

General Accounting Principles for Small and Medium-Sized Undertakings (GAPSME)



The Accountancy Profession (General Accounting Principles for Small and Medium-Sized Undertakings) Regulations (GAPSME) were introduced by way of Legal Notice 289 of 2015. The amendments to the Accountancy Profession Act came about following the transposition of the EU Accounting Directive into Maltese Law.

Applicability of GAPSME

The Regulations prescribe the general accounting principles that shall be adhered to by small and medium-sized entities. Public Interest Entities, commonly referred to as PIE's and large entities are precluded from applying GAPSME as the accounting framework for the preparation of their respective financial statements.

Following the amendments to the Act, GAPSME has become the default Generally Accepted Accounting Principles and Practice (GAAP) for all SME's for financial reporting periods commencing on or after 1 January 2016.



On adopting GAPSME for the first time, an entity is required to apply these rules as from the opening balance sheet. Thus, entities adopting GAPSME as from 1 January 2016 are required to adopt GAPSME as from 1 January 2015.

Size Criteria

GAPSME introduces three size thresholds – small, medium and large companies based on three size criteria. The designation of companies into the different size thresholds imposes different reporting obligations.

Size thresholds for separate financial statements:

	Small Companies	Medium Companies	Large Companies
Balance sheet total (€)	< 4 million	4 mln ≤ x ≤ 20 mln	>20 mln
Turnover (€)	< 8 million	8 mln ≤ x ≤ 40 mln	>40 mln
Average number of employees	< 50	50 ≤ x ≤ 250	>250

In determining the size category of a reporting entity, a company has to refer to the figures as at the balance sheet date and may not exceed any two of the above criteria.

Furthermore, in determining the size criteria under which a reporting entity is to be categorized, one has to refer to two consecutive accounting periods. Hence, a company is required to exceed the size thresholds applicable to small companies for two consecutive years, prior to being treated as a medium-sized company.

Reporting obligations:

The designation of companies into small, medium or large entities has an important impact on the reporting obligation and disclosure requirements. As stated earlier on, GAPSME has become the default GAAP for small and medium sized entities. However, reporting entities may still elect to apply IFRS as adopted by the EU. The latter would however require that the Board of Directors resolve to adopt IFRS as adopted by the EU as the companies' accounting framework.

The following table identifies the information which is required to be drawn up by non-PIE entities applying GAPMSE and IFRS as adopted by the European Union (EU):

	Small companies		Medium-sized companies		Large companies
	GAPSME	IFRS (EU)	GAPSME	IFRS (EU)	IFRS (EU)
Balance sheet	X	X	X	X	X
Statement of Profit and loss	X	X	X	X	X
Statement of changes in equity		X		X	X
Statement of cash flow		X	X	X	X
Notes to the financial statements	X ¹	X	X	X	X

¹ Fewer disclosure requirements by way of notes are required for small companies applying GAPSME

It is worth noting that small (non-PIE) entities are exempt from the preparation of a directors' report. Where advantage is taken of this exemption, the same directors signing the financial statements are required to deliver to the Registrar of Companies a declaration whereby they confirm that the company is eligible for such an exemption.

Group financial statements:

The following table outlines the size thresholds which are to be applied in determining whether a group of companies falls to be designated as a small, medium-sized or large group:

	Small	Medium	Large
Balance sheet total (€)	<4 mln (Net ²) <4.8 mln (Gross ³)	4 mln ≤ x ≤ 20 mln (Net) 4.8 mln ≤ x ≤ 24 mln (Gross)	>20 mln (Net) >24 mln (Gross)
Turnover (€)	<8 mln (Net) <9.6 mln (Gross)	8 mln ≤ x ≤ 40 mln (Net) 9.6 mln ≤ x ≤ 48 mln (Gross)	>40 mln (Net) >48 mln (Gross)
Average number of employees	<50	50 ≤ x ≤ 250	>250

The determination of the size designation of group of companies is to be based on two consecutive financial periods, similar to the determination applied by reporting entities when preparing separate financial statements.

Following the transposition of the Accounting Directive, the size exemption thresholds, as provided for in Section 173 of the Companies Act, can still be availed of by small group of companies. In addition the size criteria has also been widened, thus widening its scope for its application.

On the other hand, the exemption under Section 172 (Financial Holding Exemption) of the Companies Act has been repealed and is no longer available to group of companies. Thus, in addition to the size exemption the other available exemption relates to the intermediate parent company exemption as provided for by Article, subject to all conditions being met.

² Net refers to the balance sheet total, net of consolidation adjustments in line with the provisions of the Companies Act

³ Gross refers to totals prior to applying consolidation adjustments in line with the provisions of the Companies Act



Main features in GAPSME

The main aim of GAPSME is to simplify the reporting obligations for small and medium-sized entities. The main simplifications are being identified below:

- Small companies are no longer required to draw up a statement of changes in equity and cash flow statement;
- Investments in associated undertakings can be carried at cost in the separate financial statements, thus simplifying their accounting treatment;
- Intangible assets are to be amortised over a definite period of time;
- Goodwill is amortised over a period not exceeding twenty years;
- Companies are not required to disclose the individual ultimate controlling party;
- Less applicability of fair value and respective disclosure requirements;
- Members of a group are exempt from disclosing related party transactions between such members;
- Certain related party transactions are also not required to be disclosed separately.

Other amendments

Following the amendments to the Act, companies no longer have the option to file abridged financial statements.

In addition, oversea companies are now required to deliver their financial statements to the Registrar of companies within twelve months from the end of the accounting period.

Another important change affects the time period allowed to companies which carry out business to the extent of more than 90% outside of Malta. The amendments have resulted in the removal of the extension applicable to such companies.



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