

The IFRS for SMEs

*A resource for
accounting educators*

Santiago, 5 Dec 2011
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Board Member, IASB

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The International Financial Reporting Standards for Small and Medium- sized Entities (IFRS for SMEs)



The IFRS for SMEs

3

Good Financial Reporting Made Simple.

- 230 pages (full IFRSs are 3,000+)
- Simplified IFRSs – built on an IFRS foundation
- Completely stand-alone
- Why? Designed specifically for SMEs
 - User needs for information about short-term cash flows, liquidity, and solvency
 - Costs and SME capabilities
- Final standard issued July 2009

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Who is eligible to use it?

4

Any entity that does not have public accountability...

- securities not publicly traded
- not a financial institution

... and is required or chooses to produce General Purpose Financial Statements (GPFS)

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Who is the Standard aimed at?

5

Millions of companies (over 99%)!

- The 52 largest stock exchanges in the world together have about **45,000** listed companies
- Europe has roughly **28 million** private sector enterprises (SMEs)
- USA has about **25 million**
- UK: **4.7 million** (99.6% under 100 employees)
- Chile: **700,000 (only 6,000 have sales > US\$3 million)**
- Brazil: **6 million**

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The public interest

6

Which entities must produce GPFS is a public interest issue

- Decided by parliaments and regulators, not by IASB
- Why? There is a public benefit in good financial information about companies

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How did we simplify?

7

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting

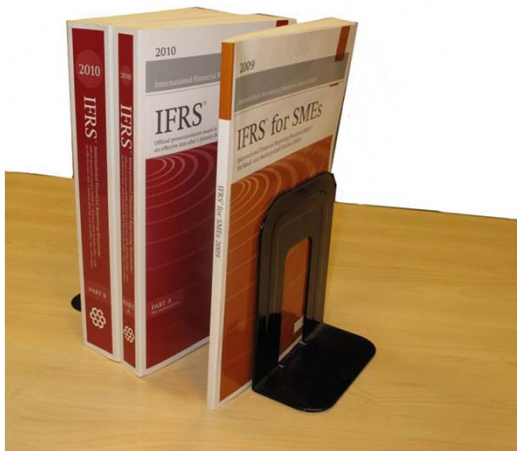
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Disclosure simplifications

8

Big reduction in disclosures:



- Full IFRSs – more than **3,000** items in the disclosure checklist
- IFRS for SMEs – roughly **300** disclosures

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Is it stand-alone or linked to full IFRS?

9

Completely stand-alone

- The only 'fallback' option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs

Why would an SME want to adopt It?

10

- **Improved access to capital**
 - This is the #1 issue with SMEs
- **Improved comparability**
- **Improved quality of reporting** as compared to existing national GAAP
 - World Bank ROSC reports – 85 countries
- **Reduced burden** for entities in jurisdictions where full IFRSs or full national GAAP are now required

Jurisdiction plans for adoption

11

Today (December 2011), to the best of our knowledge:

- **74 jurisdictions** have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years
- **This includes Chile, which has decided to adopt starting 2013 for all Non-Publicly Accountable Entities.**

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Plans for adoption: some examples

12

- **South America:** Argentina, Brazil, Chile, Guyana, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
- **Africa:** South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zambia, Zimbabwe

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Plans for adoption: some examples

13

- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka
- **Middle East:** Jordan, Lebanon, Palestine, Qatar
- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Bosnia, Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs.
- **North America:** Available for use in United States, Canada

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Implementation support from IASB

14

Translations

- **Completed:** Albanian, Arabic, Armenian, Simplified Chinese, Czech, French, Italian, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Spanish, Turkish
- **In process:** Hebrew, Japanese, Kazakh, Khmer, Serbian, Ukrainian
- **Proposed or in discussion:** Bosnian, Bulgarian, Burmese

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Implementation support from IASB

15

Free training workshops (regional, 3 days)

- **To date:** In Malaysia, India, Tanzania, Egypt, Gambia, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar, Dubai, Barbados, Bosnia, Kenya
- **Upcoming in 2011:** Chile
- **Others in planning for 2012**

SME Implementation Group (SMEIG)

16

Two responsibilities

- Develop non-mandatory guidance on IFRS for SMEs in the form of Q&As
- Make recommendations to the IASB on, the need to amend the IFRS for SMEs:
 - For implementation issues that cannot be addressed by Q&As; and
 - For new and amended IFRSs that have been adopted since the IFRS for SMEs was issued

Comprehensive review of IFRS for SMEs

17

Initial comprehensive review: After 2 years implementation experience

- Fix errors and omissions, lack of clarity
- Also consider need for improvements based on recent IFRSs and amendments
- SMEIG will take the lead on this

Thereafter: Once every three years (approximately) omnibus exposure draft of updates

Comprehensive review of IFRS for SMEs

18

Estimate of initial update:

- 2010 and 2011 first two years of experience
- 2H 2012 begin review
 - Invitation to comment late 2012
 - IASB Exposure Draft mid-2013
 - Final amendments late 2013 or 1H 2014
- 2014 earliest effective date of amendments, more likely 2015
 - **So, 4-5 year “stable platform”**

Free self-study training materials

19

Training material free for you to use

- Developed by IFRS Foundation staff
- Multi-level peer review but not IASB approved
- 35 stand-alone modules (1 for each section of the IFRS for SMEs)
- English, Spanish, several other languages
- Training material = +2,000 A4 pages
- Free to download
- Self study

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Free monthly SME Update newsletter

20

Monthly IFRS for SMEs Update newsletter

- Free subscription delivered by email
 - 11,000 subscribers
- Topics typically covered:
 - New adoptions and translations
 - SMEIG activity
 - All draft and final Q&As
 - Training materials
 - Train the trainers workshops
 - Staff commentaries
 - Links to resources

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Free downloads from IASB

21

IFRS for SMEs (full standard, translations):

<http://go.ifrs.org/IFRSforSMEs>

Training materials (35 modules):

<http://go.ifrs.org/smetraining>

PowerPoint training modules (20 PPTs):

<http://go.ifrs.org/trainingppts>

Board and staff presentations:

<http://go.ifrs.org/presentations>

Update newsletter:

<http://go.ifrs.org/smeupdate>

Implementation Group Q&As:

<http://go.ifrs.org/smeig>

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The IFRS for SMEs as a Resource for Accounting Educators and Students

22

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Comprehensive list of English language IFRS resources for educators and students:

- Developed and maintained by Paul Pacter
- Posted for free download on IASB website
- <http://www.ifrs.org/Use+around+the+world/Education/Learning+Resources.htm>
- Over 75 hyperlinks to access the resources
- Most resources available without charge
- IASB has not reviewed or endorsed any of these resources

List includes resources from:

- BDO Seidman
- Deloitte Touche Tohmatsu
- Ernst & Young
- Grant Thornton
- KPMG
- PricewaterhouseCoopers
- US Securities and Exchange Commission
- American Accounting Association
- American Institute of CPAs
- Canadian Institute of Chartered Accountants
- European Commission
- IASB and IFRS Foundation
- International Association for Accounting Education and Research
- Recent Textbooks
- Newsletters
- Histories of the IASC

Some universities around the world are using the IFRS for SMEs as a textbook

- Usually introductory course
- Available in multiple languages including Spanish
- Free to download, inexpensive to purchase (especially in developing countries)

Next 7 slides are a “case study” – University of Cape Town (South Africa)

Here is how Univ of Cape Town (South Africa) structures its four-year accounting curriculum:

- **Year 1:** Conceptual Framework, asset and liability definitions, accrual accounting, preparation of a statement of financial position and statement of comprehensive income. “While students do not use IFRS, what they are taught is in terms of IFRS but that is not emphasised.”

Continued...

Univ of Cape Town four-year accounting curriculum (continued):

- **Year 2:** IFRS for SMEs is one of two textbooks. A real textbook is also used (this same book is also used in Year 3). All sections of IFRS for SMEs are covered except deferred tax (covered in Year 3). The only aspect of full IFRS that students cover in Year 2 is revaluation of PPE. There are open book exams using IFRS for SMEs.

Continued...

Univ of Cape Town four-year accounting curriculum (continued):

- **Year 3:** Students use full IFRS (Bound Volume) plus the textbook. The syllabus excludes all industry specific issues (insurance, mining, construction companies) and certain highly technical aspects of other IFRS. There are open book exams using full IFRSs.

Continued...

Univ of Cape Town four-year accounting curriculum (continued):

- **Year 4:** Same as Year 3 but, instead of the textbook, students use IFRS for SMEs training modules and other support materials available free on IASB website. We do not use a textbook in Year 4 because:
 - They paraphrase the standard too much and add very little
 - Too much detail
 - Too costly

“Reasons we decided to use IFRS for SMEs in Year 2” (views of a faculty member):

1. Ensure that students and lecturers focus on the basic more common applications and not the exceptions and complexities
2. Get students used to referring to an authoritative source to justify an accounting treatment as opposed to quoting lecturers or textbooks

Continued...

“Reasons we decided to use IFRS for SMEs in Year 2” (views of a faculty member):

3. Bridge the gap to reading full IFRS. “The plain language that is used in SMEs helps students overcome the barrier of using full IFRS.”
4. Prepare students for the open book exams that they write using full IFRS in Years 3 and 4
5. Because the book is only updated every three years, it is more affordable because students can buy used books

Continued...

“Reasons we decided to use IFRS for SMEs in Year 2” (views of a faculty member):

6. Relative affordability compared to buying full IFRS (which they need to do for Year 3 and again Year 4)
7. “The quality of the additional SME teaching material that is freely available on the web (thank you!”)

Comments made by students in their course evaluations:

Student responses to the question whether the IFRS for SMEs has contributed to their learning:

- **76%** either agreed or strongly agreed
- **Only 4%** disagreed or strongly disagreed.

Training material free for you to use

- Developed by IFRS Foundation staff
- Multi-level peer review but not IASB approved
- 35 standalone modules (1 for each section of the IFRS for SMEs)
- English, Spanish, several other languages
- Training material = +2,000 A4 pages
- Free to download
- Self study – also classroom use

Classroom use of our training materials

35

Each module includes

- Explanation of the requirements
 - Full text of the requirements
 - ‘How to’ numerical examples
 - Other explanations
- Discussion of important judgements
- Comparison with full IFRSs
- Test your knowledge – multiple choice quiz
- Apply your knowledge – case studies

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Classroom use of our training PPTs

36

PPTs and course syllabus from our free 3-day training workshops are available for classroom use

- Free of charge
- 21 to 30 classroom hours (even 40 hours if you add more problems and cases)
- 20 PPT sets
- Total of nearly 1,100 PPT slides
 - See next slide for details

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Classroom use of our training PPTs

37

PPT Module	Topic	Number of Slides	PPT Module	Topic	Number of Slides
1.1 and 1.2	Workshop outline and overview	83	2.4	Investments	50
1.3	Scope and concepts	30	2.5	Quiz on assets	42
1.4	Quiz on scope and concepts	25	3.1	Liabilities	95
1.5	Financial statement presentation	138	3.2	Income tax	31
1.6	Revenue	44	3.3	Quiz on income tax	19
1.7a	Quiz on FSP	58	3.4	Quiz on liabilities	36
1.7b	Quiz on revenue	24	3.5	Other issues	68
2.1	Financial instruments	74	3.6	Transition to IFRS for SMEs	37
2.2	Quiz on FI	69	3.7	Quiz on transition	22
2.3	Tangible assets	98	3.8	Quiz on other issues	32
				TOTAL SLIDES	1,075

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IFRS for SMEs textbook – English

38

Applying the IFRS For SMEs

1st edition. By Daniel Coetsee, Rayond Chamboko, Allan Lombard, Bruce Mackenzie, Tapiwa Njikizana, and Edwin Selbst. Published by W Consulting, Johannesburg, South Africa, February 2010, 450 pages, ISBN: 978-620-44913-7. Web page:

<http://technicalh.wconsulting.co.za/index-3d.html>

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NIIF para las Pymes: análisis conceptual y aplicación práctica de los nuevos estándares del IASB

1st edition. By Hernán Pablo Casinelli. Published by Aplicacion Tributaria S.A. , Buenos Aires, Argentina. March 2010, 392 pages, ISBN 978-987-1487-90-5. Web page: www.aplicacion.com.ar

Estándares/Normas Internacionales de Información Financiera (IFRS/NIIF)

2nd edition. By Samuel Alberto Mantilla B. Published by Ecoe Ediciones, Bogota, Colombia, 2011, 567 pages, ISBN 978-958-648-707-8. Pages 1-288 cover full IFRSs. Pages 289-430 cover IFRS for SMEs. Web page: www.ecoediciones.com

Switching to the IFRS for SMEs offers accounting researchers opportunities for study (slide 1 of 4)

- Analyse nature and magnitude of the changes to SMEs' financial statements
 - Which financial statement items were the main ones affected
 - Overall affect on income and equity
 - Different effects on different types of companies, industries, size, etc.

Switching to the IFRS for SMEs offers accounting researchers opportunities for study (slide 2 of 4)

- Analyse which accounting policy choices were made, and why
- If SMEs had a choice of other GAAP instead of IFRS for SMEs (eg full IFRS or local GAAP) , why did they choose IFRS for SMEs
- Analyse difficulties encountered in switching from previous GAAP to IFRS for SMEs

Switching to the IFRS for SMEs offers accounting researchers opportunities for study (slide 3 of 4)

- Analyse the ways SMEs planned and executed the transition, costs involved, extent to which they relied on outside help (eg from auditors), lessons learned
- Has accounting quality improved since adoption of the IFRS for SMEs

Switching to the IFRS for SMEs offers accounting researchers opportunities for study (slide 4 of 4)

- Analyse reactions of bank lenders to the new type of financial information they are receiving
- Has cost of debt financing decreased since adoption of the IFRS for SMEs

In Conclusion

45

The IFRS for SMEs will result in:

- Better quality reporting
- Tailored for the capabilities of small companies
- Tailored for the needs of lenders and creditors
- Understandability across borders

If capital providers understand and have confidence in the financial figures, an SME's ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.

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Questions or comments?

46

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.



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