantially all the same rules. Recent moves, such as the financial reporting standard for smaller entities in the United Kingdom and the Canadian initiative do not, however, deviate from the idea of a single set of accounting measurement rules, but merely provide some alleviation of disclosures for small business.

33. Continental European countries, on the other hand, face a different problem and have recently started to accept differential reporting. In broad terms, continental European countries aim their base accounting regulation at private companies, with taxation being a major preoccupation. The pressure of international harmonization on the large companies listed on several stock exchanges has meant that countries such as Austria, France, Germany and Italy accept differential reporting – large, internationally listed companies are now allowed to produce group accounts on the basis of international rules rather than domestic rules. Continental European countries accept a disconnection between the reporting needs of smaller, private companies and listed TNCs.

G. Accounting profession

34. The stage of development of the accounting profession varies substantially among developing countries. Some of them have a well developed profession. In others, while the profession is large, it is at an earlier phase of development, and in some the profession is almost non-existent.However, the Big Five international accounting firms are present in most developing countries and ensure some degree of service availability.

35. However, while the provision of highly qualified auditors may be useful for large national companies and other economically significant entities, it is less clear that it is useful to the SME sector. SMEs do not require sophisticated accounting, tax and audit advice, rather they require low-cost, effective accounting and management guidance. Large accounting firms are no doubt able to supply the product, but are trained to a level beyond this and charge accordingly. French *experts-comptables* are probably the nearest to a professional body which is able to supply this sort of accounting and management service, but they, certainly in their European form, are as highly trained as the audit firms, and therefore are providing a more sophisticated (and therefore more expensive) product than that required by SMEs in developing countries.

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3 *Financial Reporting by Small Business Enterprises* Toronto, Ontario : CICA, 1999.

H. Summary

36. The object of this first part of the report is to set out the area which has to be analysed. It suggests that accounting is one of the major obstacles (but far from the only one) which prevents micro-enterprises from growing, and makes life difficult for small firms. Lack of accounting is an obstacle both in a management context because the entrepreneur cannot see clearly the income and expenditure of the firm, and in a financing context because the firm cannot borrow or obtain other funds for expansion. Not all micro-enterprises wish to grow, but the development of a thriving indigenous economy depends upon at least some micro-enterprises developing into bigger companies. Furthermore, for companies to survive and compete in a globalizing world economy, they need continued access to finance and partners in order to obtain technology and expand their markets. But creditors, investors and partners require financial information which is most effectively generated by a simple harmonized system.

37. Against this, small business often sees accounting simply as opening a window for the Government to start taking some of the profits. Entrepreneurs do not know how to use accounting to improve their business and cannot access affordable accounting services of the kind they need.

Chapter II

CURRENT REGULATIONS

A. Introduction

38. A significant part of the work on this study involved collecting information concerning the present state of regulations and problems which are experienced in their application. In the early stages of the research project, the secretariat invited help from ISAR members and others and received offers from people in a number of countries. On the basis of the offers received, material has been put together on the following countries:

Latin America: Argentina, Brazil;
Africa: Botswana, Cameroon, Kenya, Morocco;
Middle East: Lebanon;
Far East: Malaysia, Singapore;
Economies in transition: Kazakhstan, Poland

39. While it is not suggested that this is a representative sample of economies, it does include a spread of examples from newly industrialized countries to countries in an early stage of development. Historically, the process of development involves moving from an economy which is largely devoted to agriculture through industrialization to the post-industrial phase where the economy is primarily devoted to services.

40. As already discussed, taxation is a major influence on accounting, since accounting is used for the assessment of profits for taxes. Clearly the extent to which taxation of income is a major input to the national exchequer is likely to influence governments in their approach to its collection.

B. Accounting regulation

41. In many countries, the accounting framework is a mixture of inherited rules derived either from a colonial past or from historical trading links. This basic framework has usually been built on with a series of measures designed to meet local needs, and finally in recent times with the adoption of IASC standards in one form or another. Annex II shows the involvement of the sample countries with International Accounting Standards.

42. It is clear from the information available that these countries are now focusing their regulatory efforts on IASC standards. As noted before, this may result in a situation where there are unrelated sets of accounting rules operating in the same country, and it would be sensible for some rationalization to take place. Given that the most demanding set of rules is that of the IASC, these should be specified for large or listed entities and parastatals, but this should be accompanied by a lighter regulation (consistent with the approach of international standards) for smaller, private entities.

43. The incomplete nature of regulation is a problem which often presents itself. Accounting regulation is frequently focused on the needs of larger entities or stock exchanges and there are no rules directed specifically at SMEs. Frequently it is only rules on taxation of profits which directly concern smaller entities. To provide a succinct summary of the present position in the sample countries, a summary table of basic points has been assembled. This information came partly from local offices of Deloitte & Touche and Pricewaterhouse Coopers, and partly from volunteer researchers. Five basic questions were asked, the answers to which are set out in annex III.

44. Annex III is intended to provide a thumbnail sketch of the situation for SMEs. It shows that there are significant differences between countries in their approach, and especially as to whether they regard SMEs as a special category or not. In most cases they do not provide any special framework for SMEs, and to the extent that these escape the rules for larger entities, this is due to informal derogations, rather than conscious policy. Inherited frameworks are clearly influential, with Lebanon and Morocco reflecting past French influences in their modulated approach to small enterprises, and Kenya, Malaysia and Singapore reflecting British refusal to recognize small business as a special category.

C. Field research

45. While a survey of regulation is useful, a key aspect of any attempt to research regulation of a particular sector is to ask how the regulated experience influences the existing situation. One of the key aspects of this study was the possibility of doing field research into the experiences of SMEs in respect of the regulatory framework which they face. The planned approach was to conduct a series of interviews with various players in the field: entrepreneurs, government officials and professional advisers. Resources were extremely limited, but the secretariat was very fortunate to be able to obtain some data through the good offices of researchers who were able to meet our research needs while pursuing their own. A synopsis of their findings is provided here. We have preferred not to identify the countries concerned; these are just examples of the kinds of problems which SMEs may face, and are not intended to throw light on the regulation or approach in any specific country, nor can general conclusion necessarily be drawn from them. The problems identified may or may not be found in any individual jurisdiction.

Country A

46. The researcher interviewed a number of people, and it was clear that the question of taxation is a major issue. One interviewee remarked that all businesses pay tax at 32.5 per cent of their taxable income and there is no relief for small entities or business start-ups. There is massive tax evasion, partly through corruption and partly through concealment of profits. One interviewee said that the poor quality of the infrastructure, the apparent waste of taxpayers’ money and the perceived level of evasion were strong reasons why people resented paying tax. As one person said: “Unincorporated entities, aid projects and parastatals all produce notoriously unreliable figures. The solution has to be education and greater belief in the system. At the moment the belief is: ‘any time I produce good accounts, they just tax me more and I don’t see any return’”. Another comment: our tax authority “is actually quite good at collecting taxes, particularly compared with

neighbouring countries, but the problem is that they only go after those already within the net and not those evading."

47. One entrepreneur suggested that there should be a period of grace for new companies: "I would prefer it if new businesses paid nothing for the first two years, then for the tax rate to be graded for another year or so until the business has established itself and then for full rates to apply."

48. Another problem faced by business is the need to obtain licences. One successful entrepreneur looked back at his beginnings: "The whole process was a learning experience in itself and it really needs some form of standardization so that the entrepreneur can go to one place to register his business." A service provider said: "The biggest problem here is bribery and corruption and very little gets done unless money is offered ... Bureaucracy slows most things down, simple processes can be long and frustrating and it is very difficult to get things in writing from anyone. The collapsing infrastructure, such as the telephone system and the poor roads, makes it more difficult to conduct business."

49. The country had been the setting for an aid project known as the "barefoot accountant" project. The idea had been to set up a low-cost service provider, supervised by qualified auditors but staffed largely by technicians, to help small enterprises to produce accounts and meaningful management data. This project encountered a number of problems, firstly the scepticism of potential clients who "thought we were from the tax office" and also a lack of separation of the business: "small business owners do not distinguish between business and personal records, they

50. The take-up was low: "We had a target of 960 small business owners and 2,000 were approached, although we ended up with only 55 co-operating in the project". The service was offered at $8 per month; the entrepreneur was supposed to keep details on income and expenditure, and a technician would spend two hours a month turning that into accounting records and management information. The project found that micro-enterprises were not prepared to spend the money, which in turn caused a problem with retention of technicians who were paid on the basis of the number of businesses they serviced. From an initial staff of 48 technicians, the project dropped to 20, and the busiest of these had only 7 clients. The response was to move the focus to slightly bigger clients and to a fee base which was negotiated individually.

51. The project has now ended, but an interviewee said: "This kind of project could really make a difference to smaller businesses and we are thinking of ways to encourage micro-businesses to take up the service, given our experiences. One way might be to create greater awareness and to try to organize seminars; the main problem with this is getting the entrepreneurs to attend, as many would probably have to close their business. Ideally, if we could get some funding again, we would prefer to offer the service free of charge to entrepreneurs, say for the first year, and then introduce a nominal fee. Hopefully, they will then realize the potential benefits and stay with us. Most donors, however, insist that projects need to be self-sustainable and that if a free service is offered initially, these clients will disappear as soon as fees are introduced."

Country B

52. In this country the tax system is closely integrated with accounting. All incorporated entities are subject to accounting rules as such, but tax rules also require the provision of some accounts from businesses which are not incorporated. The country operates a system for the taxation of business profits which has size variants. Very small unincorporated business (determined by turnover thresholds) does not need to keep accounts and pays lump sum taxes based on the type of business. Larger unincorporated business must keep sales and purchase journals and an inventory list and is taxed 5 per cent on turnover or 15 per cent on turnover according to type of activity. All larger businesses must keep full accounts.

53. The researcher found that the average level of education of micro-entrepreneurs was relatively low, and that although they could generally read and write, they had no knowledge of commercial subjects and certainly not accounting. The latter was perceived as being an expensive luxury whose sole function is to cause the business to pay tax. These entrepreneurs were unaware of the tax rules and of their own rights and were a prey to corrupt tax officials. The entrepreneur might typically be approached by a tax official demanding sometimes very high immediate payment, even though the amount and timing were not legally justifiable. The entrepreneur would then pay a bribe, smaller than the amount demanded but perhaps greater than the normal tax, to have the tax official go away. These entrepreneurs need accounting as a protection but do not have the education to run their own accounts and cannot afford to hire a book-keeper.

54. Some larger enterprises had a quite different approach to these problems. They again found accounting expensive, but are required to produce full accounts. Some preferred to use unqualified book-keepers and similar unregulated service providers rather than go to qualified professionals because of the perceived cost of the latter. Such entrepreneurs were criticized by a professional accountant as in fact paying too much tax because neither they nor their advisers knew enough about tax to manage it efficiently.

55. Other entrepreneurs, on the other hand, appeared to keep several sets of figures – one for bank and finance purposes, one for tax and a third for management. The researcher said that it was not clear that these people understood their own convoluted systems. A professional commented that such people often attempted to reduce their tax by paying bribes to tax officials, but it was not clear that the bribes were less than the tax they would have paid with a proper system and good advice.

Country C

56. Generally speaking, the informal economy in this country is very large in terms of providing livelihood for large numbers of people, though not necessarily generating large revenues. The Government has major problems getting people to come within the tax net, and had recently been operating a tax amnesty whereby undeclared profits could be legalized (and penalties would thereafter increase for those not taking advantage of the amnesty). Although entrepreneurs, as elsewhere, see accounting as having only to do with taxation, the amnesty had caused a significant number of enterprises to enter the formal economy.

57. Accounting service providers considered that only the need to raise finance or the threat of tax penalties would cause small businesses to start producing proper accounts. However, a partner in a Big Five firm said that a number of small clients came to them for advice, particularly when seeking finance, but once the finance had been obtained (or the tax threat dealt with) the client would cease to keep records and would not return. Only pressure from a bank lender would bring the client back later, in a panic. He also noted that many small clients underestimated the cost of the service and subsequently failed to pay the firm’s fee.

58. There is an active sector in the field of “unqualified” service providers in the area of accounting. These typically provide a wide range of business services and do well with small to medium-sized business clients. The owner of one such business said that many small enterprises failed through lack of adequate accounting information and many simply cannot manage effectively. He cited a case referred to him by a bank where a trader needed finance but had no idea what her gross margin was between buying and selling prices, nor how much was tied up in her stock. It was purely a matter of chance that the business was profitable. He said that the lack of any notion of management meant that such entrepreneurs had no idea of the function of accounting in managing a business, and therefore they could not see any point in it, other than to help the tax authorities. He said that a major part of his job was explaining to clients how accounting helped them improve their business.

59. This service provider used a standard accounting software package for his clients and said he thought it would be a major improvement if there were uniform software and accounting. He noted that there were three main lenders to small business in his town, and that each one required the financial forecast supporting a loan proposal to be prepared a different way. This increased the cost to the borrower considerably, and this could be avoided with a uniform system where the banks would know that all clients would have the same kind of data, and the banks themselves could base their assessments on that.

60. The experiences of the three developing countries are similar. Tax evasion and corruption remain major disincentives to accounting. Entrepreneurs have no idea of accounting, management and business. They could therefore not see any point in it, other than to help tax authorities. Thus, there was no demand for accounting services. The result was multiple sets of books – for banks, tax and management purposes which contained information so confusing that it was unusable.

Chapter III

RECOMMENDATIONS

A. General conclusions

61. The object of this final part of the report is to identify various courses of action which are open to Governments in addressing the provision of help to SMEs in the accounting area. It deals with the need for help, the kind of regulations which may be useful, and the methods which might be used to deliver this help.

62. In essence the field research shows that only a very small minority of SME managers in developing countries have any formal book-keeping capacity, and this poses a considerable obstacle to the growth of their businesses. In the first instance, many entrepreneurs have only the haziest notion of whether their business is really profitable and what their cost structures are. Consequently they are not in a position to improve profitability. Equally they are unable to raise loan finance because they cannot demonstrate the profitability of the business or the assets owned. Finally, they are at risk from a tax perspective because the Government has no accurate data on which to make policy decisions, grant tax exemptions, etc., while at the same time they cannot contest excessive assessments.

63. Looking at the profitability issue first, even when a business works entirely on a cash basis, it is quite difficult to measure costs and profits accurately because expenses may relate to several transactions – a trader buys stocks which are then broken up for sale individually over a period, and there may be expenses such as petrol, vehicle maintenance and similar items which do not relate directly to the product transaction but are part of the business cost. In such circumstances, the entrepreneur needs to have either good training in cost control or an advanced instinct for figures, both of which are rare among SME entrepreneurs.

64. The absence of any calculation of cost, including allocations, means that the overall profitability of a business is unknown. For a subsistence sole trader, this is not necessarily a problem, but any entrepreneur who wants to develop the business needs this information. Without knowledge of cost structures, the entrepreneur cannot determine which products are the most profitable, or attempt to restrict costs other than in a most general way, or cut out activities which do not make a contribution. The business needs cost information and knowledge of cost behaviour in order to be managed and to be developed.

65. From an external perspective, there is the issue of accountability and visibility. This impacts both upon the availability of finance and also on government intervention. As far as finance is concerned, commercial lenders need at the very least to have some evidence of the putative borrower's past managerial performance and some forecast of future performance. This means that the entrepreneur must know his existing cost structure and cash flow patterns, as well as be able to prepare forecasts for future projects.

66. If the bank agrees to a loan, it will then want to be able to monitor the performance of the business and its capacity to repay the debt. Government or aid agency schemes have the same accountability problem – they need to assess the viability of the scheme proposed to them and they

need to be able to monitor it subsequently. It is for this reason that the World Bank, for example, issues its own accounting manual and insists upon proper financial reporting from aid projects.

67. Governments need economic data on SMEs both for managing the economy and for taxation. This is precisely why many owners do not want to undertake an accounting exercise – they perceive the existence of an accounting visibility as leading only to taxation, and they think that opacity protects them from taxation. Up to a point they are not wrong. However, this opacity leaves them open to pressure, either legal or illegal, from tax officials. The secretariat's empirical work shows that corrupt tax officials may use the absence of accounts to extract bribes from owners, and unlike legal tax obligations where accounts are available, there is no ceiling on the bribes. Some regimes allow the tax authorities to levy tax based on an estimate, and put the onus on the tax payer to prove the estimate wrong. Without accounts, the entrepreneur cannot contest the estimate. At the same time, the Government cannot manage the economy and cannot identify SME needs and try to meet them without accurate data on those businesses.

B. Suggested characteristics for an SME accounting system

68. Based on the accounting needs described above, it is possible to identify several characteristics which an accounting system for SMEs should have.

1. Management utility

69. One of the difficulties of accounting is that there is a major split between management accounting (generating data for the management of the business) and financial accounting (score-keeping at its basic level to provide information for banks, regulators, shareholders and tax authorities). One reason for the split is that financial accounting is usually regulated on a national basis, whereas there is no regulation whatsoever of management accounting and the same techniques are widely (but not uniformly) used worldwide. Because national rules can vary substantially, little attempt has been made in the past to integrate management accounting with financial accounting. Even the French *plan comptable général*, which included a non-obligatory section on management accounts, is now to lose that element.

70. A large company does not feel this split because accounting units are usually tasked with both maintaining the accounting database and then exploiting it by producing all manner of reports for both internal and external consumption. However, many small enterprises see accounting as only serving the latter purpose, and do not appreciate the value of management data; if they have accounting records, they often make no attempt to exploit them for management purposes. Some accounting software does try to bridge that gap. In any case, any system should have as a requirement that the data are exploitable for management information.

71. The kind of management information needed would have to be of sufficient analytical detail to enable the manager to see what contribution[4] is made by each major product or line of business (if there is more than one). This implies some sort of clear information about variable and fixed costs, including depreciation and other allocations.

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4 Contribution is used here in the technical accounting sense, meaning the excess of the revenue from the sale of one (or more) units of a product or service over the variable costs of producing that unit.

2. Uniformity

72. At one level it seems that uniformity may be desirable for efficiency reasons. However, Anglo-Saxon accountants in particular have in the past denounced uniformity as leading to meaningless figures which are incapable of translating the individual nature of the business. This may be so, or it may be an impression for which there is no real justification. Countries such as the United Kingdom have found that disclosure (in this case in the income statement) was enhanced by using standard-format financial statements imposed within the European Union. Even if freedom of choice were important, it is not clear that the basic principles permit of much freedom – assets cannot suddenly become liabilities, revenues are not expenses, and so on.

73. On the contrary, freedom of choice may lead to inefficiencies. As previously indicated, one service provider encountered during field research noted that in one major town there were only three banks to which SMEs could look for finance, but each one asked for a different form of cash flow projection. This meant that an entrepreneur had to pay for three different projections when doing the rounds of the banks. This is clearly counter-productive. The existence of a uniform system would lead to very considerable economies. Provision of software, training courses, accounting services, preparation of tax returns, audit, transfer of staff between employers: all benefit from a uniform system. The existence of a uniform system would encourage lending institutions and all who interface with SMEs to train their staff to exploit data prepared in a uniform manner.

74. At the same time, it has to be recognized that the accounting needs of a simple business are simple, but as the business gets bigger, so does its need for more sophisticated internal information and disclosure to the outside world. The system therefore needs to be able to take in the possibility of a progression from very simple records to more complex systems. The Plan SYSCOA that was recently evolved in francophone Africa is a good example of what one might describe as a “nested” system which allows for the possibility for micro-enterprises to record only simple cash transactions, while small enterprises move to an accruals-based but simple ledger system which is then capable of being expanded ultimately into full-blown reporting according to international principles.

75. The United Nations supports International Accounting Standards (IAS) as the basis for good financial reporting by large companies with international listings, and many developing countries also base their national accounting rules on IAS. Government logic in supporting small business is to encourage the evolution of the indigenous economy by helping small business to become larger. It follows that, if this policy is successful, the accounting system for small business must lead to easy transition to compliance with large company rules and therefore with IAS.

76. In practice, IAS are applicable to SMEs, because an accruals-based, historical cost system is the basis of most IAS reporting. Where they are unsuitable is that they exclude reporting for tax purposes and they include treatments for many complex transactions that are not undertaken by SMEs. The latter is a practical problem in that an accountant applying IAS needs a far wider knowledge of accounting than a technician operating a simple accruals/historical cost system. An accountant preparing annual reports to IAS standards must obviously be capable of applying them, so the professional costs to the business of applying IAS are high and do not bring any benefits.

77. Basic accruals-based historical accounting in a simple form is compatible with IAS and therefore suitable as the starting point for small companies, without any need for them formally to apply IAS as such.

3. Tax compatibility

78. The relationship with tax reporting is more difficult. The larger company has no difficulty, particularly in a computerized system, in maintaining information in such a way as to be able to present “economic” reports for management and shareholder purposes, as well as fiscal reports for tax authorities. For the smaller companies, this is an inefficiency, since keeping, as it were, two sets of figures, one for tax and one for management, is both costly in terms of accounting time and potentially confusing to the entrepreneur. Therefore records probably need to be kept on a uniform basis, normally consistent with tax requirements, but with reports designed to make clear the tax effects on measurement in a simple way. IAS, of course, do not at this time address how accounting records are maintained, only what principles are applied in the annual financial statements. There therefore seems to be no apparent contradiction with IAS if the database is maintained on a tax-compliant basis in the case of small entities.

79. The two areas which are most likely to be affected by this are depreciation and provisions. Many tax authorities fix or at least have understandings about depreciation rates which are acceptable to them. If these are above what is economically realistic (and Governments often use accelerated depreciation to help business invest) but must appear in the accounting records as deductible, then the business will show artificially high costs in some periods and artificially low ones later. Managers need to be aware of this distortion. Some tax authorities also allow the use of provisions to help preserve the capital base of the company (because that in turn promotes employment), but this also distorts the apparent costs of the business.

80. At the very smallest end of the spectrum, it is not clear that introducing any accruals accounting system is likely to be cost effective for the entrepreneur. Some simple records are necessary to provide management information and economic data. In French-based systems this is dealt with by allowing very small firms to record only sales and applying a tax regime (subject to turnover limits) based either on a percentage of turnover or on a flat sum.

C. Suggested approach to an SME accounting system

81. The suggestion would be, therefore, that an SME framework be introduced. This would be based on compatibility with IAS, but would provide a nested set of rules whereby, as the business grew, it would progress up a ladder of accounting evolution, starting with cash-basis accounts and moving then to simple accruals and ultimately to full IAS. This system recognizes that reducing disclosure requirements from IAS is just not a sufficient solution in a developing economy. The transition from no accounts to full IAS must be as smooth as possible, with no sudden steps in it. The suggested system is:

- micro-enterprises (maximum 5 people): cash-based records
- small enterprises (6 to 50 people): accruals-based accounting system using, preferably, a standard chart of accounts with a simplified structure and which also provides for management information

- medium-sized enterprises (51 to 250 employees): accruals-based accounting system, consistent with IAS, with a more complex chart
- large unlisted enterprises: largely IAS-compliant accounts
- large publicly listed enterprises: full IAS accounts

82. Small enterprises need only a very simple database, they have few different types of transactions and need only simple summaries. For example, the classic French chart of accounts provides three-digit codes for basic categories of data, such as 210 for tangible fixed assets. In a very simple business no further analysis may be required, but as a business grows and acquires more assets, it can either increase its files by using 211 (say) for buildings, 212 for land, etc., or it can go to four or five digits (2100 for buildings, 2101 for land, etc.). This means that the basic structure of the database (and therefore the accounting system) is the same whatever the size of company (e.g. tangible fixed assets will all have codes starting 21), so once trained a person can understand the accounts of any business, but that a small business need have only a very simple database so that it is easy to enter data into it and produce simple reports.

83. Annex I.A provides an example of just such a simple chart of accounts which covers all the basic balance sheet and income statement categories, but can be expanded as the business grows to provide a more complex set of datafiles, while preserving the same architecture. The example provided has been cut down from the abbreviated chart of accounts used in France, which is itself a cut-down version of the chart for large companies.

84. Notwithstanding other possible approaches, a small enterprise could start out with this very simple system and then move up to the more complex charts as the complexity of the business called for it. Each version of the chart should be consistent with the others, and would lead to a situation where the most complex version provided all the data required for consistent IAS-based annual accounts.

85. For some economies the principal advantage of this approach would lie in the fact that it provides a certain degree of uniformity, allowing among other things for low costs of training and provision of software, standardized forms, and ease of comprehension on the part of lenders. Another advantage would be that, since the basic level of the system is very simple and uses minimum categories, it poses as few problems as possible for the inexperienced. Nevertheless, the categories are fully consistent with those of larger companies using full IAS and can be easily expanded as the small business grows.

86. Annex I.B shows a suggested income statement layout for an SME. The suggestion is that the chart of accounts should be linked (as is the French chart) to the presentation of financial statements. However, while it is thought to be not cost-effective to have separate figures for tax purposes as opposed to management purposes, a single statement could helpfully provide not only total figures but also some cost analysis where the enterprise has more than one product or type of activity, and some distinction could be made between costs that are allowed for tax and those that are not to help the entrepreneur make the bridge between accounting profit and profit on a tax basis in countries where these are different. Annex I.C contains a suggested format for a balance sheet. This format is consistent with the Fourth Directive and IAS 1. Annex I.D shows a sample format for a cash flow statement that is consistent with IAS 7.

Annex I.A

SAMPLE CHART OF ACCOUNTS

(drawn from the reduced chart of accounts for small companies in France)

Balance sheet accounts:

101 Capital
106 Reserves
108 Proprietor's personal account
120 Profit or loss for the year

150 Provisions for risks and expenses

160 Borrowing

200 Intangible assets
210 Tangible assets
270 Investments
280 Accumulated depreciation – intangible assets
281 Accumulated depreciation – tangible assets

310 Stock of raw materials
350 Stock of finished goods and work in progress
370 Stock of goods bought for re-sale

400 Trade creditors (payables)
410 Client accounts (receivables)
430 Social security creditor
444 Income tax deducted – creditor
460 Sundry debtors and creditors
470 Temporary and suspense accounts

510 Bank accounts
530 Cash

Profit and loss account

600 Purchases
603 Change in stocks
610 External services
630 Taxes and similar charges
640 Employment costs
650 Other expenses
660 Financial charges
681 Depreciation and provisions – operations

686 Depreciation and provisions – financial
695 tax on profits
701 Sales of goods manufactured
706 Sales of services
707 Sales of goods bought for re-sale
760 Financial income

Annex I.B

SAMPLE SME MANAGEMENT REPORT (INCOME STATEMENT)

XYZ Ltd
Income statement
For the year ended 31 December 20X1

	Total $	Prod A $	Prod B $	Unallocated $
Sales	**325,000**	**140,000**	**160,000**	**25,000**
Materials	74,500	32,600	41,900	-
Changes in stock	1,200	2,100	(900)	-
Depreciation	12,300	3,400	2,800	6,100
Salaries	137,700	43,200	43,200	51,300
Telephone	1,800	-	-	1,800
Power, Light and Heat	10,800	5,400	5,400	-
Insurance	2,600	-	-	2,600
Rent / Rates	28,600	-	-	28,600
Lease Rentals	6,500	-	5,300	1,200
Provisions	1,000			1,000
Motor Vehicle Expenses	1,900		-	1,900
Total Operating Expenses	**278,900**	**86,700**	**97,700**	**94,500**
Profit Before Interest and Tax	**46,100**	**53,300**	**62,300**	**(69,500)**
Interest	(6,200)			
Profit Before Tax	**39,900**			
Disallowed for Tax :				
Provisions	1,000			
Taxable Profit	**40,900**			
Taxation	(10,275)			
Net profit for the year	**30,625**			

Annex I.C

A SUGGESTED FORMAT FOR A BALANCE SHEET THAT IS CONSISTENT WITH THE FOURTH DIRECTIVE AND IAS 1

XYZ Ltd
Balance Sheet
As of December 31, 20X1
(in USD)

Assets			
Non current Assets			
Property	170,000		
Less: Accumulated Depreciation	40,000	130,000	
Equipment	85,000		
Less: Accumulated Depreciation	25,000	60,000	
Total Non-Current Assets			190,000
Current Assets			
Materials		18,200	
Stock		34,000	
Trade Receivables	28,500		
Less: Provisions	2,500	26,000	
Bank accounts		5,600	
Cash		1,200	
Total current Assets			85,000
Total Assets			**275,000**
			=========
Equity and Liabilities			
Capital and reserves			
Capital		100,000	
Retained Earnings		40,000	
Reserves		3,500	143,500
Total Capital and Reserves			
Non current liabilities			
Notes Payable	35,500		
Mortgage Payable	65,000		
Total Non Current Liabilities		105,500	
Current Liabilities			
Note payable (due in 6months)	5,500		
Trade Payables	20,500		
Total Current Liabilities		26,000	
Total Liabilities			131,500
Total Equity and Liabilities			**275,000**
			=========

Annex I.D

A SUGGESTED FORMAT FOR A CASH FLOW STATEMENT THAT IS CONSISTENT WITH IAS 7

XYZ Ltd
Cash flow statement
For the year ended 31 December 20X1
(in USD)

Cash flows from operating activities:			
Cash receipts from customers	310,175		
Cash paid to suppliers and employees	(264,400)		
Cash generated from operations		45,775	
Interest Paid	(6,200)		
Income taxes paid	(10,275)	(16,475)	
Net Cash from operating activities:			29,300
Cash flows from investing activities:			
Purchase of Equipment		(12,500)	
Proceeds from disposal of equipment		500	
Net cash used in investing activities			(12,000)
Cash flows from financing activities:			
Payment of notes payable		(5,500)	
Payment of mortgage (principal)		(10,000)	
Net cash used in financing activities			(15,500)
Net increase in cash and cash equivalents			1,800
Cash and cash equivalents on 1-1-20X1			5,000
Cash and cash equivalents on 31-12-20X1			**6,800**

Annex II

SAMPLE COUNTRIES AND THEIR INVOLVEMENT WITH INTERNATIONAL ACCOUNTING STANDARDS

Country	IFAC member	Stock exchange	Listed domestic companies	Listed foreign companies	Accounting principles	Legal Guidance
Argentina	Yes	Buenos Aires Stock Exchange	Argentine Generally Accepted Accounting Principles (GAAP)	Argentine GAAP, IAS or their national GAAP with reconciliation to Argentine GAAP	(Local) Consejos Profesionales de Ciencias Economicas on the basis of the 'technical resolutions' of the Federacion de Consejos and those adopted under legal authority, primarily developed by the Comision Nacional de Valores (for listed companies) and specialized industry standards developed by regulatory agencies such as the Central Bank of the Argentine Republic	
Botswana	Yes				IAS are recommended, although not legally required	Securities Commission Law of 1976
Brazil	Yes	Rio De Janeiro and Sao Paulo Stock Exchanges	Brazilian GAAP	Brazilian GAAP	The Brazilian Institute of Accountants (IBRACON) issues standards	

Country	IFAC member	Stock exchange	Listed domestic companies	Listed foreign companies	Accounting principles	Legal Guidance
Kenya	Yes				Institute of Certified Public Accountants of Kenya resolved to adopt IAS commencing 1-1-2000	
Malaysia	Yes	Kuala Lumpur Stock Exchange	IAS or Malaysian GAAP	IAS, Malaysian GAAP, or a reconciliation to Malaysian GAAP of net profit or loss and shareholders' equity	The Malaysian Accounting Standards Board (MASB) sets legally binding financial reporting standards	Financial Reporting Act of 1997 established the MASB
Poland	Yes	Warsaw Stock Exchange	Polish GAAP, but if traded overseas must include a reconciliation to IAS or US GAAP	IAS or US GAAP with a reconciliation to US GAAP.	Committee on Accounting Standards, with nine members from different sectors	Accountancy Act of 1994, also requires conformity with EU Directives

Singapore	Yes	Stock Exchange of Singapore	Singaporean GAAP	Singaporean GAAP, IAS (no reconciliation) or US GAAP with reconciliation to Singaporean GAAP	Statements of Accounting Standards (SAS) issued by the Certified Public Accountants of Singapore	

Source: IASC web site (http://www.iasc.org.uk)

Annex III

ACCOUNTING REGULATION IN SAMPLE COUNTRIES

	Questions asked	Argentina	Cameroon	Kenya	Lebanon	Malaysia	Morocco	Poland
(a)	Are there any accounting regulations which cover unincorporated entities, and if so, what is the source of these, and do such entities generally comply?	Accounting standards are mandatory for all companies regardless of size.	Accounting regulations covering all entities, including unincorporated entities, exist.	There are no statutory regulations imposed on accounting for unincorporated entities.	Starting in 1996 all businesses, regardless of size, are required to adopt IAS within three years.	There are no accounting regulations specifically applicable to unincorporated entities.	There are no regulations that specifically apply to this kind of businesses.	Simplified books, in accordance with the Ministry of Finance Book of Revenues and Costs.
(b)	At what size or other threshold does a limited liability company (or other entity) start to have an obligation to have a statutory audit?	All limited liability companies, regardless of size, are subject to statutory audits.	Statutory audit if PLC has more than 10 million CFA in share capital, or 250 million CFA in turnover or more than 50 permanent employees	All companies are required to have a statutory audit.	All limited liability companies to be subject to independent audit. SMEs with profits of over $500,000 submit an audit report with tax filing.	All incorporated limited liability companies are required to have a statutory audit, regardless of their size.	When turnover exceeds 50 million dirhams.	Two out of the following: average employment 50 people; total assets > 1 million euros; net sales > 3 million euros
(c)	Are there special accounting rules for	No	No	No	No	No	No	No

	Questions asked	**Argentina**	**Cameroon**	**Kenya**	**Lebanon**	**Malaysia**	**Morocco**	**Poland**
	incorporated entities with fewer than 50 employees?							
(d)	At what point does a business become liable to pay tax on its profits?	No threshold	No threshold	No threshold	No threshold	No threshold	No threshold	Taxable revenue > 500 US dollars
(e)	Are there any special tax rules for small businesses?	The Monotributo	No special tax rules	No special tax rules	No reply	No special tax rules	No special tax rules	No special tax rules

Sources: Local offices of Deloitte & Touche, Pricewaterhouse Coopers, and volunteer researchers.