

IFRS for SMEs Section 1

Use of the *IFRS for SMEs* in parent's separate financial statements

Q&As are published by the SME Implementation Group (SMEIG), which assists the IASB¹ in supporting the implementation of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SME Implementation Group by users implementing the *IFRS for SMEs*.

A draft of this Q&A was issued for public comment on 24 February 2011. The comment deadline was 4 April 2011.

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Issue

1. In some jurisdictions parent entities are required, or choose, to prepare separate financial statements in addition to consolidated financial statements. Separate financial statements are sometimes presented together with the consolidated financial statements and sometimes as a separate document.
2. If a parent entity is required to present consolidated financial statements in accordance with full IFRSs, can the parent entity present its separate financial statements in accordance with the *IFRS for SMEs*?

Response

3. If a parent entity itself does not have public accountability, it may present its separate financial statements in accordance with the *IFRS for SMEs* even if it presents its consolidated financial statements in accordance with full IFRSs.
4. An entity is eligible to use the *IFRS for SMEs* if it does not have public accountability (paragraph 1.2). A parent entity assesses its eligibility to use the *IFRS for SMEs* in its separate financial statements on the basis of its own public accountability without considering whether other group entities have, or the group as a whole has, public accountability.
5. A parent entity will have public accountability if (paragraph 1.3):
 - (a) the parent entity's own debt or equity instruments are traded in a public market or the parent entity is in the process of issuing such instruments for trading in a public market, or
 - (b) the parent entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Basis for conclusions

- BC1 The IFRS for SMEs is intended for non-publicly accountable entities that publish general purpose financial statements for external users. Paragraph 1.5 states that if a publicly accountable entity applies the *IFRS for SMEs* in its financial statements, it may not describe those financial statements as conforming to the *IFRS for SMEs*. This would include a publicly accountable parent entity's consolidated and separate financial statements. Section 1 does not specifically address non-publicly accountable parent entities.
- BC2 Paragraph 1.6 states that a subsidiary that is part of a consolidated group that uses full IFRSs is not prohibited from using the *IFRS for SMEs* in its own financial statements if that subsidiary by itself does not have public accountability. Hence, in order to apply the *IFRS for SMEs*, the subsidiary does not need to be consolidated in a set of consolidated financial statements that comply with the *IFRS for SMEs*. By analogy from paragraph 1.6, a parent's own financial statements should not be treated any differently in this regard from a subsidiary's own financial statements. A parent entity without public accountability is permitted to apply the *IFRS for SMEs* in its separate financial statements, without applying the *IFRS for SMEs* in its consolidated financial statements, even if the parent is consolidated in consolidated financial statements that comply with full IFRSs (its own or, under paragraph 9.3, those of an ultimate or intermediate parent).
- BC3 Although the *IFRS for SMEs* permits a parent that does not itself have public accountability to use the *IFRS for SMEs* even if it is part of a group that uses full IFRSs, local law or regulation may require or permit the parent to use full IFRSs or local GAAP in its separate financial statements.
- BC4 If a parent entity prepares its separate financial statements in accordance with the *IFRS for SMEs*, that does not then require it to prepare consolidated financial statements using the *IFRS for SMEs*. Consequently, the consolidated and separate financial statements may be prepared using different accounting frameworks. Paragraph 2.4 and 3.3 of the *IFRS for SMEs* require any financial statements prepared under the *IFRS for SMEs* to be clearly distinguished from financial statements prepared in accordance with other requirements.

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