

**30 Cannon Street, London EC4M 6XH, England**  
**Phone: +44 (20) 7246 6410, Fax: +44 (20) 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: <http://www.iasb.org>**



**International  
Accounting Standards  
Board**

**Staff Questionnaire on Possible Recognition and Measurement Modifications  
for Small and Medium-sized Entities (SMEs)**

**5 April 2005**

**Scope of the Project**

1. The International Accounting Standards Board (IASB) is working on a project to develop accounting standards suitable for entities that in many countries are known as small and medium-sized entities (SMEs). SMEs, as the term is used in this questionnaire, are entities that (1) do not have public accountability<sup>1</sup> and (2) publish general purpose financial statements for external users. Examples of such external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. The term SMEs is sometimes used with different meanings around the world – often embedded in laws or regulations. In some countries, the term SME is used to mean or to include very small companies without regard to whether they publish general purpose financial statements for external users. A small entity that produces financial statements only for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes, is not an SME as that term is used in this questionnaire.

**Purpose of this Questionnaire**

---

<sup>1</sup> An entity has public accountability if:

- it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;
- it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;
- it is a public utility or similar entity that provides an essential public service; or
- it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.

2. The IASB plans to hold public round-table meetings with preparers and users of the financial statements of SMEs to discuss possible modifications of the recognition and measurement principles in International Financial Reporting Standards (IFRSs) for use in IASB standards for SMEs. This questionnaire has been prepared by the staff of the IASB as a tool to identify issues that should be discussed at those round-table meetings. The Board will be addressing presentation and disclosure issues separately, though it acknowledges that recognition and measurement decisions may create presentation and disclosure issues.
3. This questionnaire has been sent to:
  - a. Respondents to the Board's June 2004 Discussion Paper Preliminary Views on Accounting Standards for Small and Medium-sized Entities
  - b. The Board's Working Group on Accounting Standards for SMEs.
  - c. The Standards Advisory Council.

The questionnaire has also been posted on the IASB's website, and responses from organisations or individuals not on the above lists are invited.

4. Responses are requested by 31 May 2005. Comments should preferably be sent by email to [CommentLetters@iasb.org](mailto:CommentLetters@iasb.org) or by post or fax to:

Paul Pacter

Director of Standards for SMEs

International Accounting Standards Board

30 Cannon Street, London EC4M 6XH, United Kingdom

Fax: +44 (0)20 7246 6411

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post.

5. The round-table discussions are tentatively planned for September 2005. Details will be announced on the IASB's website [www.iasb.org](http://www.iasb.org). Only individuals or organisations that have responded to this questionnaire will be invited to participate in the round-tables. If you or your organisation has an interest in participating in the round-table discussions, please so indicate in your response to this questionnaire. This indication is for our

planning purposes. We will contact those who express an interest with a formal invitation. Please recognise that due to time and space constraints we may not be able to accommodate all who express an interest in participating in the round-table discussions.

### **Approach to Developing Standards for SMEs**

6. In June 2004, the Board published a Discussion Paper inviting comment on the Board's preliminary views on how it would approach the development of accounting standards for SMEs. A total of 120 comment letters were received, and the views expressed were discussed by the Board during meetings in the fourth quarter of 2004. Those comment letters may be viewed on, or downloaded from, the IASB's website [www.iasb.org](http://www.iasb.org).
7. In January 2005, the Board made some tentative decisions on the appropriate way forward for the project. Those decisions are as follows:
  - a. The responses to the Discussion Paper showed a clear demand for IASB SME Standards and a preference, in many countries, to adopt global SME standards rather than locally or regionally developed standards. The Board remains committed to this project and will develop an exposure draft of SME Standards as the next step.
  - b. IASB Standards for SMEs will focus on financial reporting by those non-publicly accountable entities that have external users of their financial statements (ie users other than owner-managers). This is because the IASB *Framework for the Preparation and Presentation of Financial Statements* (the IASB Framework) does not deal with management reporting or regulatory reporting. Jurisdictions could, of course, choose to permit or require them for all SMEs, including very small ones.
  - c. The IASB will not develop detailed guidelines on which entities should or should not be eligible to use the IASB Standards for SMEs. That is a matter to be decided by national jurisdictions. However, the Board will indicate those entities for which the Standards for SMEs are not appropriate and any such entities using the SME Standards would not be able to assert their financial statements were prepared in accordance with IFRSs.
  - d. The Board has concluded that the same IASB Framework will apply to all entities. While there will be no preconceived objections to recognition and measurement

simplifications for SMEs, the Board will consider such simplifications based only on user needs and cost-benefit considerations as provided for in the IASB Framework.

- e. If a recognition or measurement issue is addressed in an IFRS, but not in SME Standards, the entity will be required to apply that IFRS to the issue. This ‘mandatory fallback’ will be implemented by including IFRSs at the top of the accounting policy hierarchy in the SME equivalent of IAS 8 paragraph 11.
  - f. An entity following IASB Standards for SMEs should follow those standards in their entirety and will not have a choice of reverting to IFRSs on a standard-by-standard or principle-by-principle basis.
  - g. If an entity follows IASB Standards for SMEs, the basis of presentation note and the auditor’s report, if any, should make that clear so that the user understands that full IFRSs are not being followed.
  - h. When published in printed form, IASB SME standards will be organised topically, such as in balance sheet and income statement order, rather than having an equivalent SME standard for each IAS and IFRS number. However, the topical standards would be cross-referenced to the equivalent IAS/IFRS.
8. At its meeting in February 2005, the Board discussed a draft project plan outlining the steps leading to standards for SMEs, and the Board indicated general agreement with the plan. The plan includes holding round-table discussions on recognition and measurement issues with preparers and users of SME financial statements, tentatively scheduled for September 2005. The Board also agreed to use this questionnaire to identify SME recognition and measurement issues for discussion at the round-tables. The Board indicated that care should be taken to ensure that the questionnaire is neutral and designed to elicit as much objective information as possible. Question 1 below is intended to accomplish this objective.
9. The Board suggested that respondents to the questionnaire should also be asked to identify transactions that are addressed in IFRSs but do not occur frequently in SMEs. The goal would be to identify sections of IFRSs that might be omitted from SME standards because they are not likely to be applicable to SMEs. Question 2 below is intended to accomplish this objective.

**Question 1:**

**10. What are the areas for possible simplification of recognition and measurement principles for SMEs? In responding, please indicate:**

- **the specific accounting recognition or measurement problem for an SME under IFRSs;**
- **the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;**
- **why is it a problem; and**
- **how that problem might be solved.**

11. Presented in Attachment A to this questionnaire is a list of some broad areas of accounting recognition and measurement that some people say cause problems for SMEs. For each one, if you agree it is a problem, in explaining why it is a problem please indicate whether you believe that:

- a. Users do not use or would not benefit from the resulting information.
- b. It is too costly for SMEs to apply the recognition or measurement principle relative to the benefit of the resulting information.
- c. It is too costly for auditors to audit the resulting information.
- d. Measurement is too complex for an SME to do.
- e. Application of the recognition or measurement principle causes an undesirable effect on reported earnings or assets.
- f. Other reasons (explain).

12. The foregoing list sets out reasons why some argue that certain recognition or measurement principles in IFRSs cause problems for SMEs. The Board does not necessarily agree that each of these reasons is indicative of a problem. For example, measurement complexity may be unavoidable if an entity enters into a complex transaction, or an undesirable effect on reported earnings or assets may simply be a faithful accounting representation of the effect of a transaction on a particular entity.

13. If you believe that the recognition or measurement principle in an IFRS causes an undesirable effect on reported earnings or assets, please explain why.

14. Under the IASB Framework, information in financial statements must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. In suggesting a recognition or measurement simplification for SMEs, please explain how your proposal is consistent with this characteristic.
15. Your response will be most helpful if it describes the specific transactions that cause accounting recognition or measurement problems for an SME. To illustrate, if you believe that measurement of share-based payment is a problem for SMEs, you might indicate that the measurement problem is caused by inability to obtain a measure of an SME's share price volatility. In that case, please indicate how that problem might be resolved while still retaining the principle that share-based payment should be accounted for. Or is the whole principle inappropriate for an SME and, if so, why?
16. The list in Attachment A (which was compiled from recognition and measurement simplifications for small and medium-sized entities or non-publicly accountable entities that are currently found in various national accounting standards around the world) is intended to stimulate responses and is not proposed as a comprehensive or definitive list. Feel free to suggest other key issues. It is important to understand that the IASB has not yet decided that the topics listed in Attachment A do, in fact, cause accounting recognition or measurement problems for SMEs. The objective of this questionnaire is to develop an appropriate list for discussion at the round-table meetings and for the IASB to consider further.

## Question 2

- 17. From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.**
18. In simplifying IFRSs as part of the process for developing accounting standards for SMEs, the Board intends *not* to include in the SME standards those accounting recognition and measurement principles in IFRSs that are of only limited applicability to SMEs – generally because most SMEs would not enter into the kinds of transactions to which those principles apply. If an SME does happen to enter into these kinds of transactions, it would be required to determine its appropriate accounting policy by looking, first, to the

IFRSs (the so-called ‘mandatory fallback’). Question 2 asks you to please identify areas that need not be included in standards for SMEs for this reason.

19. Attachment B to this questionnaire presents a list of possible IFRS recognition and measurement topics that could be omitted in the standards for SMEs. This list is intended to stimulate responses and is not proposed as a comprehensive or definitive list. Feel free to suggest other topics. An objective of this questionnaire is to develop a list for the IASB to consider further.

**Information about Respondents to this Questionnaire**

20. To help the Board understand your response, please provide the following information:
- a. If you are a preparer of financial statements of an SME, please indicate the size of the SME in terms of number of employees and annual turnover.
  - b. If you are a user of financial statements of SMEs, please indicate the purpose for which you use those statements (for example, to make lending decisions, to decide whether to extend credit as a vendor, or to make venture capital investment decisions).

## **Attachment A**

**Question 1: What are the areas for possible simplification of recognition and measurement principles for SMEs? In responding, please indicate:**

- **the specific accounting recognition or measurement problem for an SME under IFRSs;**
- **the specific transactions or events that create the recognition or measurement problem for an SME under IFRSs;**
- **why is it a problem; and**
- **how that problem might be solved.**

If, for a particular area noted below, you believe that there is no specific accounting recognition or measurement problem for SMEs, please so indicate. Please see paragraphs 11 to 16 of this questionnaire for elaboration on the kinds of information that will be most helpful to the Board.

- a. Measuring the cost of inventories under IAS 2.
- b. Use of the percentage of completion method for contracts under IAS 11 and for service revenue under IAS 18.
- c. Deferred income tax accounting under IAS 12.
- d. Lease accounting under IAS 17.
- e. Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19.
- f. Consolidation of subsidiaries under IAS 27.
- g. The equity method of accounting for investments in associates under IAS 28 and investments in joint ventures under IAS 31.
- h. Impairment approach to goodwill and intangibles for indefinite life assets under IAS 36.
- i. Impairment of property, plant, and equipment under IAS 36.
- j. Recognition and measurement of provisions and contingent liabilities under IAS 37.
- k. Capitalisation of intangibles development costs incurred after commercial viability has been determined under IAS 38.
- l. Use of the effective interest method under IAS 39.
- m. Fair value measurements under IAS 39.
- n. Accounting for foreign currency forward contracts under IAS 39.
- o. Derecognition and/or hedge accounting provisions of IAS 39.
- p. The fair value method of accounting for biological assets and agricultural produce at point of harvest under IAS 41.



- q. Measurement of share-based payments under IFRS 2.
- r. Other(s) – please elaborate:

## Attachment B

**Question 2: From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.**

Please understand that omitting a topic from the SME standard does not change the accounting requirements applicable to an SME or reduce the accounting policy choices available to an SME. It would simply reduce the size of the volume of SME standards by including only topics that are generally relevant to SMEs.

IFRS 2	SMEs generally do not enter into share-based payment transactions. The SME equivalent of IFRS 2 should simply refer back to IFRS 2.
IFRS 3	SMEs seldom enter into business combinations. The SME equivalent of IFRS 3 should simply refer back to IFRS 3.
IFRS 4	Because companies that issue insurance contracts hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SME version of IFRS 4 is not needed.
IAS 11	Combining and Segmenting Construction Contracts
IAS 12	Temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures
IAS 16	Revaluation model for property, plant, and equipment
IAS 17	Sale and leaseback transactions
IAS 19	Defined benefit employee benefit programmes
IAS 23	Capitalisation model for borrowing costs
IAS 26	Because retirement benefit plans hold assets in a fiduciary capacity, they have public accountability. IASB standards for SMEs would not be intended for them. Therefore, an SME version of IFRS 26 is not needed.
IAS 27	SMEs generally do not have subsidiaries. The SME equivalent of IAS 27 should simply refer back to IAS 27.

IAS 30	The entities to which IAS 30 applies are, by definition, entities with public accountability and, therefore, IFRSs apply to such entities.
IAS 32	Split accounting for compound financial instruments
IAS 36	Because SMEs generally do not enter into business combinations, the material on impairment of goodwill in IAS 36 could be omitted from the SME standard on impairment of assets.
IAS 38	Revaluation model for intangibles
IAS 39	Derecognition
IAS 39	Hedge Accounting