Private Companies Practice Section

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Financial Reporting Framework for Small- and Medium-Sized Entities

Case Study: Making a Connection with the FRF for SMEs™

The AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities has offered CPA Dennis Hein a great opportunity to deepen his connection with both clients and bankers. "We started promoting and implementing FRF for SMEs at the first opportunity and I now have six clients who have been reporting using the framework for two years," says Hein, partner of Seim Johnson LLP in Omaha, Nebraska. Hein's firm also has other clients using the framework. "We were able to show clients they could access the information they need for short- and long-term decision making without added complexity," Hein says.

The clients involved are all owner-managed and run the gamut of market segments, including manufacturing, construction, transportation, retail, wholesale and service industries, Hein explains. The framework offers an excellent opportunity to demonstrate a firm's understanding of the unique needs of small, privately held companies and to enhance their relationships with existing clients. Clients appreciate the value the firm adds by alerting them to a cost-effective option.

Clients aren't the only ones who have been enthusiastic about the framework. The firm has also achieved 100% acceptance when it explains the framework to financial statement users. Financial institutions accepting the framework range from community banks to the largest banks, Hein says. "The amounts involve anything from working capital lines of a couple of million dollars up to 9-figure loans."

The Appeal for Clients

For Hein, finding suitable clients was simply a matter of reviewing his client list and identifying those who were already reporting on an alternative framework (also known as a Special Purpose Framework), such as tax, cash or modified cash basis. "With the appropriate clients, the framework is a better reflection of operations than tax-basis accounting," Hein explains, "because companies take opportunities to reduce their taxable income that may distort their earning capabilities.

"The framework gives business owners a quick sense of where their companies stand," Hein says. Additional features that have appealed to clients include the consistency of FRF for SMEs versus other alternative frameworks--the fact that it is concise, self-contained and stable and includes only items that typically are relevant to closely held, owner-managed businesses. The emphasis on historical cost and lack of fair value measurements also appeals to clients, since they help cut down on cost and complexity.

Spreading the Word

To introduce the framework to users, the firm has held one-on-one and group meetings with lenders. "Getting the bankers on board is important because many of their existing loan covenants require GAAP reporting," Hein notes. To educate and reassure bankers and clients, the firm used resources from the AICPA FRF for SMEs Toolkits to detail the differences between FRF for SMEs and GAAP and describe the advantages to changing. There are toolkits for small, medium and large firms, for financial statement users and for small businesses.

Hein's presentations highlight the benefits to users, including one that may be overlooked. "We explain to bankers that accepting FRF for SMEs financial statements can give them a competitive edge," he says. "Use of the framework may cut down on costs and complexity for company owners, so they should seek out bankers who will work with FRF for SMEs."

A Ready Market

The biggest surprise for Hein was how easy it was to learn and implement the new framework. “You don’t have to start from scratch,” he says, since the framework is built on basic principles. “It can take no more than a couple of hours to redraft a set of financials.”

Hein suggests that CPAs contact clients—or prospects—that are using an OCBOA and explain how easy it is to implement FRF for SMEs. “There’s a whole market out there who will be happy to hear about what the framework has to offer,” he says.

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