

2015

International Financial Reporting Standard® (IFRS®)
for Small and Medium-sized Entities (SMEs)

IFRS for SMEs®

This official pronouncement incorporates 2015 Amendments to the
IFRS for SMEs (effective 1 January 2017 with early application permitted).

PART A
the requirements



The *IFRS for SMEs* Section 1 *Small and medium entities*

Tbilisi, May 2018

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Can I use the IFRS for SMEs?

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Decisions on which entities are required or permitted to use the IFRS for SMEs rest with legislative and regulatory authorities and standard-setters in individual jurisdictions

But

- IASB defines SMEs
 - do not have public accountability (PA)
 - publish general purpose financial statements (GPFS)
- ¶3.3 requires an explicit statement of compliance with the IFRS for SMEs Standard
- ¶1.5 prohibits an entity that has PA from asserting compliance with the IFRS for SMEs Standard

What is Public Accountability?

- An entity has public accountability (PA) if:
 - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses

Do 'I' have *Public Accountability?*

- A small company whose shares are listed on a securities exchange?
- A large private (unlisted) manufacturer?
- A tiny private (unlisted) commercial bank?
- **Example 9*** An entity's whose only business is earning interest on money that it lends to clients. The entity obtains all of its funds from its billionaire owner-manager?

* see example with the same number in Module 1 of the IFRS Foundation training material

Do 'I' have *Public Accountability?* *continued*

Example 10* An unlisted manufacturing subsidiary of an exchange listed parent that uses full IFRSs?

Example 13* A travel agency that requires its clients to pay a refundable deposit equal to 60% of the price of a package holiday when booking?

Example 14* A supermarket that has a small deposit taking banking operation?

* see example with the same number in Module 1 of the IFRS Foundation training material

Do 'I' have *Public Accountability*?

Assessment for parent entity

- ¶ 1.7 requires the assessment to be made in the Parent's separate financial statements (FS) on the basis of its own status **without considering other group entities or the group as a whole**
 - If parent entity by itself has NO public accountability → may present separate FS using IFRS for SMEs Standard **even if it presents its consolidated FS using full IFRS or another GAAP**
 - Distinguish clearly FS prepared using IFRS for SMEs Standard and FS prepared using other requirements

What are general purpose financial statements?

General purpose financial statements are prepared on a basis that is designed to provide useful information to a wide range of users (eg investors and creditors) who are not in a position to demand reports tailored to meet their particular needs

Are SMEs statements GPFS?

The objective of financial statements prepared in accordance with the IFRS for SMEs Standard is to provide information about the entity's financial position, performance and cash flows that is useful to a broad range of users who are not in a position to demand reports tailored to meet their particular information needs

Do 'I' have *Public Accountability?* *continued*

- **Example 4*** Financial Statements prepared in compliance with tax requirements for calculating taxable income (that are different from the IFRS for SMEs Standard) and which are sent only to the tax authorities?
- **Example 5*** Financial Statements prepared on the tax basis (see above) but also sent to the entity's bankers and the national repository. FS filed in the national repository are publicly available?

* see example with the same number in Module 1 of the IFRS Foundation training material

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The *IFRS for SMEs* Section 2 Concepts and Pervasive Principles

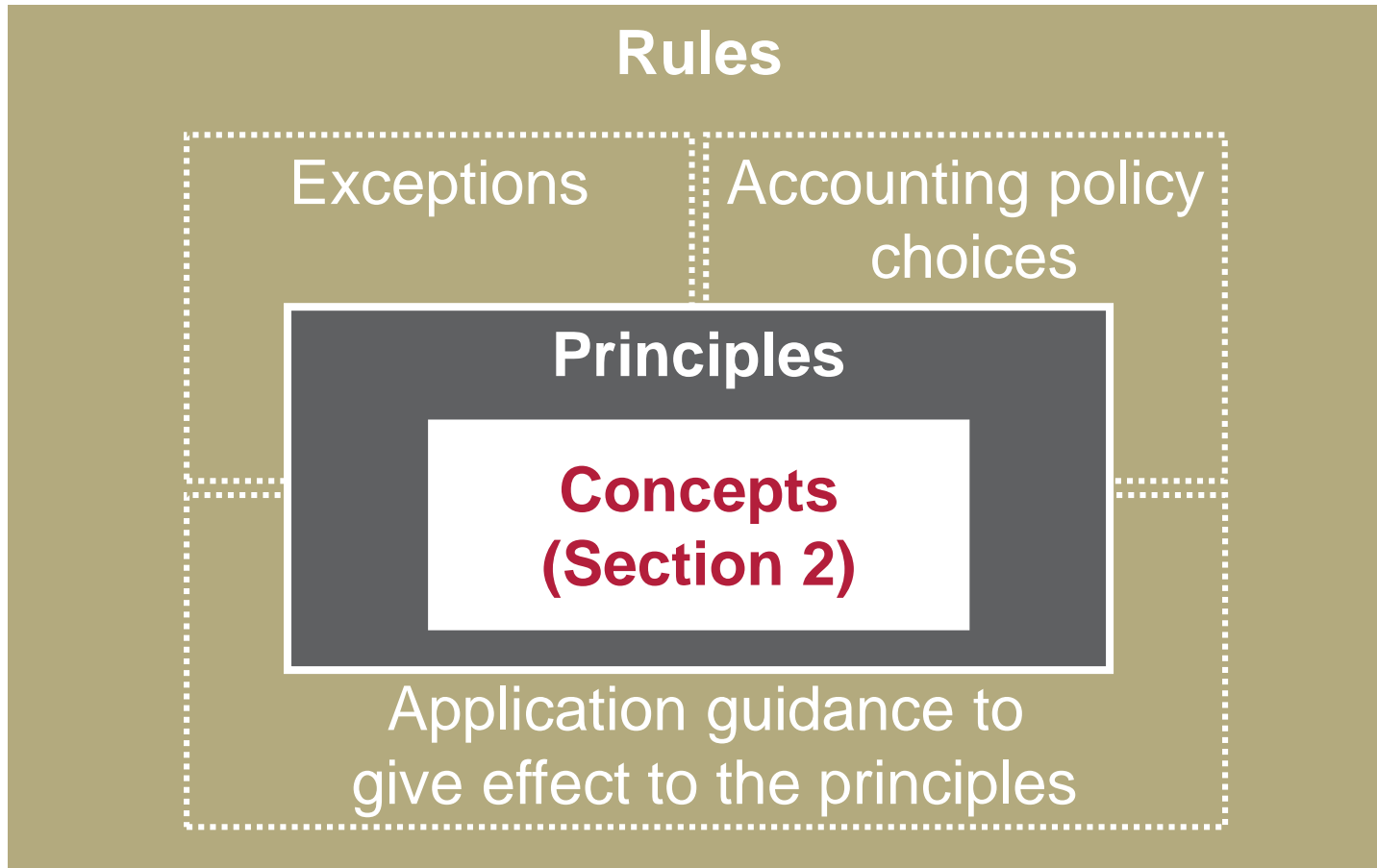
Tbilisi, May 2018

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Structure of IFRS for SMEs Standard



Concepts and Pervasive Principles

Objective

Qualitative characteristics

Elements (building blocks)

Recognition

Measurement

Offsetting

Objective of an SME's financial statements (FS)

- to provide information about the entity's financial position, performance & cash flows
- that is useful for economic decision-making by a broad range of users (eg investors & creditors)
- who are not in a position to demand reports tailored to meet their particular information needs

Qualitative characteristics

- Qualitative characteristics are the attributes that make the information provided in financial statements useful to users

Understandability

Relevance

Materiality

Reliability

- faithful representation
- substance over form
- free from material error
- free from bias (neutral/prudence)
- completeness

Comparability

Timeliness

Balance between benefit & cost

Undue cost or effort

Undue cost or effort exemption

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- Definition: incremental cost (eg valuers' fees) or additional effort (eg endeavours by employees) substantially exceed the benefits of the information to users of the SME's FS
- Depends on entity's specific circumstances & management's judgement
- Assessment to be made based on information available at the date of the assessment
- Disclosure
 - the exemption has been used
 - reasons why applying the requirement would involve undue cost or effort

How concepts relate to principles

Example: correcting material prior period error

- Objective of financial statements
- Concepts
 - faithful representation
 - comparability
- Principle
 - retrospective restatement (ie present comparatives as if error never occurred)
- Rules
 - impracticable exception
 - specified disclosures

Financial position

Asset

resource controlled
by the entity

result of past event

expected inflow of
economic benefits

Liability

present obligation

arising from past
event

expected outflow of
economic benefits

Equity

= assets less
liabilities

Performance

Income

enhancements/increases in assets & decreases in liabilities

that result in increases in equity

other than contributions from owners

Expenses

depletions/outflows of assets & incurrences of liabilities

that result in decreases in equity

other than distributions to owners

- Prepare financial statements (except for cash flow information) using the accrual basis of accounting
- Accrual basis
 - recognise elements (eg assets, liabilities, equity, income or expenses) when they satisfy the definitions and recognition criteria for those items

Recognition criteria

Recognise an item (element) when:

it is **probable** that future economic benefit will flow to/from the entity; and

- assess probability individually unless large population of individually insignificant items then assess collectively

the item has a cost or value that can be **measured reliably**

- the use of **reasonable** estimates
- is an essential part of accounting
- does not undermine the reliability of FS

Measurement is the process of determining the monetary amounts at which an entity measures assets, liabilities, income and expenses

Many measurement methods in the IFRS for SMEs

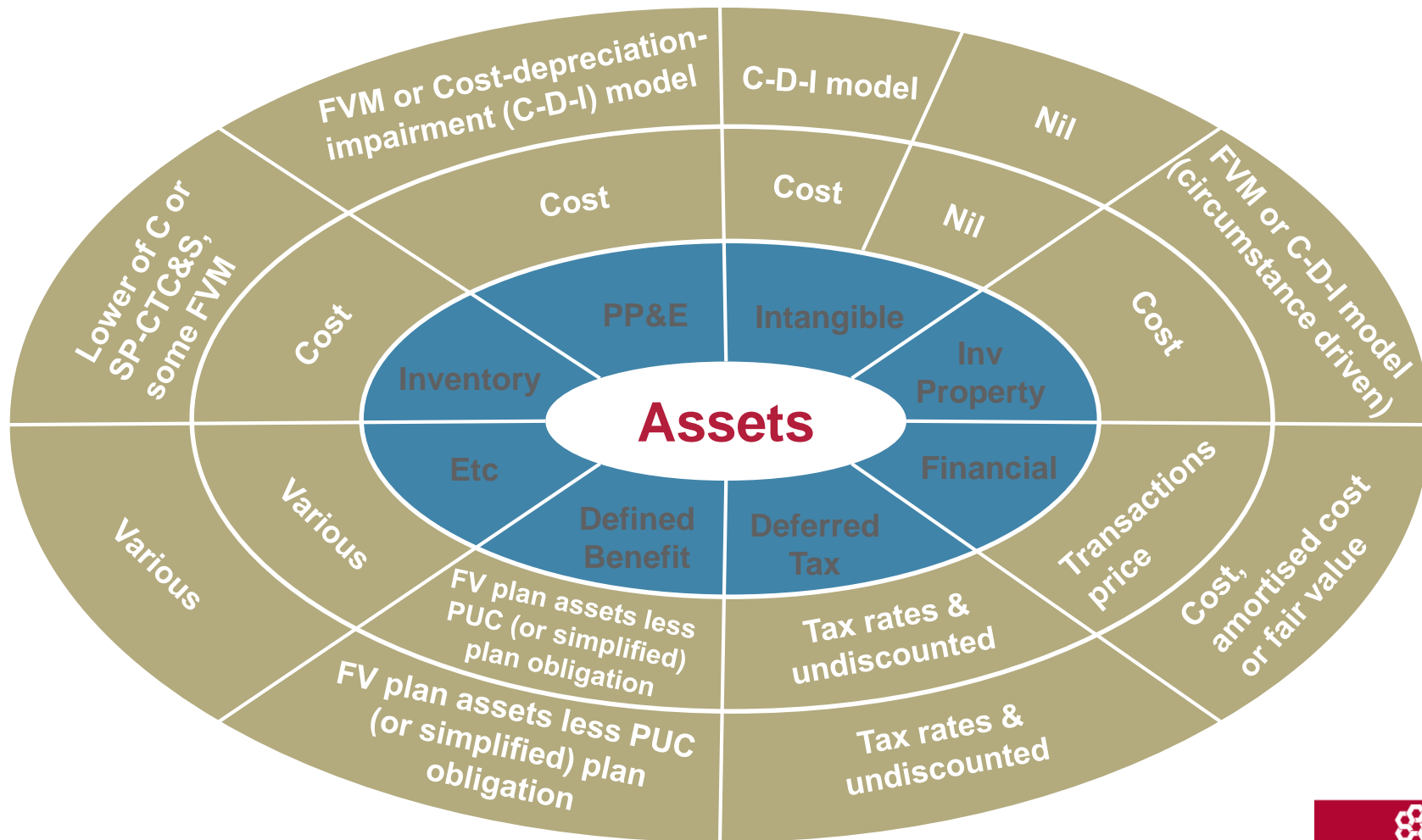
Two common measurement bases

- historical cost (eg amount paid for an asset)
- fair value (eg amount for which an asset could be exchanged in arm's length transaction)

- Most sections of the IFRS for SMEs specify a measurement base to be used
 - on initial recognition
 - subsequently
- Some sections permit more than one measurement method (an accounting policy choice)
- In other sections measurement is circumstance driven, eg
 - fair value, if it can be determined without undue cost or effort
 - otherwise cost-amortisation-impairment

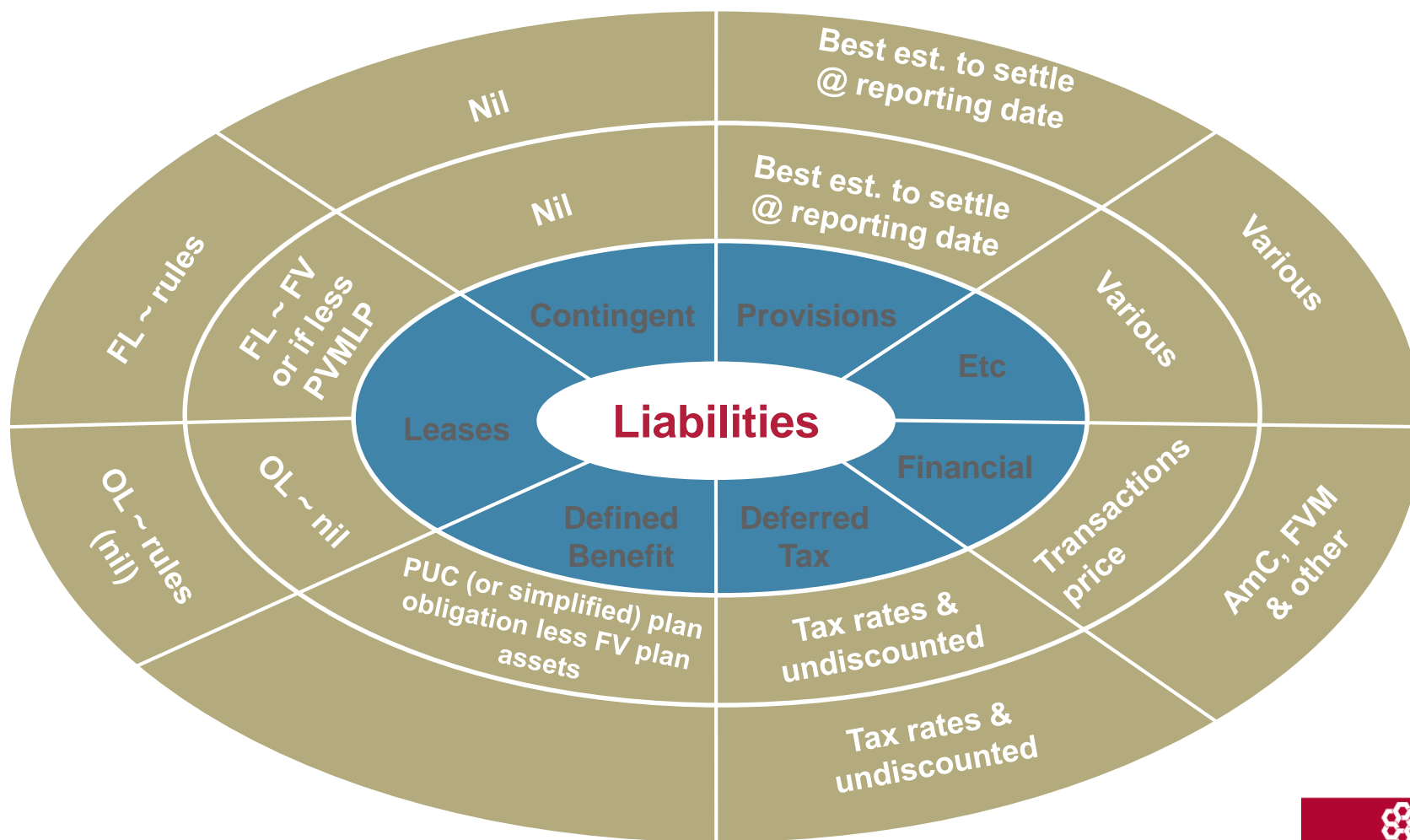
Measurement of assets

Classification, recognition and measurement (ignoring hedge accounting)



Measurement of Liabilities

Classification, recognition and measurement (ignoring hedge accounting)



Absence of a requirement in another section of the IFRS for SMEs Standard that applies specifically to a transaction, other event or condition



Management must use its judgement in developing an accounting policy that results in information that is relevant and reliable. ...

An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted to do so by another section of the IFRS for SMEs. However,

- measuring assets net of a valuation allowance (eg allowance for inventory obsolescence) is not offsetting
- if an entity's normal operating activities do not include buying and selling non-current assets (including investments and operating assets) then the entity reports the profit on disposal of such items on a net basis

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