

WHAT IS FRF FOR SME?

BY REBECCA HICKLE, CPA

Running a small to medium-sized business has always come with a unique set of challenges.

Securing credit, managing employees, and staying involved in the day-to-day running of the business creates a constant set of obstacles to be addressed by the business owner, leaving very little time for a life outside of work, let alone applying the latest accepted accounting principles. These new standards are typically designed with multi-million-dollar businesses in mind, with full departments of accounting and finance professionals at their disposal to help implement the complicated new accounting policies required by GAAP. The best-case scenario with a new GAAP pronouncement for a small to medium business is that it doesn't apply to your business. The worst case is that you have to use valuable time or money to comply with a standard that doesn't change anything about your business.

KROST SERVICES

- Assurance & Advisory
- Client Accounting Services (CAS)
- Accounting
- KROST Business Intelligence (KBI)
- Mergers & Acquisitions
- Tax
- Tax Specialty Services
- Wealth Management

Full listing: krostcpas.com/services



After many years of public comment on the challenges of presenting GAAP financial statements for small businesses, the AICPA issued the Financial Reporting Framework for Small and Medium-Sized Entities. This optional framework eliminates many of the challenges caused by GAAP compliance while still applying the basic principles of accrual accounting, resulting in common-sense financial statements that are more focused on cash flows and liquidity.

WHEN SHOULD YOU CONSIDER ADOPTING FRF FOR SMES?

If the cost of your financial statements is greater than the benefits gained. Having prepared financial statements can be a great tool for owners that want to do a high-level review of their operations over a period of time or their financial position at period and quarter-end dates. Unfortunately, those benefits don't always offset the actual cost of preparing the financial statements in accordance with GAAP. Whether they are prepared in-house or via an external CPA, GAAP financial statements take extra time, effort, and money to prepare, and they often don't address things that owners really care about. One of the many benefits of using the FRF for SME framework is that it was designed with business owners in mind, and it forms a meeting point between accrual accounting standards preferred by tax preparers and lenders and real-world business concerns like liquidity and cash flows.

If you are tired of keeping up with new standards. The past few years have seen several new standards come into effect that have been particularly challenging for smaller entities to implement. Having to evaluate the fair value of investments, the five steps of revenue recognition for each contract and the complicated nature of accounting for derivatives that are becoming more and more common in investment portfolios creates a significant burden for business owners. On top of that, the new lease standard requiring operating leases to be measured and recognized as the right of use assets and lease liabilities on the balance sheet will require



a considerable amount of effort and judgment from owners and management. The FRF for SMEs framework allows companies to continue using more straightforward policies that most companies are already using in their day-to-day accounting.

If your bank and future direction are compatible.

While FRF for SMEs is a professional and recognized other comprehensive basis of accounting, company ownership should always discuss applying a new financial statement framework with lenders prior to adoption to ensure that the financial statements will meet any covenant requirements. Another item for consideration also has to be the future direction of the Company. If there is the potential that the Company will go public in the near future or will be purchased by a public company, then FRF for SMEs is not an appropriate framework to use.

Have questions about [Assurance and Advisory](#)? We're here to help. [Contact us today.](#)

About the Author

Rebecca Hickle, CPA, Manager
[Assurance & Advisory](#)

Rebecca Hickle is an Assurance & Advisory Manager at KROST. Rebecca has been with the A&A department for 5 years, as a staff auditor and then a senior auditor. She is passionate about using her skills to elevate what is possible for her clients, so that together they can create opportunities that have the greatest impact. With her passion for helping clients succeed, Rebecca has developed expertise in many industries, including sustainable brands, diversity, equity, and inclusive companies, digital marketing, technology, and more.
[» Full Bio](#)



For more information about KROST's Assurance & Advisory services, visit [KROSTCPAs.com](https://www.krostcpas.com)