

GAPSME

General Accounting Principles for
Small & Medium-Sized Entities





The EU Single Accounting Directive & its Relevance to Malta

The EU Single Accounting Directive 2013/34/EU has brought about a novel set of regulations for financial reporting, replacing the 4th and 7th Directives which amend the financial reporting requirements for both separated and consolidated financial statements. This simplifies the preparation of statutory financial statements for every qualifying business entity classified as a micro, small or medium-sized business.

This development in accounting legislation was a reaction to the common perception that compliance with the 'International Financial Reporting Standards' (IFRSs) as adopted by the EU was too complex and cost-inefficient for such entities to abide by. Furthermore, the newly adjusted Directive acknowledges that the need of users of financial statements vary depending on the size of the entity.

The Maltese economy depends greatly on small and medium-sized entities (SMEs), therefore it is expected that this Directive will have a great impact on local entities and their financial services providers.

The technical accounting aspects of the Directive were altered into the Maltese legal system through Legal Notice 289 of 2015 which introduced the 'General Accounting Principles for Small and Medium-Sized Entities' (GAPSME).

Applicability of GAPSME

GAPSME has become the default accounting framework for SMEs for financial reporting periods starting on or after 1st January 2016, succeeding and replacing the prior accounting framework called 'General Accounting Principles for Smaller Entities' (GAPSE).

Entities qualifying for GAPSME may voluntarily adopt the IFRSs as adopted by the EU as their financial reporting framework, opting out of GAPSME through a resolution of the Board of Directors.

GAPSME is expected to be more widely adopted than GAPSE given the fact that entities are required to satisfy two of the three criteria for two successive accounting periods for eligibility as opposed to all the criteria required by GAPSE. Furthermore, the thresholds for criteria required to qualify for GAPSME have been raised over the thresholds required by GAPSE as listed below:

	GAPSME		GAPSE
	SMALL	MEDIUM	
Balance Sheet Total	≤ €4,000,000	≤ €20,000,000	≤ €17,500,000
Total Revenue	≤ €8,000,000	≤ €40,000,000	≤ €35,000,000
Avg. No. of Employees	≤ 50	≤ 250	≤ 250
Criteria to be satisfied	2 of 3		3 of 3

Public Interest Entities (PIEs) and large entities fall outside the scope of GAPSME and must therefore adopt the IFRSs as adopted by the EU as their financial reporting framework. PIEs include entities which are listed, credit institutions and insurance principals.



The Impacts of GAPSME

Changes in Recognition & Measurement Criteria

GAPSME incorporates an individual set of recognition and measurement principles for small and medium-sized entities consistent with the Directive 2013/34/EU requirements. The pervasive initial recognition and subsequent measurement model under GAPSME is the cost model. Nonetheless entities may opt to measure all financial instruments other than derivative contracts by either using the cost model or the amortised cost model as their applicable accounting policy, including in a number of circumstances where fair value measurement is required under IAS 39.

The revision of recognition and measurement criteria set out under GAPSE stemmed from the need for a more faithful representation of the intrinsic value of financial instruments. GAPSME further addressed certain matters which were either absent or no longer suitable in GAPSE, such as, the definition of amortised cost, new hedge accounting rules, and the revocation of the option not to recognise derivatives on the entity's balance sheet.

Furthermore, GAPSME allows subsequent measurement on a historical cost basis for key balance sheet items. This is a divergent feature of the framework when compared to the IFRSs as adopted by the EU.

Presentation & Disclosure Requirements

A major overhaul to the presentation and disclosure requirements transpired from the Directive 2013/34/EU, notably in the content of the financial statements required by small entities as exhibited in the table hereunder:

	Small Entities	Medium Entities
Directors' Report	✗	✓
Balance Sheet	✓	✓
Income Statement	✓	✓
Statement of Changes in Equity	✗	✓
Statement of Cashflows	✓	✓
Notes to the Financial Statements	✗	✓

GAPSME outlines the minimum disclosure requirements and subsequently lists any additional disclosures required to be made by medium entities. Small entities are required to prepare a limited number of disclosures in the notes to the financial statements when being compared to medium-sized entities, and are only required to disclose enough information for users to get a better understanding of the figures making up the financial statements.



Consolidation Exemptions

According to the Directive 2013/34/EU, the thresholds classify a group as small, medium-sized or large by reference to two consecutive accounting periods whereby a group may satisfy the required criteria on the basis of either the net or the gross figures as exhibited in the table hereunder:

	Small Groups		Medium Groups		Large Groups	
	Net	Gross	Net	Gross	Net	Gross
Balance Sheet Total	< €4.0 m	< €4.8 m	≥ €4.0 m ≤ €20.0 m	≥ €4.8 m ≤ €24.0 m	> €20.0 m	> €24.0 m
Total Revenue	< €8.0 m	< €9.6 m	≥ €8.0 m ≤ €40.0 m	≥ €9.6 m ≤ €48.0 m	> €40.0 m	> €48.0 m
Average No. of Employees	< 50	< 50	50 ≤ x ≤ 250	50 ≤ x ≤ 250	> 250	> 250
Criteria to be satisfied	2 of 3		2 of 3		2 of 3	

* In relation to the aggregate figures for the balance sheet total and total revenue, “net” means with the set-offs and other adjustments required for the preparation of consolidated financial statements and “gross” means without those set-offs and other adjustments.

GAPSME exempts small groups from preparing consolidated financial statements. Furthermore, in the circumstance where the parent company is itself a subsidiary company and its own parent company prepares and publishes consolidated financial statements with the Registry of Companies, the entity will be exempt from preparing consolidated financial statements.

Related Amendments to the Companies Act

Amendments to the Companies Act (Chapter 386 of the laws of Malta) emanated as a result of the introduction of GAPSME in order to be in line with the requirements of the EU Single Accounting Directive 2013/34/EU.

The major amendments to the Companies Act are the following:

- The revocation of the option to prepare abridged financial statements.
- The exemption for small companies from preparing a directors’ report.
- The revision of the thresholds for small companies to be deemed as such so that these thresholds now match the ones in GAPSME.
- The removal of the exemption from the requirement to prepare consolidated financial statements applicable to financial holding companies.
- The elimination of the option to extend the filing deadline of financial statements of businesses carrying out or having business interests to the extent of more than 90% outside Malta with the Registry of Companies up to 18 months.



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