THE EVOLUTION OF FINANCIAL STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES

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Abstract

According to the growing need for more comparable accounting standards, the beginnings of International Financial Reporting Standards for small and medium sized entities (IFRS for SMEs) can be found in the year 2004. IFRS for SMEs represents for the first time an accounting standard for small and medium-sized companies that can be used globally. The paper aims to examine the historical development of IFRS, the principal institutions linked to their adoption and the harmonization process of standards within the European Union. The main contribution of the paper refers to the evolution of IFRS for SMEs and the main differences between the full IFRS in use and the IFRS for SMEs. The results of the comparative analysis demonstrate that several differences exist between them. Although the aim of the new standard is to assure comparable financial statements for small and medium-sized entities, the presented disadvantages demonstrate that not necessarily its implementation will assure more benefits than the cost that will occur.

Keywords: financial reporting, accounting standards, IFRS, small and medium-sized companies
JEL classification: M41, M48

1. INTRODUCTION

The year 2002 was a boundary stone for accounting standards within Europe as the regulation of the European Parliament and of the Council introduced as obligatory the use of international accounting standards for consolidated accounts of publicly traded companies. The application of International Financial Reporting Standards (IFRS) was obligatory for financial years starting after 1 January 2005. Since 2005 companies which securities are admitted to trading on a regulated market of any Member State have to prepare their consolidated accounts in accordance with IFRS [Regulation (EC), No 1606/2002]. The use of full

IFRS for consolidated accounts of publicly quoted companies represented an important change for many companies within the European Union. Many of them were previously using domestic standards that were simpler than full IFRS. However, more comparable standards within European Union were needed in accordance with the rising phenomenon of foreign associate companies and consequently incomparable financial reporting standards they were used among them. When the associate company operated in a foreign county and had to report on the basis of domestic standards, where the latter were often significantly different from those of the parent company, the associate had to use even the standards that were used by the parent company to assure the comparability of financial statements for the purpose of consolidation. Thus, different standards in use lead to higher costs of financial reporting. That is why an indispensable need for accounting standards that could be used worldwide became apparent. The very beginning of international standards can be found in sixties. Since then many efforts have been made to create international financial standard, which will ensure a uniform accounting approach for leading European companies and contribute to better financial information for investors and analysts, that will ensure a more efficient functioning of the internal capital market.

Since full IFRS have become obligatory for consolidated accounts of publicly traded companies, non-publicly quoted companies could still use domestic standards. As stated by the European Commission, full IFRS are used only by 5% of all companies, while for the 95% of non-publicly quoted companies the harmonization process (the implementation of full IFRS) did not have any effect. That is why the EU started with the project of IFRS for small and medium-sized entities (in continuation IFRS for SMEs) and re-deliberated the final standard in July 2009. The standard was designed to improve the comparability of financial statements of smaller companies. Non-publicly quoted companies, with particular emphasize on smaller companies actually represent the most important part of European economy. That is why full IFRS were appropriately modified based on the needs of financial statements users in the case of SMEs that significantly differ in comparison with the users of full IFRS. Despite the fact that preparers made cost-benefit considerations: are the IFRS for SMEs really beneficial in comparison with domestic standards?

The qualitative analysis of the IFRS evolution was performed to examine the historical development of IFRS, the principal institutions linked to their adoption and the harmonization process of standards within the European Union. Moreover, the comparative analysis of IFRS for SMEs and full IFRS was made to critically examine the differences between them. Furthermore, the paper highlights the advantages and potential problems of the new IFRS for SMEs which the preparers and users of financial statements might face.

After the introduction part the paper presents a description of the historical development of IFRS. The presentation of historical development of IFRS is crucial to understand the subsequent development of IFRS for SMEs. In the third part the paper focuses on the evolution of IFRS for SMEs, presents the results of the comparative analysis between full IFRS and IFRS for SMEs and highlights the benefits of IFRS for SMEs for the further harmonization process and possible disadvantages of their use in practice. Finally, the paper concludes with final remarks in the part of conclusions.

2. HISTORICAL DEVELOPMENT OF IFRS

The very beginning of the harmonization process of accounting standards in Europe can be found in the year 1957 by signing the Treaty of Rome establishing the European

Economic Community. The following three decades were denoted by following principal events [Chronology of IASC and IASB, 2010]:

- in 1967 the Accountants International Study Group (AISG) was created, which was the precursor of International Accounting Standards Committee (IASC),
- in 1973 IASC was established and two years later it has published the first IAS 1−Disclosure of Accounting Policies and IAS 2-Valuation and Presentation of Inventories in the Context of the Historical Cost System,[1]
- in 1977 followed the formation of International Federation of Accountants (IFAC),
- a major step towards the harmonization process was made in 1985, when IASC participated in a forum of Organization for Economic Co-operation and Development (OECD) on global accounting harmonization,
- two years later, in 1987 IASC began its Comparability and Improvements project with the aim to reduce or eliminate alternatives in international accounting standards (the project was completed in 1993). The project was supported by the International Organization of Securities Commissions (IOSCO).

In subsequent years many important bodies took part of the harmonization project, as

Financial Accounting Standard Board (FASB) and European Accounting Federation (FEE). A major step towards multinational standards was made in 1995 with the agreement between IASC and IOSCO with the aim to develop the core standards that could be used for cross-border offerings. Their agreement was supported also by the European Commission. For the first time an important step towards international standards was made.

In 1997 followed the formation of the Standing Interpretation Committee (SIC). In the same year the very beginning of a more dynamic accounting approach can be found. IASC published a discussion paper regarding the use of fair value for all Financial Assets and Financial Liabilities. In 1999 the European Commission analyzed the International Accounting Standards (IAS) and did not find any significant conflicts between IAS and the European Directives. Consequently the Commission adopted a financial services action plan that included the use of IAS as 'European GAAP' [Chronology of IASC and IASB, 2010].

At the beginning of the new century the following events were notable for the development of IFRS:

- in 2000 IOSCO recommended for its members the use of IAS for cross-border offerings and listings,
- in 2000 the European Commission for the first time announced a plan to require IAS for listed companies in EU no later than 2005,
- in April 2001 International Accounting Standard Board (IASB) took over the work of IASC. The activity of long standing (1973−2000) IASC assumed the IASB. Since 2001 IASB is responsible for setting IAS,
- in 2001 was created the European Financial Reporting Advisory Group (EFRAG),
- in 2002 Standing Interpretations Committee (SIC) was renamed to International Financial Reporting Interpretations Committee (IFRIC),
- in 2002 finally the regulation of the European Parliament and of the Council introduced as obligatory the use of international accounting standards for listed companies which have to prepare their consolidated accounts.

The first exposure draft of the new IFRS was issued in 2001 as Exposure Draft 1− First Time Application of International Financial Reporting Standards. In the next year followed the adoption of the first IFRS; IFRS 1–First Time Adoption of IFRS. Between 2002 and 2006 eight IFRS were issued. No standard was issued during 2006 and 2009 due to the announcement of IASB which proclaimed a moratorium, according to which no major standard was effective before 2009. In November 2009 IFRS 9 was issued, named Financial Instruments–Classification and Measurement, effective from 2013.

IFRS are currently including:
- International Accounting Standards (IAS),
- International Financial Reporting Standards (IFRS) and
- Interpretations of International Financial Reporting Interpretations Committee (IFRIC).

The term International Financial Reporting Standards is currently applied for International Accounting Standards issued till April 2001 and Interpretations of Standing Interpretations Committee (SIC) issued till March 2002. Additionally IFRS include IFRS issued since April 2001 and Interpretations of IFRIC issued since March 2002. IFRS have become more important after 2002, after the acceptance of the regulative which requested the use of IFRS for consolidated accounts of companies which securities are admitted to trade on a regulated market of any Member State.

In continuation the paper presents the main institution connected with the development of IFRS and the harmonization of standards in the European Union.

2.1. Harmonization and institutions

There have been various international institutions that had an impact on the harmonization process in the European Union. The most significant impact has been made by the IASB (successor to IASC). IASC was established in 1973 by representatives of various accountancy bodies, with the aim of developing reliable standards for international use. The Board of the IASC promulgated a substantial body of Standards, Interpretations and Conceptual Framework [International Accounting Standards Committee History, 2010].

The objectives of IASC were according to the IASC Foundation Constitution [IASC Foundation Constitution, 2010]:
- development of high quality, understandable and global accounting standards,
- promotion of application of those standards,
- taking into consideration the special needs of small and medium-sized entities and emerging economies and to bring about convergence of national accounting standards and IAS and IFRS to high quality solutions.

In its later years it worked with the International Organization of Securities Commissions (IOSCO) with the objective to form accounting standards that could be used on the world's stock exchanges. In April 2001 IASB took over from IASC the responsibility for setting IAS and their principal objectives to achieve and became an independent non-governmental organization. IASB was established as part of the IASC Foundation.

International Organization of Securities Commissions (IOSCO) was formed in 1983 as successor to originally formed Inter-American Conference of Securities Commission. In 1983 its name changed and it expanded over the borders of America. IOSCO looks to the IASB to develop IFRS that IOSCO members can use in their jurisdictions [The IASB and the International Organization of Securities Commissions, 2010]. IOSCO supported IASC in its initial Comparability and Improvements project. In 1995 a significant agreement between bodies was made regarding the principal accounting standards for entities involved in cross-border offerings.

Another major part of the IASB's organization is its International Financial Reporting Interpretation Committee (IFRIC), which is the IASB's interpretative body. IFRIC is the successor of Standing Interpretations Committee (SIC), which was replaced in March 2002. The main duty of IFRIC is to interpret the application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and provide timely guidance on financial reporting issues not specifically addressed in IAS and IFRS, in the context of the IASB Framework, and undertake other tasks at the request of the IASB [The International Financial Reporting Interpretation Committee, 2010]. The interpretations of standards are developed by IFRIC, but they have to be approved by IASB. At first they are exposed to public comment (Draft Interpretations) and subsequently sent for the review process and approval to IASB (as Final Interpretations).

The International Federation of Accountants (IFAC) was founded in 1977 with the aim to [IFAC History, 2010]:

- develop high quality international standards and support their adoption and use,
- facilitate collaboration and cooperation among its member body,
- collaborate with other international institutions and
- serving as the international spokesperson for the accountancy profession.

FEE (Federation des Experts Comptables Europeens) was formed in 1987. FEE is a non-profit association with the objective to promote and advance the interest of the European accountancy profession. FEE tends towards the harmonization and liberalization of the practice and regulation of the accountancy and financial reporting in Europe and towards promoting co-operation among the professional accountancy bodies in Europe [Federation des Experts Comptables Europeens, 2010].

European Financial Reporting Advisory Group (EFRAG) was established in 2001 to assist European Commission in the endorsement of IFRS. EFRAG is a private sector body, with the role of the technical committee for the European Commission. EFRAG has to provide advices to the Commission on all issues relating the applications of IFRS. EFRAG role is also to [European Financial Reporting Advisory Group, 2010]:

- comment on proposed IFRS and IFRIC interpretations,
- IASB discussion papers,
- work closely with European National Standard Setters.

2.2. Harmonization of standards and the European Union

The harmonization process among Europe has been founded in 1957 with the Treaty establishing the European Economic Community (Treaty of Rome). In 1978 a major step towards harmonized standards was made with the Fourth Council Directive[2] of European Economic Community on annual accounts and the Seventh Council Directive in 1983 on consolidated accounts.

The Fourth Directive has coordinated the national provisions concerning the presentation and content of annual reports, the required disclosures and valuation techniques in use. The Seventh Directive subsequently coordinated the national legislation concerning the consolidated annual accounts. Despite the fact that annual accounts of individual countries were made in accordance with European Directives, the harmonization between countries was still not achieved. The harmonization process continued with the subsequent directives. With the growing significance of capital markets international standards were urgent.

In 2000 the European Commission published the announcement in which was proposed that all publicly traded companies members of the European Union will have to prepare their financial statements in accordance with one single set of accounting standards, not later than 2005.

In 2002 the European Parliament and the Council in order to contribute to a better functioning of the internal market issued the regulation 1606/2002, which required the use of IFRS. The aim of the regulation was to ensure international standards which will be applied by the Community companies, which participate on European financial markets. Member States may permit or require the use of IFRS also for other companies. The requirement has to be prescribed in the national legislation. The rest of the companies still continue to apply national accounting standards.

IFRS lead to an increasing convergence with the ultimate objective to achieve a single set of global accounting standards. The first step towards global standards was made within Europe. In the second step the convergence between European standards and American Principles is expected.

IFRS issued by IASB are not adopted immediately. The European Commission determines their use upon European Union. They can be applied in the Community if they meet the requirements of the Council Directives. The Directive claims that the standards have to [Regulation (EC), No 1606/2002]:

- result in the true and fair view,
- they have to conduct to the European public good,
- they have to provide information of good quality that are useful to the users of financial statements and
- they have to meet the criteria of understandability, relevance, reliability and comparability.

In 2002 the Commission set up the Accounting Regulatory Committee (ARC) with the function to provide opinions on proposals to adopt IFRS. The new standards introduced new characteristics of corporate reporting. According to an unstable environment, a more dynamic accounting approach was needed.

The aim of the full IFRS was undoubtedly the minimization of reporting costs, which were rising due to the process of internationalization. A uniform accounting approach facilitates the cross-border comparison, which leads to a better allocation of capital in European active markets. However, full IFRS did not make any significant contribution to accounting practice of small and medium-sized companies that represent the major part of all European companies. Thus, IASB put the project of IFRS for SMEs on its agenda in 2003.

3. IFRS FOR SMALL AND MEDIUM SIZED ENTITIES (IFRS FOR SMES)

3.1. Reasons for accounting disharmonies

Accounting practice among countries differs. It was constructed by society and was affected by the national legislation. Over time it was changed due to different economic circumstances to provide useful information for users of financial accounts. Two major accounting systems can be divided into the Continental accounting system and Anglo-Saxon accounting system. According to their different characteristics the role of accounting information among countries had a different significance. Accounting roles and practices were affected by the environment and differ as presented in the Table 1.

Table no. 1Fundamental characteristics of Continental European and Anglo-Saxon accounting system

	Continental System	**Anglo-Saxon System**
Capital markets	Capital is mainly provided by the banking sector	Capital is mainly raised through stock markets
Legal system	Law provides detailed accounting rules	Accounting roles developed by private standard setting bodies
Fiscal Systems	Financial accounting and taxation is closely connected	Tax rules do not influence financial accounting practice
Primary users of financial statements	Creditors, tax authorities, investors	Notably investors
Accounting principles	The dominance of the prudence principle	Fair presentation, true and fair view

Source: [Walton et al., 2003, 8]

Due to different accounting practices the principal characteristics between countries differ. The continental system is typical for Germany, France, Italy, while Grate Britain and USA developed the Anglo-Saxon System. Different accounting systems lead to different results in financial accounts.

3.2. Evolution of IFRS for SMEs

Soon after the formation of IASB the project of standards for SMEs was placed on their future agenda. In 2004 the first discussion paper regarding the Accounting Standards for Small and Medium-sized Entities was published. The discussion paper was titled: Preliminary Views on Accounting Standards for Small and Medium-sized Entities. According to numerous responses IASB proposed in 2007 a separate IFRS for entities that were not accountable (the standard was for a short period renamed into IFRS for non-publicly accountable entities and afterwards in May 2008 even in IFRS for private entities). In 2007 IASB issued an exposure draft of International Financial Reporting Standard for Small and Medium-sized Entities. In June 2007, 116 small entities from 20 countries were included in "field testing", by using the exposure draft and reporting about the problems they were facing. The working group of IASB met in the first half of 2008 to analyze the results of the field test and to review the comments that were received on the Exposure draft. The Working group submitted their comments to the Board until July 2008, afterwards the board redeliberated of the proposal until April 2009. In April 2009 the Board decided that the final standard will be entitled as the exposure draft; i.e. IFRS for SMEs. Even if the group planned to submit a ballot draft of the final standard to the Board towards the end of the forth quarter of 2008, the latter was submitted to the Board in June 2009. In July 2009 the final version of IFRS for SMEs was issued (scheduled for the first quarter of 2009).

IFRS for SMEs might be adopted in any jurisdiction whether or not it has adopted the full IFRS. Moreover it is up to each jurisdiction to determine which entities should use the standard. In any case, companies that have public accountability and financial institutions cannot use it.

At the moment the European Commission is consulting about the use of IFRS for SMEs. Their use was not requested with the regulation. Most probably the choice about their use will be left to individual counties even in the future. Almost parallel with the issuance of the Exposure draft the European Parliament adopted a resolution on a simplified business environment for companies in the areas of company law, accounting and auditing in response to the European Commission's communication on the subject. After the first analysis the European Commission thinks that the IFRS for SMEs will not simplify the activity of reporting for small and medium sized entities. The first provision for simplifying their business environment would be the exclusion of micro companies. For this kind of companies (the smallest companies) the preparation of annual accounts for general purposes is the biggest burden.

At the moment countries choose by themselves if they will require the IFRS for SMEs instead of their domestic standards. Countries that already decided to use it or publicly indicated the plan to adopt it within the Europe are the following: Denmark, Ireland, Latvia, Turkey and UK [A guide to the IFRS for SMEs, 2010, p. 5].

At the moment we can look forward to obtain tree types of IFRS. The first are the existent full IFRS for companies which securities are admitted to trade on an active market of EU for their consolidated accounts. The second type is IFRS for SMEs for companies that do not have public accountability. Finally according to the resolution of European Commission there is a possibility that in a near future we will be witnessing even IFRS for micro companies, which will be simpler than IFRS for SMEs. IFRS for SMEs is going to introduce radical changes in accounting for SMEs. The latter used national standards which were often simpler and did not require many requirements which were introduced with the IFRS for SME. Although the aim of the new standards is to assure comparable financial statements for SMEs, they are going to intensify difficulties in financial reporting for SMEs. Future researches will show if the uniform standards for small and medium-sized companies were needed and if the benefits of these standards are higher than cost incurred.

3.3. Differences between full IFRS and IFRS for SME

The IFRS for Small and Medium-Sized entities is intended to be used for small and medium-sized entities that [Exposure draft of a proposed IFRS for Small and Medium-sized Entities, 2007]:

- do not have public accountability and
- publish general purpose financial statements for external users.

The standards that was issued consists of:

- IFRS for SMEs on 231 pages, divided in 35 sections (the standard is organized topically) and a glossary,
- Basis for conclusion on 52 pages and
- Illustrative financial statements and presentation and disclosure checklist on 65 pages.

The expose draft was divided into 38 sections, afterwards 4 were excluded (earnings per share, interim financial reporting, segment reporting and special accounting for assets held for sale), while one was split into two sections (financial assets and financial liabilities was divided into basic financial instruments and other financial instruments issue).

The IFRS for SMEs includes several differences in comparison with existing IFRS. As stated in Basis for conclusion [Exposure draft IFRS for Small and Medium-sized Entities, BC24, 2007] users of financial statements of SMEs may have less interest in some information in general purpose financial statement prepared in accordance with full IFRS in comparison with users of financial statements of entities whose securities are listed for trading. Users of accounts of SMEs are more interested in short-term cash flows, liquidity, interest coverage, balance sheet strength and not in long-term cash flow, earnings and value.

The definition Small and Medium-Sized does not include quantified size criteria for defining what is a small or medium entity, as the size is very relative among countries [Basis for conclusion on Exposure draft IFRS for Small and Medium-sized Entities, BC43, 2007]. The size and criteria is defined by the Fourth Accounting directive, however, the Member States can prescribe lighter reporting regimes for small and medium-sized companies. Thus, the entities which will be required to use this standard will depend of the jurisdiction that may prescribe each country.

The modification to full IFRS was made in five fields (the Exposure draft of a proposed IFRS for Small and Medium-sized Entities from 2007 included only the first four) as follows:

- topics omitted,
- only the simpler option included,
- recognition and measurement simplifications,
- disclosure reductions and
- simplified redrafting.

The main excluded topics in IFRS for SMEs are: earnings per share, interim financial reporting, segment reporting and special accounting for assets held for sale [IFRS for SMEs, 2009]. According with the exposure draft the topics omitted were: segment reporting, interim reporting, share-based payments, general price-level adjusted reporting and determining the recoverable amount of goodwill. The differences between the Exposure draft and the final version relate general price-level adjusted reporting and goodwill accounting.

The simpler options are related to financial instrument options, revaluation model, proportionate consolidation, accounting for investment property and government grants (exposure draft did focus on: investment property, cost-amortization, expense borrowing costs and indirect method for reporting operating cash flows). The recognition and measurement simplifications relate a broader extent of categories as presented in the exposure draft [for details see IFRS for SMEs fact sheet, 2009]. Exposure draft concerned only financial instruments, goodwill impairment, research and development cost, share-based payments and finance leases.

Redrafting of IFRS for SMEs is planned to be done only every three years, so small and medium-sized companies will not have difficulties to follow the changes of the standard.

Arguments in favor of the standard are undoubtedly the international comparability of financial accounts between companies that operate in different nations, companies that have foreign subsidiaries or companies with associates that report under full IFRS. The latter will facilitate companies to obtain capital at the lower cost (for details see Stubelj and Dolenc, 2008). On the other hand the arguments against them are most often the following [European Commission Internal Market and Services DG, 2010]:

- no linkage between IFRS for SMEs and taxation rules of individual country (duplication of burden if for the purpose of tax reporting additional statements will be needed)
- too complex for the smallest companies,
- no benefits for companies that are operating locally,
- for the smallest companies it is difficult to follow the changes of the standards.

3.4. Characteristics of corporate reporting according to IFRS

The main novelty of full IFRS and consequently IFRS for SMEs was the introduction of a more dynamic accounting approach with the implication of the fair value approach (some national standards still require historical cost approach). The general principles related to the previous valuation approach were included in the Fourth Directive. As the general valuation basis was used the historical cost, although the individual national regulatory bodies could allow also the use of replacement cost or fair value. That was according to Walton et al. [2003, 33] one of the major reasons for the accounting disharmony in Europe.

According to IFRS the main accounting principles are the following [The Framework for the preparation and presentation of financial statements, 2010]:

- the accruals basis of accounting; the effects of transactions and other events are recognized when they occur, rather than when cash or its equivalent is received or paid, and they are reported in the financial statements of the periods to which they relate,
- going concern; the financial statements presume that an enterprise will continue in operation indefinitely or, if that presumption is not valid, disclosure and a different basis of reporting are required.

According to the accruals basis of accounting users of financial statements are informed not only about the past events, but also of events that will occur. The accrual basis of accounting is the principle in use for all financial statements except the statement of cash flows. Preparers of financial statements have to follow the going concern principle as the valuation process for assets and liabilities is different if the entity will not continue its activity.

The qualitative characteristics according to IFRS have to be the following:

- understandability,
- relevance,
- reliability and
- comparability.

The first qualitative characteristic demands that information presented in financial statements have to be understandable. Additionally the information has to be relevant. The information is relevant when it can still influent economic decisions. The reliability of information is assured if it is free from material error and bias and represents events and transactions faithfully. Comparability is attained when the information in financial statements can be comparable over time and between different entities.

As the financial statements have to present true and fair view, IFRS introduced the concept of fair value measurement. Historical value is not in use any more, but prepares of financial statements have to apply the fair value. Fair value is according to IFRS defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

4. CONCLUSIONS

Since the formation of IASB important project were taken in the field of accounting within Europe. Firstly, full IFRS were obligatory since 2005 for consolidated accounts of publicly traded companies and secondly the undertaken project of IFRS for non-accountable entities from 2004, resulted in the formation of IFRS for SMEs in 2009, which are already globally recognized. For the first time in the history standards for smaller companies were issued which could be used worldwide (many counties beside Europe have already shown the intent to adopt IFRS for SMEs). The current harmonization process is announcing a new era of harmonized corporate reporting of both, publicly and non-publicly quoted companies.

At the moment is still not known if the IFRS for SMEs will be required within the EU with the Commission's regulation. However, at the moment individual Member States can decide to introduce the standards in their national legislation.

Even the activities of the EU for a major competitiveness of companies are focused on small and medium-sized companies. The accounting harmonization process for SMEs could contribute to a higher competitiveness of the EU economy. Despite many benefits that are often attributable to IFRS for SMEs, we do not know what the burdens of the national standard replacement are. The European Commission believes that the standard is not facilitating the corporate reporting of SMEs and that are redundant for the smallest entities. Future researches will demonstrate if the benefits of the standard are going to be higher than the cost incurred. The harmonization process provides a uniform accounting approach for many companies, but not necessary the benefits will be higher than cost incurred. The harmonization of standards for quoted companies was undoubtedly needed, but it is not necessarily needed for all sizes of entities.

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Note

1. The primary title of IAS 1 and IAS 2 have changed. At the moment they are denominated as IAS 1–Presentation of financial statements and IAS 2–Inventories.
2. A directive is a legislative act of the European Union which requires member states to achieve a particular result without dictating the means of achieving that result. It has to be distinguished from European Union regulations. Regulations are self-executing and do not require any implementing measures.