A Guide to the *IFRS for SMEs*
What is the **IFRS for SMEs**?

The **International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)** is a set of high quality financial reporting principles that is tailored to the capabilities of smaller businesses and for the needs of those who use small-company financial statements.

A global Standard for SMEs

The **IFRS for SMEs** is a self-contained, globally recognised, Standard, first issued in July 2009. Compared with full IFRS Standards and many sets of national generally accepted accounting principles (GAAP), the **IFRS for SMEs** is much easier to apply and shorter (fewer than 250 pages).

In 2015, the International Accounting Standards Board (the Board) completed a comprehensive review of the **IFRS for SMEs**, and from this review issued limited amendments to the 2009 Standard that are effective from 1 January 2017.

Why would SMEs and jurisdictions use it?

The **IFRS for SMEs** was issued in response to strong international demand, from both developed and emerging economies, for a rigorous and common set of accounting standards for smaller companies. The **IFRS for SMEs** can play an essential role in helping SMEs gain access to capital. This is because it can improve the quality of reporting in comparison with many existing national accounting requirements. At the same time, it is easier to apply than full IFRS Standards.

Furthermore, the **IFRS for SMEs** provides enhanced comparability for users of accounts both within a jurisdiction and across borders. This improves the overall confidence in the financial statements of SMEs. It also reduces significantly the costs of developing and maintaining standards on a national basis.
Who is it aimed at?

Size is no barrier

Any company of any size is eligible to use the IFRS for SMEs, provided it does not have public accountability. An entity has public accountability, and therefore should use full IFRS Standards, if its securities are publicly traded, or it holds assets in a fiduciary capacity for a broad group of outsiders as a primary business (which is true for most financial institutions). Although there is no size test in the IFRS for SMEs, the local authorities in a jurisdiction can add one if it wishes to do so.

The IFRS for SMEs is designed for companies that are required, or choose, to produce general purpose financial statements. Those are financial statements directed to the general financial information needs of a wide range of users, including lenders, creditors, investors, employees, governments and others outside of the company.

Small entities often produce financial statements only for the use of owner-managers or for the use of tax or other governmental authorities. Financial statements produced solely for these purposes are not general purpose financial statements.

Governments and regulators, not the Board, decide which entities must produce general purpose financial statements. They make that decision in the light of the public interest in good financial information about companies.

Subsidiaries of parent companies using full IFRS Standards are eligible in their own financial statements to use the IFRS for SMEs if they do not have public accountability. However, listed companies—no matter how small—are not eligible.

Facts

Most of the companies in the world (over 95 per cent) are eligible to use the IFRS for SMEs.

- The 52 largest stock exchanges in the world together have only 46,000 listed companies.

In contrast:

- Europe has approximately 21 million private sector enterprises.
- The United States has approximately 28 million private sector enterprises.
- The United Kingdom has approximately 5.5 million private sector enterprises, of which 95 per cent have fewer than 10 employees.
- In Brazil, over 6 million companies are required to use the IFRS for SMEs.
How does it differ from full IFRS Standards?

Use of full IFRS Standards around the world, whether directly or via national convergence, has grown significantly in the past fifteen years. At the same time, full IFRS Standards have expanded and been made more rigorous and detailed by addressing complex issues.

Not surprisingly, small companies have expressed concerns that full IFRS Standards are beyond their needs and capabilities—and the resulting financial statements, while suitable for equity investors in listed companies, are not aimed at the kinds of short-term credit decisions that many users of small company financial statements have to make.

**Easier to apply**

Compared with full IFRS Standards and many national requirements, the IFRS for SMEs is less complex in a number of ways.

Topics that are not relevant to SMEs have been omitted, for example earnings per share, interim financial reporting and segment reporting.

Many principles for recognising and measuring assets, liabilities, income and expenses in full IFRS Standards are also simplified. A few examples of simplifications are amortisation of goodwill, an option to account for investments in associates and joint ventures at cost, recognising all borrowing and development costs as expenses and undue cost or effort exemptions for some specific requirements.

In addition, there are significantly fewer disclosures required than in full IFRS Standards (roughly a 90 per cent reduction).

The Standard has also been written in clear and easily translatable language.

The IFRS for SMEs is tailored for SMEs by focussing on the needs of users of SME financial statements for information about cash flows, liquidity and solvency. It also takes into account the costs to, and the capabilities of, SMEs to prepare financial information.
Reviews of the *IFRS for SMEs*

When the *IFRS for SMEs* was issued, the Board said it would undertake a comprehensive review of the Standard after two years of use by SMEs. This review was completed in 2015.

Future amendments to the *IFRS for SMEs* are not expected to be more frequent than once every three years, to provide SMEs with a stable platform.

**Initial comprehensive review**

In 2015, the Board issued limited amendments to the *IFRS for SMEs* following an initial comprehensive review. The aim of the review was to consider implementation experience and assess whether there was a need to make any amendments to the Standard.

After consulting widely with constituents, the Board identified some areas where targeted improvements could be made. The most significant changes, which relate to transactions commonly encountered by SMEs, were:

- permitting SMEs to revalue classes of property, plant and equipment; and
- aligning the main recognition and measurement requirements for deferred income tax with full IFRS Standards.

The majority of the 2015 amendments clarified existing requirements or added supporting guidance, rather than changing the underlying requirements in the *IFRS for SMEs*.

Consequently, for most SMEs and users of their financial statements, the amendments were expected to improve understanding, without having a significant effect on an SMEs’ financial reporting practices and financial statements.

**Future reviews**

The following is the Board’s tentative plan for future reviews:

- A comprehensive review starting two years after amendments to the *IFRS for SMEs* from a previous comprehensive review become effective (which is likely to result in one comprehensive review every six years). Comprehensive reviews would begin with the issuance of a Request for Information to identify implementation issues.
- Between comprehensive reviews, the Board would decide whether there is a need for an interim review to consider recent changes to full IFRS Standards or to address any urgent issues.
Who is using it?

The IFRS Foundation has a project to develop profiles on the use of full IFRS Standards and the *IFRS for SMEs* in individual jurisdictions. To date, 140 profiles have been posted. 78 of the 140 profiled jurisdictions require or permit the *IFRS for SMEs*, and a further 11 jurisdictions are studying whether to use it.

Which jurisdictions require or permit the IFRS for SMEs?

The 78 jurisdictions that require or permit the *IFRS for SMEs* are:

Anguilla, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Bermuda, Bhutan, Bosnia and Herzegovina, Botswana, Brazil, Cambodia, Cayman Islands, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Fiji, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Hong Kong, Iraq, Ireland, Israel, Jamaica, Jordan, Kenya, Kosovo, Lesotho, Macedonia, Madagascar, Malaysia, Maldives, Mauritius, Montserrat, Myanmar, Nicaragua, Nigeria, Pakistan, Palestine, Panama, Peru, Philippines, Rwanda, Saint Lucia, Saudi Arabia, Serbia, Sierra Leone, Singapore, South Africa, Sri Lanka, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, Swaziland, Switzerland, Tanzania, Trinidad & Tobago, Uganda, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Venezuela, Yemen, Zambia, and Zimbabwe.

In requiring or permitting the *IFRS for SMEs*, 70 of the 78 jurisdictions have made no modifications.

What accounting framework choices do SMEs have?

For the 78 jurisdictions that require or permit the *IFRS for SMEs*, SMEs may choose the accounting framework as follows:

<table>
<thead>
<tr>
<th>Number of jurisdictions</th>
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<tr>
<td><strong>SMEs may choose the <em>IFRS for SMEs</em> or full IFRS Standards</strong></td>
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<tr>
<td><strong>SMEs may choose the <em>IFRS for SMEs</em>, full IFRS Standards or local GAAP for SMEs</strong></td>
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<td><strong>SMEs not required to use full IFRS are required to use the <em>IFRS for SMEs</em></strong></td>
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<td><strong>Total <em>IFRS for SMEs</em> required or permitted</strong></td>
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Implementation support from the Board

The *IFRS for SMEs* brought a vast new constituency to the Board: small companies and small audit firms that had not worked with full IFRS Standards. To assist in implementation, the IFRS Foundation and the Board took a number of steps.

**Guidance accompanying the Standard**

When the *IFRS for SMEs* was issued, it was accompanied by implementation guidance comprising a complete set of illustrative financial statements and a reference table collating the presentation and disclosure requirements in the Standard.

**Self-study and more formal training**

The IFRS Foundation’s education staff have developed comprehensive training materials for the *IFRS for SMEs*—one training module for each section of the Standard. Each module has the full text of the Standard with commentary, examples of application, case studies, self-assessment questions and a comparison with the related full IFRS Standard. The materials are available on the IFRS Foundation’s website for free download. The education staff are currently updating the training modules to reflect the 2015 amendments to the *IFRS for SMEs*.

The IFRS Foundation’s education staff and the Board have conducted a number of regional ‘train the trainers’ workshops around the world, focussing particularly on developing countries and emerging economies. The curriculum and Microsoft PowerPoint® slides are also on the IFRS Foundation’s website.

So far, 35 workshops have been held around the world (mostly three-day workshops).

**Breaking down the language barrier**

The *IFRS for SMEs* (as issued in 2009) is available in a range of languages: Albanian, Arabic, Armenian, Bosnian, Bulgarian, Chinese (simplified), Croatian, Czech, Estonian, French, Georgian, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish and Ukrainian. Translations of the 2015 *IFRS for SMEs* (the version updated for the 2015 amendments to the *IFRS for SMEs*) will be made available in due course.
SME Implementation Group

The IFRS Foundation formed an SME Implementation Group (SMEIG) in September 2010 following a public call for nominations. Its members have two main responsibilities:

• to develop and publish questions and answers as non-mandatory guidance issued by the SMEIG for implementing the *IFRS for SMEs*;

• to make recommendations to the Board regarding possible amendments to the *IFRS for SMEs*.

The criteria considered by the SMEIG for developing Q&As are:

• Pervasive issue (affects broad group of SMEs in many jurisdictions);

• Because of lack of clarity, unintended or inconsistent implementation is likely to result;

• SMEIG can reach consensus on a timely basis; and

• Q&A will not change or conflict with the *IFRS for SMEs*.

Procedure for submitting issues to the SMEIG

Small companies and other interested parties can submit implementation issues on the *IFRS for SMEs* for consideration. Submitted issues will be dealt with by the staff in one of two ways:

• Staff will refer the issue for consideration by the SMEIG if they think the issue is likely to meet the criteria for development of a Q&A.

• Other issues will be considered by the staff when updating the IFRS Foundation’s education material or held for consideration during the next periodic review of the *IFRS for SMEs*, as applicable.
A monthly newsletter

The staff publish a monthly newsletter, the *IFRS for SMEs Update*, with the latest news about the Standard. A typical issue might include activities by the Board or the SMEIG; upcoming workshops; newly posted training material and presentations; new translations; adoptions of the *IFRS for SMEs*; and hyperlinks to the *IFRS for SMEs* materials. You can register to receive the newsletter here: [http://www.ifrs.org/IFRS-for-SMEs/Pages/Update.aspx](http://www.ifrs.org/IFRS-for-SMEs/Pages/Update.aspx).

Online resources

*IFRS for SMEs* webpages:  
[http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm](http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm)

*IFRS for SMEs* (full Standard in English and translations):  
[http://go.ifrs.org/IFRSforSMEs](http://go.ifrs.org/IFRSforSMEs)

Training material (one module for each section, multiple languages):  
[http://go.ifrs.org/smetraining](http://go.ifrs.org/smetraining)

PowerPoint training modules and curriculum (in multiple languages):  
[http://go.ifrs.org/trainingppts](http://go.ifrs.org/trainingppts)

Monthly newsletter:  
[http://go.ifrs.org/smeupdate](http://go.ifrs.org/smeupdate)

SME Implementation Group:  
[http://go.ifrs.org/smeig](http://go.ifrs.org/smeig)

Implementation issues and Q&As:  
[http://www.ifrs.org/IFRS-for-SMEs/Pages/QAsSMEs.aspx](http://www.ifrs.org/IFRS-for-SMEs/Pages/QAsSMEs.aspx)

XBRL (*eXtensible Business Reporting Language*) representation of the *IFRS for SMEs*:  