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International Accounting Standards Board

# A Guide to the IFRS for SMEs

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# What is the IFRS for SMEs?

The International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) is a set of high quality financial reporting principles that is tailored for 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 of 230 pages, issued in July 2009 and already widely adopted. Compared with full IFRSs, and many sets of national generally accepted accounting principles (GAAP), the *IFRS for SMEs* is much less complex.

## World-wide adoption

Organised by topic into 35 sections, the *IFRS for SMEs* is available for any jurisdiction to adopt, whether or not it has adopted full IFRSs. Each jurisdiction must determine which entities should use the standard. The IASB's only restriction is that listed companies and financial institutions should not use it.

## Why would SMEs use it?

The *IFRS for SMEs* comes in response to strong international demand from both developed and emerging economies for a rigorous and common set of accounting standards for smaller companies.

It can play an essential role in helping SMEs gain access to capital. This is because the *IFRS for SMEs* improves the quality of reporting as compared with many existing national accounting requirements. At the same time, it reduces the burden on entities in jurisdictions where full IFRSs or national requirements that have converged with IFRSs are now required.

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. Clearly, it reduces significantly the costs of developing and maintaining standards on a national basis.

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# 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 be using full IFRSs, if its securities are publicly traded or it is a financial institution. Although there is no quantified size test in the *IFRS for SMEs*, a jurisdiction could add one if it chose 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 intended for lenders, creditors, investors, employees, governments and others outside of the company. Governments and regulators, not the IASB, 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 IFRSs are eligible in their separate financial statements to use the *IFRS for SMEs*. However, listed companies—no matter how small—are not eligible.

## Facts

Over 95% of the companies in the world 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 28 million private sector enterprises
- The United States has 27 million private sector enterprises
- The United Kingdom has 4.7 million private sector enterprises, of which 97% have fewer than 100 employees
- In Brazil, over 6 million companies are required to use the *IFRS for SMEs*

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# How does it differ from full IFRSs?

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

## Less complexity, ease of use

Compared with full IFRSs, 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, and many principles for recognising and measuring assets, liabilities, income and expenses in full IFRSs are simplified. For instance, two examples of simplifications are amortisation of goodwill, and accounting for investments in associates and joint ventures at cost.

Moreover, where full IFRSs allow accounting policy choices, the *IFRS for SMEs* allows only the easier option. For example, in the *IFRS for SMEs*, there is no option to revalue property, equipment or intangibles, and there is no 'corridor approach' for actuarial gains and losses. SMEs would use a cost-depreciation model for investment property and agricultural assets unless fair value is readily available without due cost or effort.

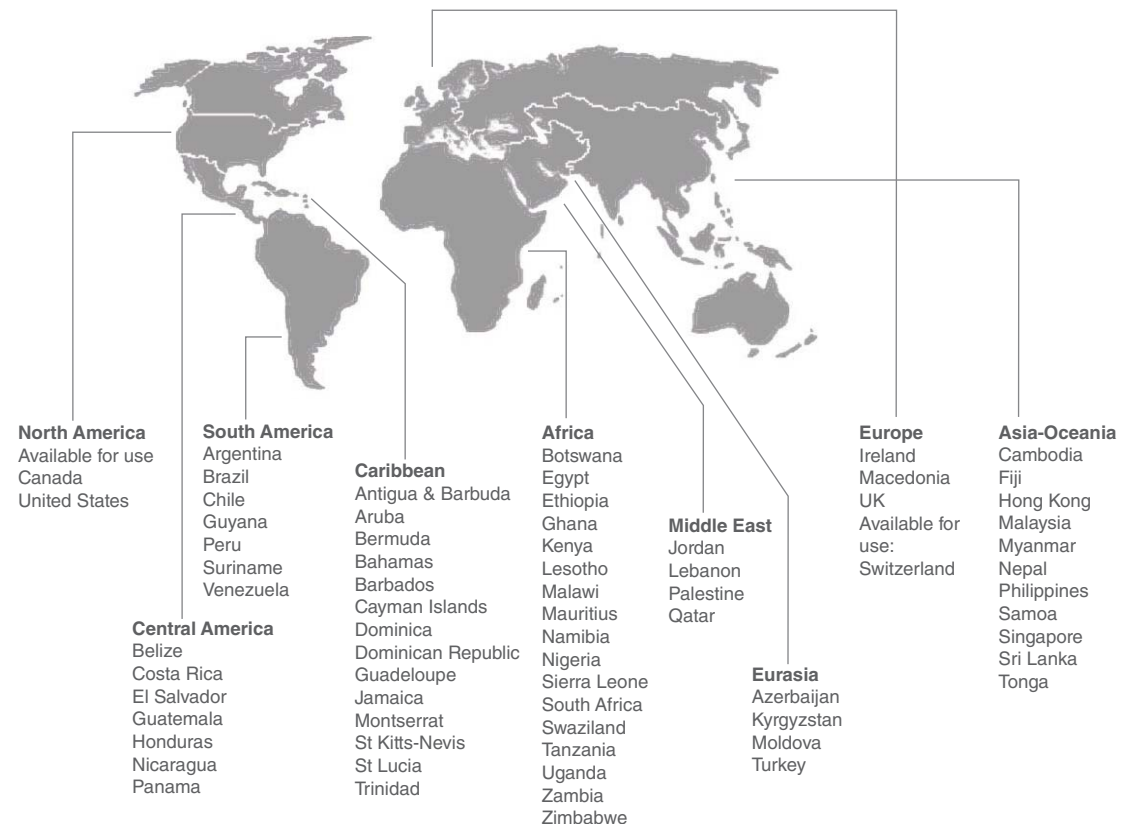
There are significantly fewer disclosures required (roughly a 90% reduction), and the standard has been written in a clear and easily translatable language. To further reduce the burden for SMEs, revisions to the *IFRS for SMEs* will be limited to once every three years.

# Who is using it?

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

Not surprisingly, small companies have expressed concerns that these 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 most users of small company financial statements have to make.

Over 80 jurisdictions either have adopted the *IFRS for SMEs* or have publicly indicated or proposed a plan to adopt it in the next three years. Here are some examples:



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# Implementation support from the IASB

The *IFRS for SMEs* brings a vast new constituency to the IASB: small companies and small audit firms that have not worked with full IFRSs. To assist in implementation, the IFRS Foundation and the IASB have already taken a number of steps.

## Guidance accompanying the standard

When the *IFRS for SMEs* was issued, it was accompanied by implementation guidance comprising illustrative financial statements (complete with money amounts and notes) and a presentation and disclosure checklist.

## Self-study and more formal training

The IFRS Foundation 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. The materials are posted on the IASB’s website for free download.

Also, the IFRS Foundation education staff and IASB are conducting regional three-day ‘train the trainers’ workshops around the world, focusing particularly on developing countries and emerging economies. The curriculum, PowerPoint training modules, and related webcasts are also on the IASB’s website. So far, 22 workshops have been held, and others are scheduled.

Board and staff presentations about the *IFRS for SMEs* are available online in a variety of languages.

## Breaking down the language barrier

The *IFRS for SMEs* is currently available in Albanian, Arabic, Armenian, Chinese (simplified), Czech, French, Italian, Japanese, Lithuanian, Macedonian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, and Turkish. Bosnian, Estonian, Hebrew, Kazakh, Khmer and Ukrainian translations are in progress, whilst Bosnian, Bulgarian and Georgian are in planning.

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## Implementation assistance in the form of Q&As

The IFRS Foundation formed an SME Implementation Group (SMEIG) in September 2010 following a public call for nominations. Its 22 members were given two responsibilities:

- to develop and publish questions and answers as non-mandatory guidance for implementing the *IFRS for SMEs*;
- to make recommendations to the IASB regarding possible amendments to the *IFRS for SMEs* as part of a comprehensive post-implementation review of the standard that will get underway in the second half of 2012.

The terms of reference and operating procedures of the SMEIG were approved by the Trustees and are available on the IASB's website. Draft Q&As are developed by the SMEIG, reviewed by the IASB, and posted for public comment. The SMEIG considers the comments, develops a final Q&A, and then submits it to the IASB for final clearance before posting.

The criteria for 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 timely basis
- Q&A will not change or conflict with the *IFRS for SMEs*

## Comprehensive review of the standard

When the IASB issued the *IFRS for SMEs* in 2009, it made a commitment to undertake a post-implementation review of the standard. That review will get under way in late 2012.

The review includes a request for public comments on amendments that should be considered for the *IFRS for SMEs*. As part of the review, the IASB will also consider incorporating Q&As into the revised *IFRS for SMEs*. For that reason, it is unlikely that the SMEIG will issue many, if any, additional draft Q&As before the comprehensive review is completed. And the need for any further Q&As on an ongoing basis is being assessed as part of the review.

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## A monthly newsletter

The IASB publishes a monthly newsletter, the *IFRS for SMEs Update*, with the latest news about the standard. A typical issue might include stories about proposed and final Q&As issued by the SMEIG; upcoming ‘train the trainers’ workshops; newly posted training materials and presentations; new translations and videos; news about adoptions of the *IFRS for SMEs*; and hyperlinks to the *IFRS for SMEs* materials.

## Online resources

*IFRS for SMEs*

(full standard in English and translations):

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

Training materials:

(one module for each section, multiple languages):

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

PowerPoint training modules and curriculum

(20 PPTs, multiple languages):

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

Board and staff presentations

(multiple languages):

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

Update newsletter:

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

SME Implementation Group Q&As:

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

Executive briefing booklet:

<http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>

XBRL:

<http://www.ifrs.org/XBRL/IFRS+Taxonomy/IFRS+Taxonomy.htm>

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# Notes

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International Accounting Standards Board (IASB)

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

30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411

Email: [info@ifrs.org](mailto:info@ifrs.org) | Web: [www.ifrs.org](http://www.ifrs.org)

Publications Department

Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749

Email: [publications@ifrs.org](mailto:publications@ifrs.org)

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