

IFRS for SMEs Section 3

Jurisdiction requires fallback to full IFRSs

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 28 September 2011. The comment deadline was 30 November 2011.

Draft and final Q&As, and comments on draft Q&As, may be downloaded without charge from the IASB's website at <http://go.ifrs.org/IFRS+for+SMEs+QandA>.

Issue

- 1 A jurisdiction permits all entities meeting the definition of an SME to follow the *IFRS for SMEs*. However the jurisdiction adds a requirement that, where the recognition and measurement requirements for a particular transaction, other event or condition are not specifically covered by the *IFRS for SMEs*, but are covered in full IFRSs, an SME must follow the recognition and measurement requirements in full IFRSs for that transaction, event or condition. May SMEs in that jurisdiction state compliance with the *IFRS for SMEs*?

Response

- 2 Whether an SME can assert compliance with the *IFRS for SMEs* in such a case will depend on management's assessment of relevance and reliability as required by paragraph 10.4 of Section 10 *Accounting Policies, Estimates and Errors*. In the absence of specific requirements in the *IFRS for SMEs*, paragraph 10.4 requires management to use its judgement in developing an accounting policy that is reliable and results in information that is relevant to the economic decision-making needs of users. Paragraph 10.5 establishes the following hierarchy for an entity to follow in deciding on the appropriate accounting policy:
 - (a) the requirements and guidance in the *IFRS for SMEs* dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.Paragraph 10.6 notes that, in making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in full IFRSs that deal with similar and related issues.
- 3 Taken together, paragraphs 10.4 to 10.6 allow the full IFRS principles to be used in the absence of specific guidance in the *IFRS for SMEs*, provided that they do not conflict with requirements in the hierarchy in paragraph 10.5.
- 4 This scenario is different from allowing a free choice to follow full IFRS requirements when specific requirements exist in the *IFRS for SMEs* for a transaction, other event or condition. Where there are such specific requirements in the *IFRS for SMEs*, they must be applied even if they differ from full IFRSs. If the entity follows a requirement in full IFRSs for that transaction, other event or condition for which the *IFRS for SMEs* contains different guidance, it will not be able to state compliance with the *IFRS for SMEs* unless the effect is not material.

¹ International Accounting Standards Board (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation

Basis for Conclusions

- BC1 In the absence of a specific requirement in the *IFRS for SMEs*, paragraph 10.4 establishes an overriding principle that management must develop an accounting policy that is reliable and results in information that is relevant to the economic decision-making needs of users. Consequently, an entity cannot automatically follow full IFRSs without first making the judgement required by paragraph 10.4. Nonetheless, because the *IFRS for SMEs* is based on the same fundamental concepts and principles as full IFRSs (as explained in paragraph BC95), it is likely that looking to full IFRSs will achieve the twin goals of relevance and reliability set out in paragraph 10.4, but judgement is required.
- BC2 In paragraph BC67 in the Basis for Conclusions issued with the *IFRS for SMEs*, the IASB explains why SMEs are not permitted to make optional use of full IFRSs instead of applying requirements contained in the *IFRS for SMEs*. The addition of paragraph 10.6, which states that management may consider full IFRSs when applying 10.4, is intended to tell entities that they may look to full IFRSs to help them to develop a suitable accounting policy in the absence of specific requirements in the *IFRS for SMEs*. That is a different situation from a free-choice option to use full IFRSs even though the issue is addressed in the *IFRS for SMEs*.

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