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IFRS for SMEs Update: Train the trainers

Date **December 2025**

Project **Second comprehensive review of the *IFRS for SMEs* Accounting Standard**

Topic ***IFRS for SMEs* Accounting Standard**

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Purpose of this session

To provide an overview of the *IFRS for SMEs* Accounting Standard and training on the changes to the third edition of the Standard.

Agenda—Day 1

Session	Topic
2	Panel Discussion: Adapting Accounting Frameworks for SMEs
4	Introduction of the *IFRS for SMEs* Accounting Standard and background of the second comprehensive review
5	Licensing and translations of IFRS Standards and complements on the comparison of the Standard with EU Accounting Directives
6	*IFRS for SMEs* Accounting Standard: • Section 9 *Consolidated and Separate Financial Statements*; and • Section 19 *Business Combinations and Goodwill*

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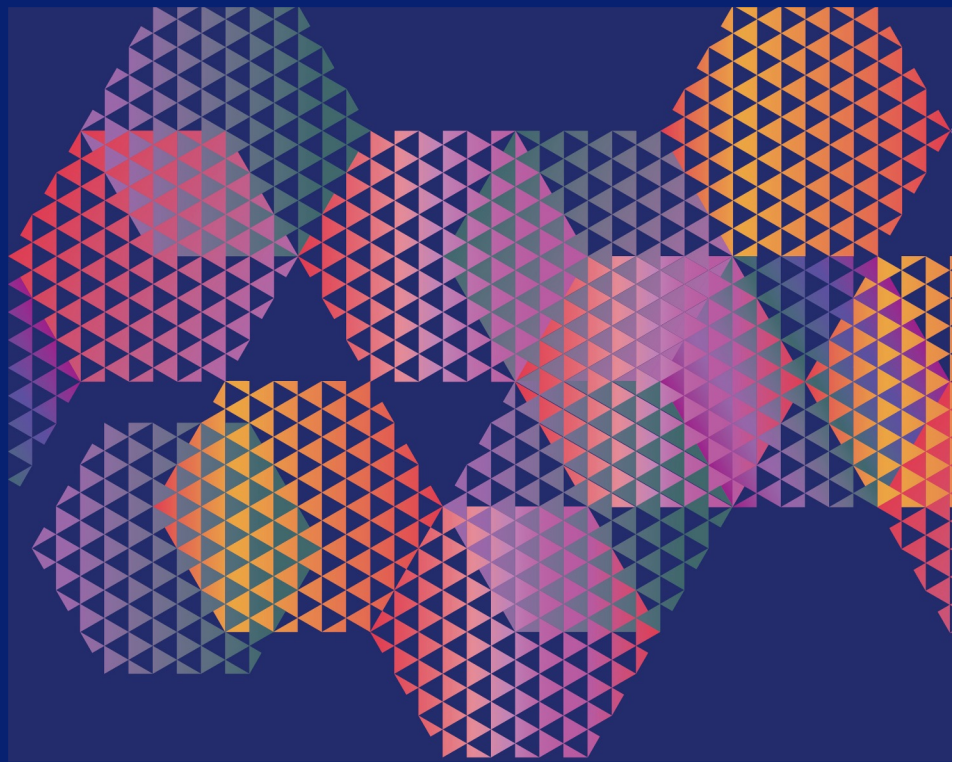
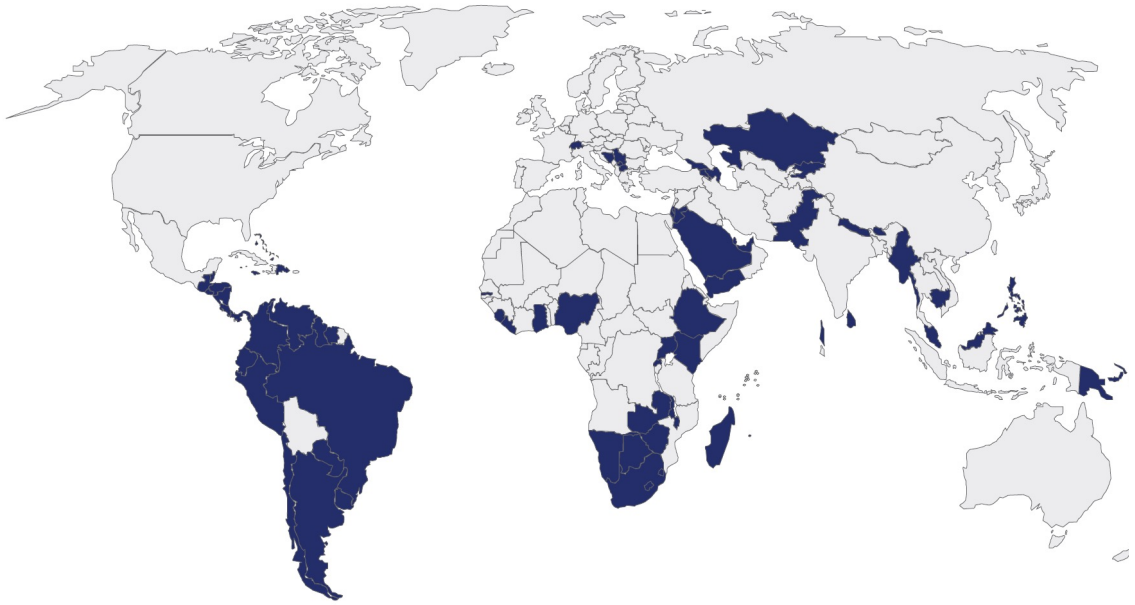
Session 2—Panel Discussion: Adapting accounting frameworks for SMEs



Adoption of the *IFRS for SMEs* Accounting Standard



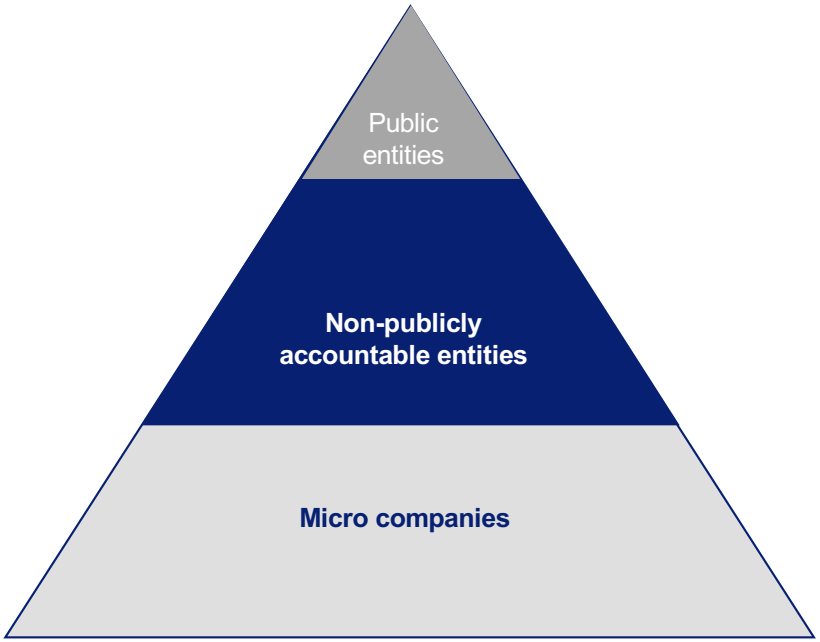
87 of 169 jurisdictions require or permit use of the *IFRS for SMEs* Accounting Standard (June 2025)

IFRS for SMEs Accounting Standard is required or permitted

Adoption of IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard

Jurisdiction	IFRS Accounting Standards	Scope of IFRS Accounting Standards	Permitted/ required for subsidiaries	Modifications	Status of adoption of IFRS for SMEs Accounting Standard
Albania	Adopted	Publicly traded, banks, large companies and insurance companies	1	No modifications	Not adopted
Armenia	Adopted	All companies except micros	1	No modifications	Permitted
Azerbaijan	Adopted	Publicly traded, unlisted banks, insurance, large and others (except for small)	1	No modifications	Adopted
Bosnia and Herzegovina	Adopted	Publicly traded, unlisted banks and other financial institutions	1	Delayed effective dates for IFRS 17 and ECL modified for banks	Adopted
Georgia	Adopted	Publicly traded, banks, insurance, some others	1	No modifications	Adopted
Kosovo	Adopted	No stock exchange. All limited liability companies or shareholder companies	1	No modifications	Adopted
North Macedonia	Adopted	Publicly traded, banks, insurance, some others	1	Adopted 2009 version of IFRSs, update in progress	Adopted
Moldova	Adopted	Publicly traded, banks and insurance	1	Delayed effective dates for IFRS 17	Not adopted
Montenegro	Adopted	All companies	1	No modifications	Under consideration
Serbia	Adopted	Publicly traded, financial institutions, insurance, pension, large legal entities	1	Some delays in adoption, defer TX gains/losses, financial statement formats, loan loss provisions, insurance revenue	Adopted
Ukraine	Adopted	Publicly traded, banks, insurance, some others	1		Not adopted

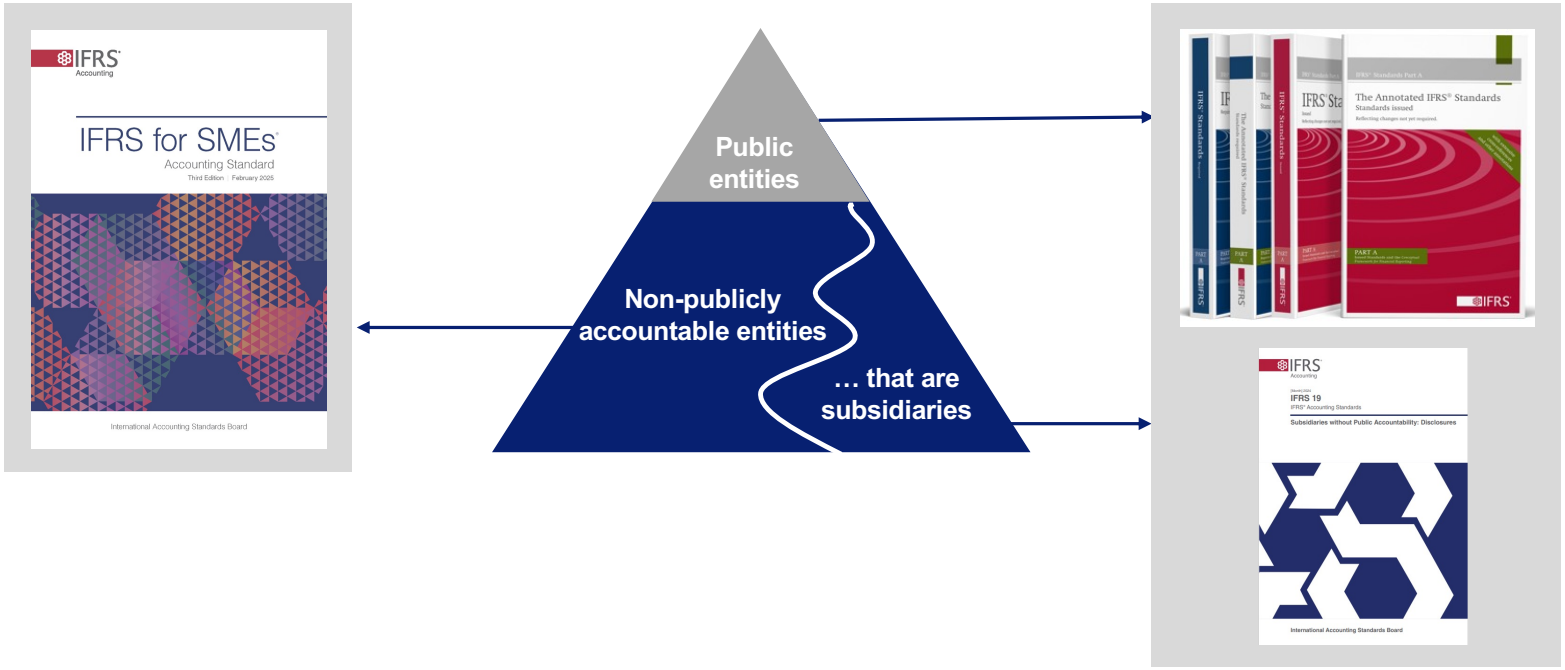
Jurisdictional financial reporting frameworks differ



Financial reporting frameworks designed to meet jurisdiction's needs

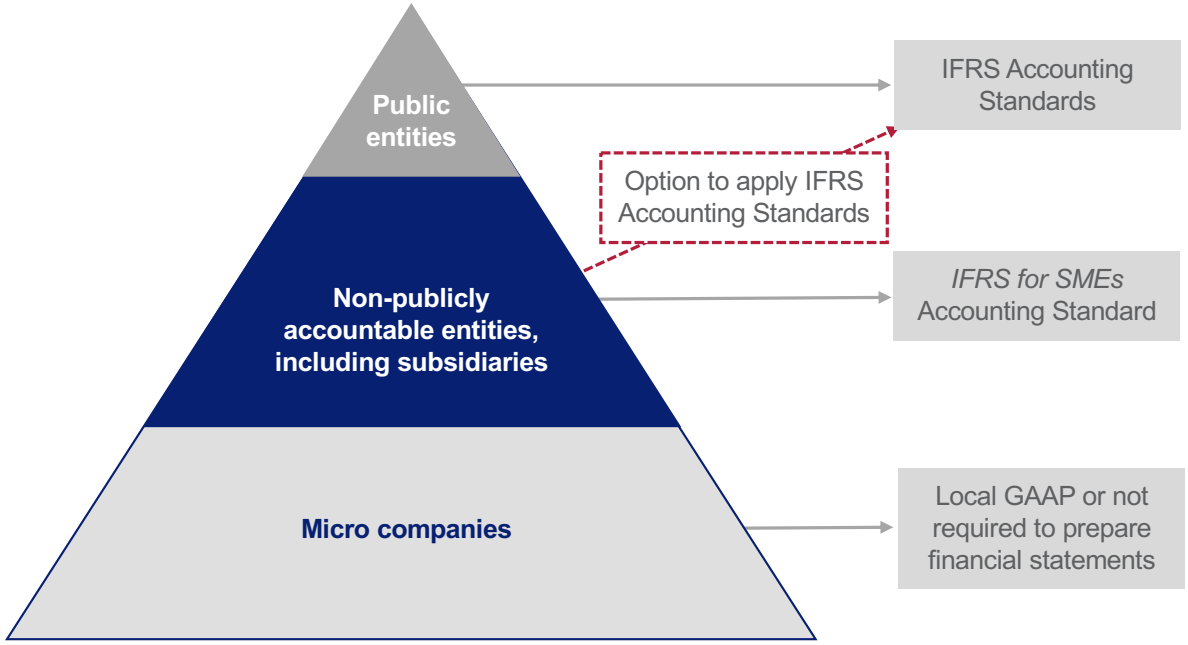
- Economic and regulatory requirements differ by jurisdiction
- Expertise, professional and market infrastructures differ
- History of financial reporting
- Development of the jurisdiction's economy

IASB Accounting Standards and financial reporting frameworks



A typical framework for jurisdictions adopting IASB Accounting Standards

Financial reporting frameworks designed to meet jurisdiction needs



IASB Accounting Standards

IFRS Accounting Standards → provide a global financial reporting language allowing investors to allocate resources across economies

IFRS 19 → works alongside other IFRS Accounting Standards enabling eligible subsidiaries to use group accounting policies while providing disclosures proportionate to the needs of their users of financial statements

IFRS for SMEs **Accounting Standard** → developed in response to international demand for the IASB to develop global standards for small and medium-sized entities. The Standard is a set of high-quality financial reporting principles tailored for SMEs and users of their financial statements

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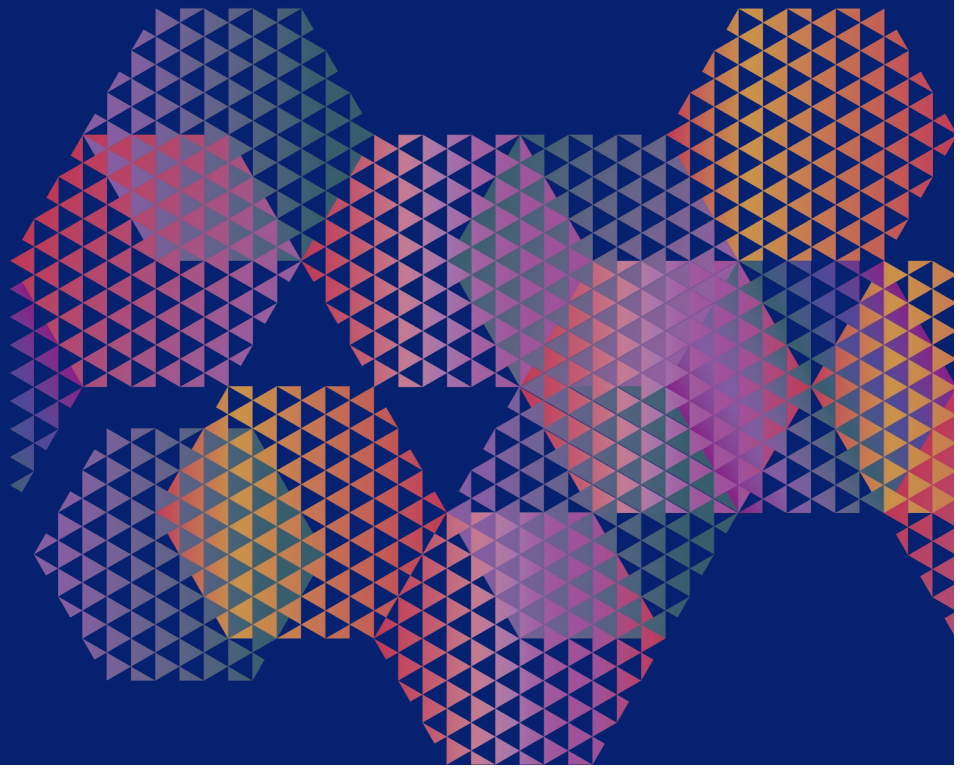
Session 4—Introduction of the *IFRS for SMEs* Accounting Standard and background of the second comprehensive review



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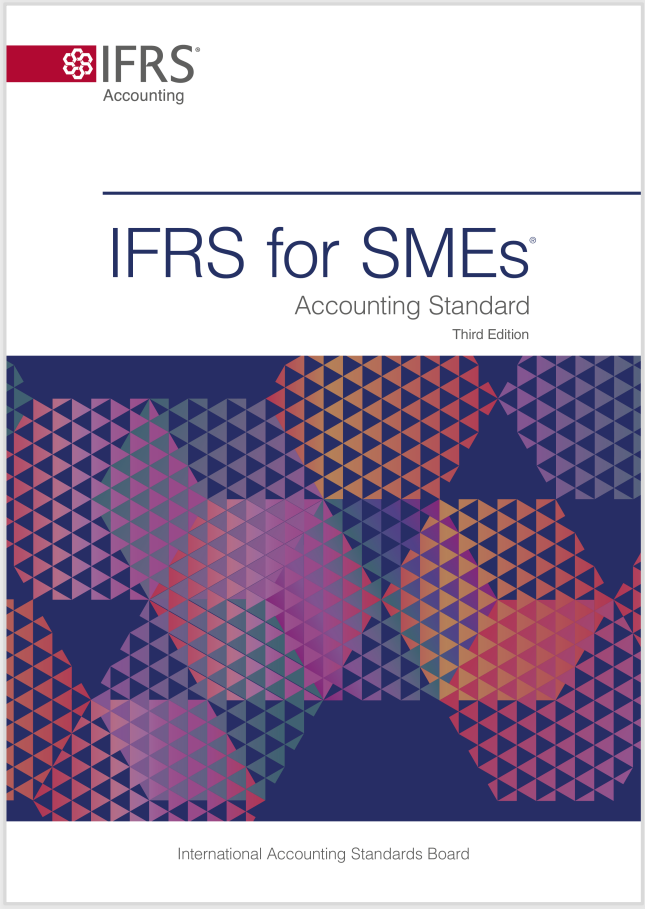
The *IFRS for SMEs* Accounting Standard

The *IFRS for SMEs* Accounting Standard

- A single Standard based on **full IFRS** Accounting Standards
- **Tailored** for entities **without public accountability** that publish general purpose financial statements
- Focuses on the **information needs of lenders and other users** of SMEs' financial statements
- In assessing the **costs and benefits** of amending the Standard, the IASB **balances** the **limited resources of SMEs** with the **information needs of users** of SMEs' financial statements (mainly lenders)



IFRS for SMEs Accounting Standard

A single Standard based on full IFRS Accounting Standards

Simplified for small and medium-sized entities:

- excluding topics not relevant to typical SMEs
- using simpler option if IFRS Accounting Standards have options
- simplifying recognition and measurement requirements
- reducing disclosures

Why small and medium-sized entities are important

The contribution that small and medium-sized enterprises (SMEs) make in driving positive social, environmental and economic change is often ignored. Yet, these businesses play significant roles in shaping the growth, innovation and sustainability of our local, regional and global economies.	The World Economic Forum
Small-and medium-sized enterprises (SMEs) represent over 90 per cent of the business population, 60-70% of employment and 55% of GDP in developed economies.	The World Trade Organization
Across OECD countries, SMEs represent around 99% of all firms, are a main source of employment and generate 50% to 60% of value added on average. Moreover, SMEs are vital for nurturing local communities and driving economies' and societies' major transitions.	OECD

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Background to the second comprehensive review

Framework for the second comprehensive review

Relevance to SMEs	Is the topic relevant to SMEs?
▼	
Simplicity	Can the requirements of full IFRS Accounting Standards be simplified?
▼	
Faithful representation	Do the outcomes faithfully represent the substance of the transaction?

Scope of the second comprehensive review

Scope	**A** Requirements in full IFRS Accounting Standards issued: ▪ since the first review that had an effective date on or before 1 January 2019 ▪ before the first review that did not result in amendments to the Standard in 2015
	B Other topics brought to the IASB's attention relating to the Standard

Scope of the second comprehensive review (continued)

Standards in scope	The *Conceptual Framework*	IFRS 13 *Fair value measurement*	Other amendments to IFRS Accounting Standards and IFRIC Interpretations
	IFRS 3 *Business Combinations*	IFRS 14 *Regulatory Deferral Accounts*	
	IFRS 9 *Financial Instruments*	IFRS 15 *Revenue from Contracts with Customers*	
	IFRS 10 *Consolidated Financial Statements*		
	IFRS 11 *Joint Arrangements*	IFRS 16 *Leases*	

Topics that will be considered by the IASB in a future review

Topic	Rationale
IFRS 14 *Regulatory Deferral Accounts*	The IASB's project on *Rate Regulated Activities* will replace IFRS 14 when it is completed. Therefore, the IASB decided not to amend the Standard as part of this review.
IFRS 16 *Leases*	The IASB decided not to amend the Standard to align with IFRS 16 at this time and to consider this topic in the next comprehensive review.

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How the IASB responded to user needs—improving disclosures

User needs—improving disclosures

Information about cash flows and liquidity is important, including about an SME's ability to repay debt

- require disclosure of changes in liabilities arising from financing activities (Section 7)
- require disclosure of a maturity analysis for financial liabilities (Section 11)
- improve disclosure of supplier finance arrangements to address liquidity and cash flow information needs (Section 7)
- require disclosure of an analysis of the age of trade receivables and other financial assets (Section 11)

User needs—improving disclosures (continued)

Information on revenue is important for understanding of an SME's business

- require disclosures that help users understand the nature, timing and uncertainty of revenue and cash flows from contracts with customers (Section 23)

Improved information on assumptions would be helpful

- require disclosure of assumptions for measuring defined benefit plans (Section 28)
- add examples of judgements that an SME is required to disclose (Section 8)

User needs—improving disclosures (continued)

Information would be improved if more disaggregation of:

- other payables;
- other receivables
- loans from related parties

- require the disaggregation of line items in the statement of financial position when such presentation is relevant (Section 4);
- require disclosure of amounts an SME incurred for key management personnel services provided by a separate management entity (Section 33)
- clarify the requirement to disclose information about commitments between an SME and its related parties (Section 33)

Further detail on an SME's significant operating expenses is necessary

- clarify how an SME aggregates information in financial statements and add guidance on materiality (Section 3)

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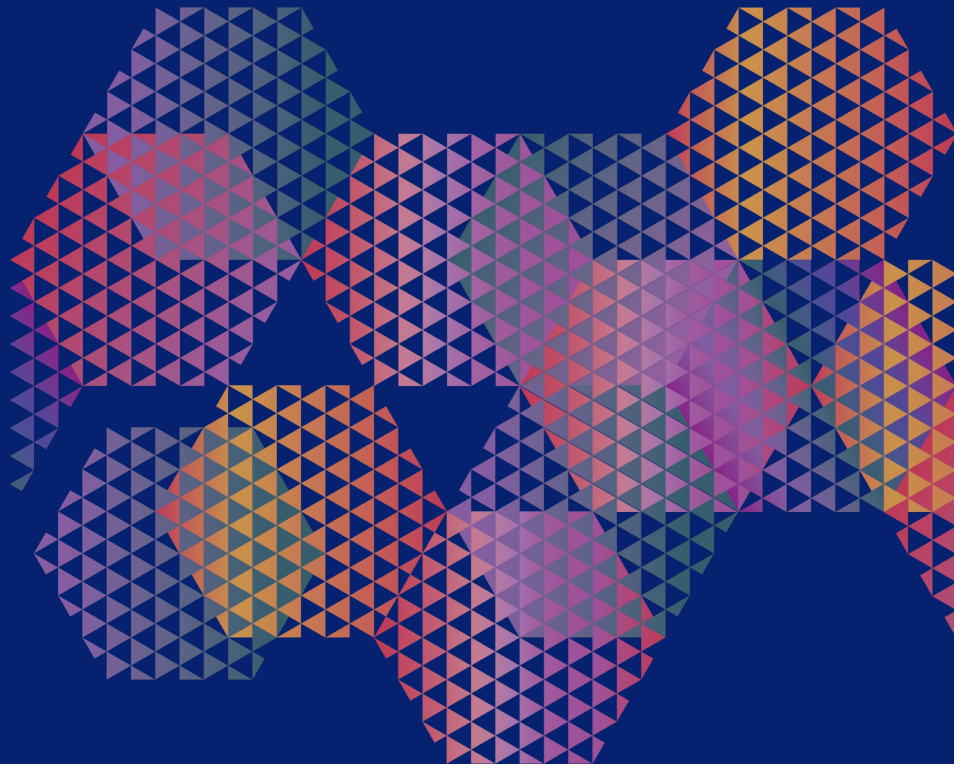
Session 5—Licensing and translations of IFRS Standards and complements on the comparison of the Standard with EU Accounting Directives



Licensing

- The IFRS Foundation owns the worldwide copyright to IFRS Standards in all languages
- Stakeholders can use standards (and other content) without license for **private and professional use**
- Stakeholders can link to the homepage of the Foundation's website
- Any other use beside private and/or professional use require permission from the Foundation, in either the form of a license agreement or permission letter, depending on how the IP is being used, except for general exemption in relation to the doctrine of fair use/ fair dealing.
- Examples that require a license are reproduction, adaptation (such as translation), distribution and/or dissemination to the public of Foundation IP for commercial and/or non-commercial use
- Trademarks and logos are registered and protected globally and may not be used without the prior written consent of the IFRS Foundation

Protection of IP rights: to maintain strong brand and reputation and facilitate the global use and recognition of IFRS Standards in line with the IFRS Foundation's mission

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Adopting IFRS Standards

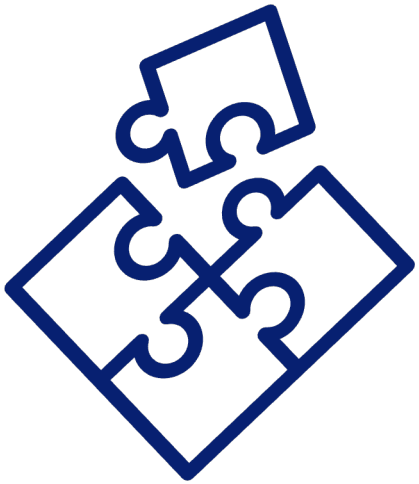
Agreements to support adoption of IFRS Standards

- Different licensing models have different contractual terms covering the permitted use of the Standards and the IFRS brand – help us control quality of adoption and drive discussions with authorities.
- A separate agreement is needed for IFRS Accounting Standards and IFRS Sustainability Disclosure Standards
- More than one licence per jurisdiction might be necessary if more than one jurisdictional authority is using the Standards for more than one reporting framework or guidance
- IFRS Foundation charges fees for licenses, the level of the fees is depending on the intended usage of the IP by the jurisdiction
- Jurisdictions that would like to adopt should contact the Foundation's Translation, Adoption and Copyright Team to discuss their licensing requirements at tac@ifrs.org

Adopting the *IFRS for SMEs* Accounting Standard

Financial reporting frameworks designed to meet jurisdictions' needs

- Development of the jurisdiction's economy
- Expertise, professional and market infrastructures differ
- History of financial reporting, including existing requirements
- Economic and regulatory requirements differ by jurisdiction



Adopting the *IFRS for SMEs* Accounting Standard to fit jurisdictions' needs

Adopting the *IFRS for SMEs* Accounting Standard

Can state compliance with *IFRS for SMEs* Accounting Standard

Adoption licence

Licence for dissemination of IFRS Standards

Licence to create local standards

Uses the text of the Standard (including translations of the text)

- Add disclosures
- Reduce options

Adopting the *IFRS for SMEs* Accounting Standard

	Can state compliance with IFRS for SMEs Accounting Standard		Cannot state compliance with *IFRS for SMEs* Accounting Standard
Licence to create local standards	Uses the text of the Standard (including translations of the text)	• Add disclosures • Reduce options	• Modifies recognition and measurement requirements • Amends scope to include publicly accountable entities

Adopting the *IFRS for SMEs* Accounting Standard

EU Accounting Directive and *IFRS for SMEs* Accounting Standard

	IFRS for SMEs	EU Directive
Scope	Entities without public accountability `	Public interest entities Micro-Small-Medium sized
Disclosures	Jurisdictions can add disclosure requirements beyond those in the *IFRS for SMEs* Accounting Standard to comply with local requirements (for example the EU Accounting Directive)	

Adopting the *IFRS for SMEs* Accounting Standard

EU Accounting Directive and *IFRS for SMEs* Accounting Standard

Examples	*IFRS for SMEs*	EU Directive	Compliance
Recognition and measurement	Permits accounting policy choice for associate entities; cost, fair value or equity method	Requires equity method	Restricting the option would be compliant with *IFRS for SMEs*
	SMEs 19.23: if cannot estimate useful life of intangible asset, then use best estimate but not exceeding 10 years	*Article 12.11 Intangible assets;* if cannot estimate useful life member states can require a life not shorter than 5 years and not exceeding 10 years.	Assess member state requirement, possible measurement difference – would need licence to create own standard

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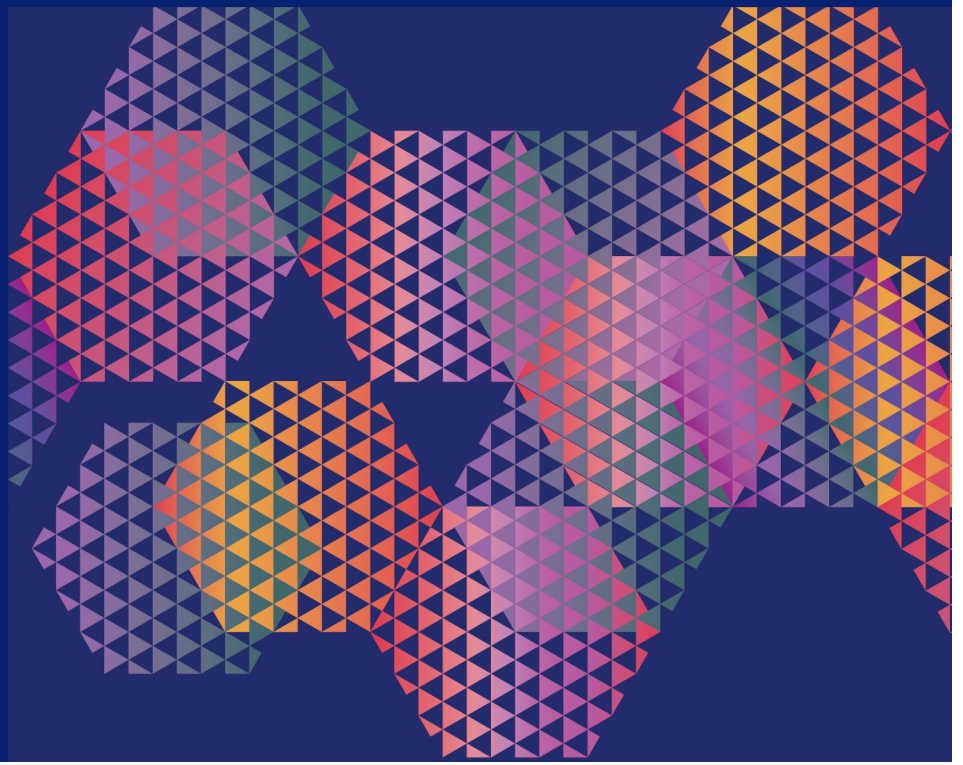

Session 6—*IFRS for SMEs* Accounting Standard: Section 9 *Consolidated and Separate Financial Statements* and Section 19 *Business Combinations and Goodwill*

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Section 9 *Consolidated and Separate Financial Statements*

Section 9 *Consolidated and Separate Financial Statements*

Reflecting improvements from IFRS 10 Consolidated *Financial Statements*

- **update the definition** of 'control' in Section 9 to align with that in IFRS 10
- **control** becomes the single basis for consolidation
- **introduce requirements** when a parent loses control of a subsidiary

- **retain the rebuttable presumption** that control exists when an investor owns a majority of the voting rights of an investee

Definition of control

An investor controls an investee if it has all of the following:

1	2	3
power over the investee	exposure, or rights, to variable returns from its involvement with the investee	the ability to use its power over the investee to affect the amount of the investor's returns

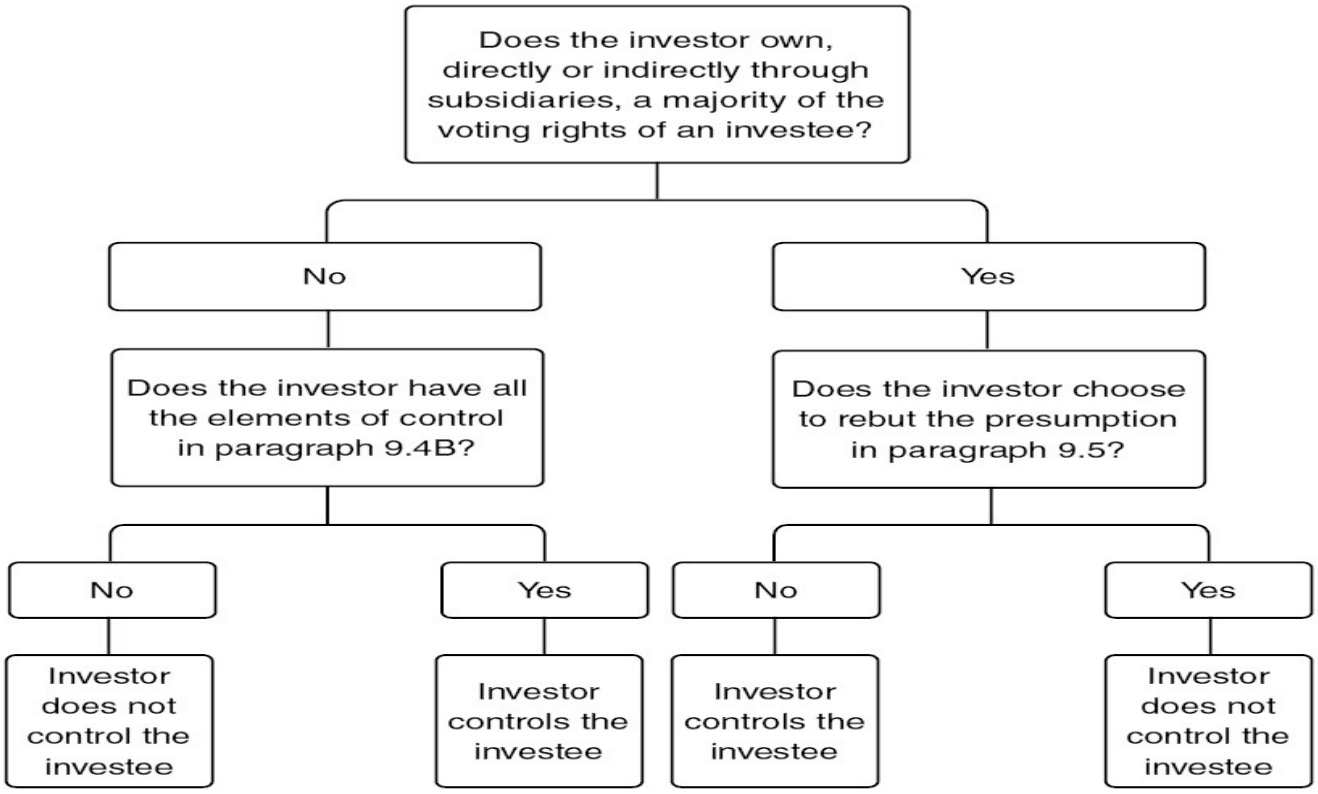
Single consolidation model for all entities based on control

Control explained

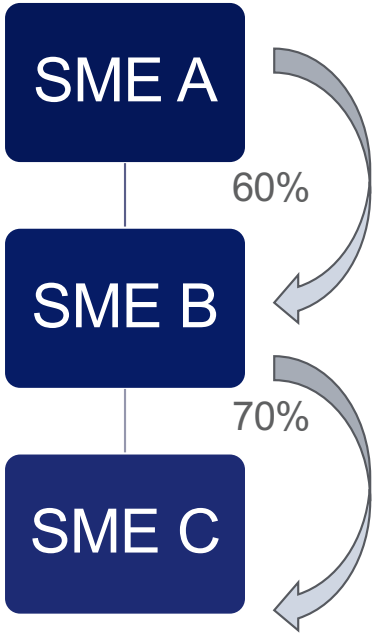
Power …	Investor has existing **rights** that give it the **current ability** to direct the **relevant activities**
Returns …	Investor's returns have the **potential to vary** as a result of the investee's performance
Link between power and returns	Investor has the ability to **use its power to affect its returns** from involvement with investee

Simplification	Control is presumed to exist when the investor owns a majority of the voting rights of the investee

Assessing control



Example: Applying the rebuttable presumption



- SME A owns directly > 50% of voting rights of SME B
- SME A indirectly controls SME C

SME A controls SMEs B and C

SME B owns directly > 50% of the voting rights of SME C

SME B controls SME C

Losing control of a subsidiary

Recognition and measurement requirements

If a parent loses control of a subsidiary	
⟪ **Derecognise**	carrying amounts of assets, liabilities and non-controlling interests
⟫ **Recognise**	fair value of consideration received and fair value of interest retained in former subsidiary
= **Gain or loss**	recognised in profit or loss

Example: Losing control of a subsidiary

SME A had a wholly-owned subsidiary, SME B.

- **On 30 March 20X1 SME A sold 90% of the shares in SME B to a third party for CU1,350.**
- **The carrying amount of the net assets of SME B is CU1,280.**
- **The fair value of the remaining interest of 10% is CU 128.**

If a parent loses control of a subsidiary		
⟪	**Derecognise**	**CU1,280**
⟫	**Recognise**	**CU1,350 + CU128**
=	**Gain or loss**	**CU198**

New disclosure requirements

Changes to the disclosure requirements in Section 9

Information about judgements

Disclosure of judgements made in the process of applying accounting policies, including judgements made in determining that the entity has control of another entity (paragraph 8.6)

Losing control of a subsidiary

Disclosure for the gain or loss from losing control of a subsidiary:

- the portion of that gain or loss attributable to measuring any interest retained in the former subsidiary at its fair value; and
- line items in profit or loss in which the gain or loss is recognised

Transition requirements

Apply the amendments in Section 9 retrospectively

? What if there is a change for the investees being consolidated by the entity?

Consolidating an investee not previously consolidated	No longer consolidating an investee previously consolidated
Measure the assets, liabilities and NCI (including goodwill) as if the investee had been consolidated from the date control is obtained	Measure its interests in the investee applying other requirements in the Standard retrospectively (for example, as an investment in associates)
If impracticable, make adjustments from the earliest period practicable	

Transition requirements (continued)

Apply the amendments in Section 9 retrospectively

If there is no change for the investee being consolidated by the entity An entity is not required to make adjustments for previous accounting periods	Paragraph 10.13(b) of the Standard Disclose amount of adjustment for each line item affected for the period immediately preceding the date of initial application
For an investment in a former subsidiary where the entity's control is lost before the date of initial application, the entity: - shall not restate the carrying amount of the investment - shall not remeasure any gain or loss on the loss of control - is not required to apply the disclosure requirements in paragraph 9.23B to comparative information provided	

Test your knowledge

An investor controls an investee if the investor has:
(a) power over the investee
(b) exposure, or rights to variable returns from its involvement with the investee
(c) the ability to use its power over the investee to affect the amount of the investor's returns
(d) if the investor has (a) and (b)
(e) if the investor has (a), (b) and (c)

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Section 19 *Business Combinations and Goodwill*

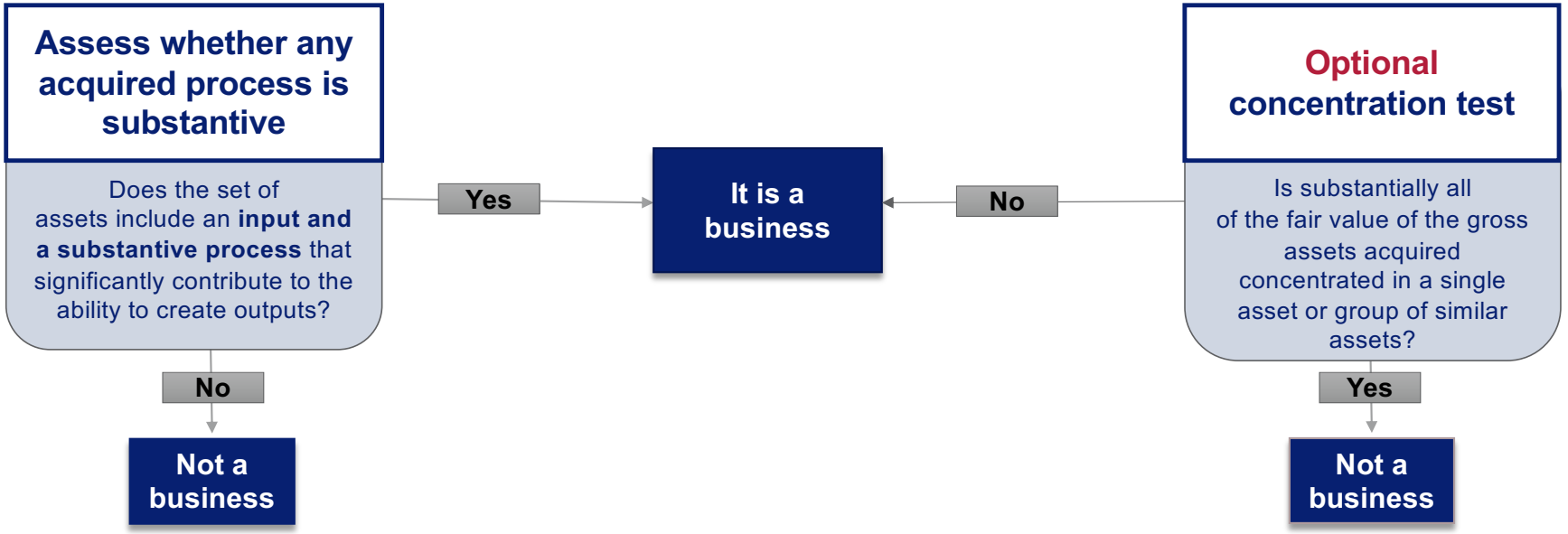
Section 19 *Business Combinations and Goodwill*

Reflecting improvements from IFRS 3 *Business Combinations*

- **update the definition** of 'business' to align with that in IFRS 3
- introduce the **acquisition of method of accounting** including:
  - **introduce new guidance** if a new entity is formed in a business combination
  - **clarify** that an acquirer recognise a contingent liability even if not probable that outflow will occur
  - **update references** to the definitions of 'asset' and 'liability' consistent with the revised Section 2
  - recognise **contingent consideration** at fair value unless undue cost and effort
  - requirements for **step acquisitions**
- recognise acquisition-related costs in profit or loss

Definition of a business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of:
(a) providing goods or services to customers;
(b) generating investment income (such as dividends or interest); or
(c) generating other income from ordinary activities.



Acquisition method

The acquisition method has five steps:

Step 1	Identify the acquirer
Step 2	Determine the acquisition date
Step 3	Recognise and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
Step 4	Measure the consideration transferred
Step 5	Recognise and measure goodwill or a gain from a bargain purchase

Acquisition method

Step 1	Identify the acquirer: • apply Section 9 to identify the entity that obtains control • a newly formed entity to effect a business combination is not necessarily the acquirer
Step 2	The acquisition date is the date on which the acquirer obtains control of the acquiree

Acquisition method

Step 3

Recognise the **identifiable assets acquired**, the liabilities assumed and measure at fair value:

Except:

- **contingent liabilities** recognise a contingent liability even if not probable that outflow will occur
- **intangible assets** meets definition in Section 18
- **deferred tax** apply section 29
- **employee benefits** apply Section 28

Measure **non-controlling interest** at proportion share of the recognised amounts of the acquirer's identifiable net assets.

Acquisition method

Step 4	Measure the consideration transferred at sum of: ▪ fair value of assets transferred, and liabilities assumed by the acquirer ▪ equity instruments issued by acquirer ▪ contingent consideration at fair value, unless undue cost and effort ▪ previously held interests at fair value
Step 5	Recognise and measure goodwill or a gain from a bargain purchase

New disclosure requirements

Changes to the disclosure requirements in Section 19

Business combinations during the period

Retains requirement to disclose specific information about each business combination

New disclosures for contingent consideration arrangements (amount, description, basis for determining payment) and unrecognised contingent liabilities

All business combinations

Retains requirement to disclose useful lives and reconciliation for goodwill

Reporting periods after acquisition date

New disclosures for outstanding contingent consideration arrangements (changes in amounts, valuation techniques and key inputs)

Simplifications to requirements in IFRS 3

Intangible assets acquired in a business combination	Only recognise if fair value can be measured reliably without undue cost or effort
Reacquired rights	No specific guidance, as not prevalent among SMEs ('relevance to SMEs' principle)
Non-controlling interests	No option to measure at fair value (simplest option)
Contingent consideration	Exemption from fair value, if undue cost or effort (determined at the acquisition date)
Reduced disclosures	Limited changes to the existing disclosures in Section 19

Transition requirements

Leave unadjusted on date of initial application:

- assets and liabilities from business combinations
- any contingent consideration balances arising from business combinations

If a business combination agreement provided for adjustment to cost:

- contingent on future events
- probable and measured reliably

= include in cost of business combination at acquisition date

date of initial application (e.g. 1 January 2027)

Prospectively apply revised Section 19 to:

- business combinations for which acquisition date is on or after the date of initial application
- asset acquisitions that occur on or after the date of initial application

Test your knowledge

SME A acquires 100% of the voting shares of SME B. SME B has only two assets, a piece of land where SME A will construct a building in the future and an empty building. SME B is a so-called 'shell company', it has no employees and no production or managerial processes. This transaction:
(a) is a business combination
(b) could be a business combination
(c) is not a business combination

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