IFRS® Accounting

Educational Module 1
Small and Medium-sized Entities

IFRS for SMEs®

Accounting Standard

Third Edition

International Accounting Standards Board

IFRS® Foundation
Supporting Material for the
IFRS for SMEs® Accounting Standard

including the full text of
Section 1 *Small and Medium-sized Entities*
of the *IFRS for SMEs* Accounting Standard issued by
the International Accounting Standards Board in February 2025

with extensive explanations, self-assessment questions and a case study

This document is not part of the *IFRS for SMEs* Accounting Standard or IFRS Accounting Standards and does not add to or otherwise change the requirements in the Standards. It was developed to aid stakeholders' understanding of our Standards. Views expressed in the document do not necessarily reflect those of the International Accounting Standards Board or the IFRS Foundation. The document should not be relied upon as professional or investment advice.

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The requirements of Section 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 1.

This module has been prepared by International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

INTRODUCTION

IFRS for SMEs® Accounting Standard

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities*).

The objective of general purpose financial statements is to provide information about an entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: www.ifrs.org.

This module

This educational module supports the requirements on the scope of the *IFRS for SMEs* Accounting Standard in accordance with Section 1 of the Standard. The module:

- provides explanations and examples to improve understanding of the requirements in Section 1;
- identifies the significant judgements required in determining whether or not the *IFRS for SMEs* Accounting Standard can be applied by the entity;
- includes questions to test your understanding of the requirements in Section 1; and
- includes a case study that provides a practical opportunity to determine whether or not the *IFRS for SMEs* Accounting Standard can be applied by certain entities.

After completing the module, you should be able to:

- determine which entities are small and medium-sized entities (SMEs) as defined by the *IFRS for SMEs* Accounting Standard; and
- identify which entities are not eligible to use the *IFRS for SMEs* Accounting Standard and shall not state that their financial statements are in compliance with the Standard.

Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs* Accounting Standard' is to the third edition of the Standard, issued in February 2025.

Introduction to the requirements

The *IFRS for SMEs* Accounting Standard is intended for use by entities that do not have public accountability and publish general purpose financial statements.

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

Section 1 describes the characteristics of SMEs for which the *IFRS for SMEs* Accounting Standard is intended.

What has changed in the third edition of the Standard?

Minor changes were made to Section 1 in the third edition of the Standard to clarify the definition of public accountability.

Paragraph 1.3(b) of the second edition of the Standard stated that *most* banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet the second criterion for public accountability. In the third edition of the Standard, the IASB amended paragraph 1.3(b) so that the categories of entities listed in the definition are presented as examples of entities that *often* meet the second criterion for public accountability.

In developing the amendment, the IASB noted that it intended to clarify, not to relax, the criterion in paragraph 1.3(b).

REQUIREMENTS AND EXAMPLES

Intended scope of this Standard

1.1 The *IFRS for SMEs* Accounting Standard is intended for use by entities without **public accountability**, which are referred to as **small and medium-sized entities** (SMEs) in this Standard. This section describes the characteristics of SMEs.

Educational notes

The term 'small and medium-sized entities'

Paragraph BCZ1.23 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard explains:

> ''Small and medium-sized entities' (SMEs) as used by the IASB is defined in Section 1. The term is widely recognised and used around the world, although many jurisdictions have developed their own definitions of the term for a broad range of purposes including prescribing financial reporting obligations. Often those national or regional definitions include quantitative criteria based on revenue, assets, employees or other factors. Frequently, the term is used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.'

Why did the IASB need to define 'small and medium-sized entities' for the purposes of the Standard?

Paragraph P13 of the Preface to the Standard explains:

> 'Decisions on which entities are required or permitted to use full IFRS Accounting Standards or the *IFRS for SMEs* Accounting Standard rest with the legislative and regulatory authorities and standard-setters in individual jurisdictions. However, a clear definition of the class of entity for which the *IFRS for SMEs* Accounting Standard is intended—as set out in Section 1 of the Standard—is essential so that:
>
> (a) the IASB can decide on the recognition, measurement, presentation and disclosure requirements that are appropriate for that class of entity; and
>
> (b) the legislative and regulatory authorities, standard-setters and reporting entities and their auditors will be informed of the intended scope of applicability of the *IFRS for SMEs* Accounting Standard.
>
> A clear definition is also essential so that entities that are not small or medium-sized entities—as set out in Section 1 of the Standard—and therefore are not eligible to use the *IFRS for SMEs* Accounting Standard, do not assert that their financial statements are in compliance with the Standard (see paragraph 1.5).'

The term 'small and medium-sized entities' as used by the IASB in the Standard is defined in the Glossary and is explained in paragraphs 1.2–1.7 of the Standard. The key characteristics of an SME, as defined by the IASB, are that it does not have public accountability (see paragraph 1.3) and that it publishes general purpose financial statements (see paragraph 1.2). The educational notes and examples for paragraphs 1.2–1.7 expand on these elements.

Why does the IASB's definition of SMEs not include quantified size tests?

The IASB's definition of SMEs does not include quantified size tests for defining a small or medium-sized entity because it is not feasible to develop quantified size tests that would be applicable and long-lasting in all of the jurisdictions where the Standard is used (see paragraph BC1.6(c) of the Basis for Conclusions).

As noted above, a jurisdiction may choose to prescribe quantified size tests for deciding which entities should be required or permitted to use the *IFRS for SMEs* Accounting Standard. However, an entity would still need to assess whether it complies with the definition of an SME in the Standard before concluding whether it can assert compliance with the Standard.

Similarly, a jurisdiction might decide that its entities with economic significance in that jurisdiction should be required to use full IFRS Accounting Standards rather than the *IFRS for SMEs* Accounting Standard (see paragraph BC1.6(b) of the Basis for Conclusions).

Description of small and medium-sized entities

1.2 Small and medium-sized entities are entities that:

(a) do not have public accountability; and

(b) publish **general purpose financial statements** for external users.

Examples of external users include existing and potential investors, lenders and other creditors, and credit rating agencies.

Educational notes

The *IFRS for SMEs* Accounting Standard has been developed considering the needs of preparers and users of general purpose financial statements and other financial reporting of profit-oriented entities that do not have public accountability. Public accountability is discussed in paragraph 1.3 of the Standard. Therefore, this section focuses on general purpose financial statements.

General purpose financial statements

Paragraph 2.3 of the Standard explains that the objective of general purpose financial statements prepared in accordance with the *IFRS for SMEs* Accounting Standard is to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors when making decisions related to providing resources to the entity. Accordingly, general purpose financial statements are directed towards the common information needs of a wide range of users that are not in a position to demand reports tailored to their particular information needs. General purpose financial statements provide information about an entity's financial position, performance and cash flows (see paragraph BCZ16 of the Basis for Conclusions).

The *IFRS for SMEs* Accounting Standard was developed for entities that prepare general purpose financial statements. If an entity prepares financial statements applying the Standard, those financial statements will be general purpose financial statements.

General purpose financial statements include those that are presented separately or within another public document such as an annual report.

Financial statements prepared for other purposes

Entities often produce financial statements only for a specific purpose—for example, for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.

Paragraphs BCZ16–BCZ21 of the Basis for Conclusions explain why the IASB considered that it is not the purpose of the *IFRS for SMEs* Accounting Standard to:

- determine taxable income or distributable income in accordance with the tax laws and regulations in a particular jurisdiction; or
- provide information to owner-managers to help them make management decisions.

Paragraph BCZ18 of the Basis for Conclusions states:

> 'Tax authorities are also often important external users of the financial statements of SMEs. Almost invariably, tax authorities have the power to demand whatever information they need to meet their statutory tax assessment and collection obligations. Tax authorities often look to financial statements as the starting point for determining taxable profit, and some have policies to minimise the adjustments to accounting profit or loss for the purpose of determining taxable profit. Nonetheless, global accounting standards for SMEs cannot deal with tax reporting in individual jurisdictions. But profit or loss determined in conformity with the *IFRS for SMEs* Accounting Standard can serve as the starting point for determining taxable profit in a given jurisdiction by means of a reconciliation that is easily developed at a national level.'

Paragraph BCZ20 of the Basis for Conclusions explains why owner-managers do not need to rely on general purpose financial statements:

> '… Managers can obtain whatever information they need to run their business … Nonetheless, general purpose financial statements will often also serve managers' needs by providing insights into the business's financial position, performance and cash flows.'

Examples—General purpose financial statements

Ex 1 **An entity that does not have public accountability chooses to comply with the *IFRS for SMEs* Accounting Standard, despite not being required to do so. The entity sends its financial statements to its primary suppliers, bankers and non-manager owners. The entity makes an explicit and unreserved statement of compliance with the *IFRS for SMEs* Accounting Standard in the notes.**

The entity's financial statements are general purpose financial statements because the financial statements are prepared applying the *IFRS for SMEs* Accounting Standard, which is designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

Ex 2 **The facts are the same as in Example 1. However, in this example, the financial statements are not sent to anyone outside the management of the organisation.**

The entity's financial statements are general purpose financial statements because the financial statements are prepared applying the *IFRS for SMEs* Accounting Standard, which is designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

Note: The fact that the financial statements are not distributed to anyone outside the entity is irrelevant to determining whether the financial statements are general purpose financial statements. If financial statements are prepared applying the *IFRS for SMEs* Accounting Standard, then they will be prepared under the objective in paragraph 2.3 of the Standard. Accordingly, they will provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors when making decisions related to providing resources to the entity. Therefore, these financial statements could be distributed to a wide range of users should management wish to do so.

Examples—Financial statements for a specific purpose

Ex 3 **An entity that does not have public accountability prepares financial statements in accordance with the tax requirements for calculating taxable income (and tax expenses) in the jurisdiction in which it operates. The jurisdiction's tax requirements are different from the requirements of the *IFRS for SMEs* Accounting Standard. The entity sends the financial statements only to the tax authorities. The entity makes an explicit and unreserved statement of compliance with local tax requirements in the notes.**

The entity's financial statements are prepared for a specific purpose—they are produced specifically for tax reporting. The requirements of tax reports are determined by fiscal considerations and are unlikely to be designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. Accordingly, the financial statements are unlikely to be general purpose financial statements.

Ex 4 The facts are the same as in Example 3. However, in this example, the entity also sends the financial statements to the entity's bankers and the national repository (a legal requirement of the jurisdiction in which the entity operates). A copy of all financial statements lodged with the national repository can be downloaded by anyone free of charge from the national repository's website.

The entity's financial statements are prepared for a specific purpose—they are produced specifically for tax reporting. The requirements of tax reports are determined by fiscal considerations and are unlikely to be designed to provide useful information to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. Accordingly, even though the financial statements are available to anyone who would like access to them, they are unlikely to be general purpose financial statements.

1.3 An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

Educational notes

Securities are traded in a public market

Public securities markets, by their nature, bring together entities that seek capital and investors who are not involved in managing the entity and who are considering whether to provide capital, and at what price. Although such public investors often provide longer-term risk capital, they usually do not have the power to demand the financial information they might find useful for investment decision-making. Therefore, they must rely on general purpose financial statements.

An investor may hold a controlling interest and have the power to demand additional information. However, if the interest is such that the entity's shares continue to be traded in a public market, then the non-controlling shareholders will likely rely on general purpose financial statements.

An entity's decision to enter a public capital market makes it publicly accountable—and it must provide the outside debt and equity investors with a broader range of financial information (such as is provided by preparing financial statements in accordance with full IFRS Accounting Standards) than may be needed by users of financial statements of entities that obtain capital only from private sources (see paragraph BCZ1.4 of the Basis for Conclusions).

Governments recognise this public accountability by establishing laws, regulations and regulatory agencies that regulate financial markets.

The *IFRS for SMEs* Accounting Standard stipulates that, regardless of size, entities whose securities are traded in a public market have public accountability and are not within the scope of the Standard. Such entities shall not describe their financial statements as complying with the *IFRS for SMEs* Accounting Standard (see paragraph 1.5).

Application of 'traded in a public market' in applying paragraph 1.3 of the Standard[1]

'Public market' is defined in paragraph 1.3 as 'a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets'. Paragraph 1.3 does not restrict the term 'public market' to recognised and regulated stock exchanges since, for example, it includes over-the-counter markets.

For a market to be public, it must be accessible by a broad group of outsiders. If the instruments can be exchanged only between parties involved in the management of the entity, such as key management personnel or shareholders, the instruments are not traded in a public market.

In some jurisdictions, a shareholder in a small or medium-sized entity is permitted by law to publicly advertise those shares for sale, for example, on a website or in a newspaper, without the active involvement of the entity issuing those shares, or even without the entity's knowledge. Because the entity did not take an affirmative step to permit public trading of shares (for example, share registration), such advertising by a shareholder does not, by itself, create an over-the-counter public market and would not prevent an entity that otherwise meets the criteria in Section 1 from using the *IFRS for SMEs* Accounting Standard.

Furthermore, the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market. For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This does not constitute trading in a public market. However, if trading occurs only occasionally in a public market, even only a few times a year, this does constitute trading.

An entity should assess on an ongoing basis whether its debt or equity instruments are traded in a public market, or are in the process of being issued for trading in a public market.

Financial institutions

A primary business of banks, insurance companies, securities brokers/dealers, retirement benefit schemes (for example, pension funds), mutual funds and investment banks is often to hold and manage financial resources entrusted to them by a broad group of clients, customers or members who are not involved in the management of the entities. When such an entity acts in a fiduciary capacity, it is publicly accountable.

Paragraph 1.5 of the *IFRS for SMEs* Accounting Standard states that the financial statements of publicly accountable entities shall not be described as conforming to the Standard even if a law or regulation in that entity's jurisdiction permits or requires the Standard to be applied by publicly accountable entities.

1 This guidance on application of 'traded in a public market' has been taken from Q&A 2011/03 *Interpretation of 'traded in a public market' in applying the IFRS for SMEs*, which was published by the SME Implementation Group in 2011. During the first comprehensive review of the *IFRS for SMEs* Accounting Standard, the IASB decided that the Q&A should be incorporated in this educational module and then deleted from the IFRS Foundation's website.

In limited circumstances an entity of one of the types of entities listed in paragraph 1.3(b) (banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks) might not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Examples could include:

- **Captive insurance company**

  A captive insurance company is typically an insurance company that insures only the risks of a single entity (often its parent company) or only the risks of entities within the same group of entities as the captive insurance company (such as fellow subsidiaries or parent entities). Where this is the case, the captive insurance company holds assets in a fiduciary capacity only for other group entities, which would not be considered a broad group of outsiders. Consequently, the captive insurance company is not publicly accountable, and the group will not be publicly accountable solely because a subsidiary is a captive insurance company.

- **Investment funds with only a few participants**

  Mutual funds and similar institutions, such as unit trusts, undertakings for collective investments in transferable securities (UCITS), and other professionally managed collective investment programmes, typically take investment funds from the general public. Doing so makes those entities publicly accountable. However, if an entity holds and manages financial resources for only a few investors, or only for investors that are not considered to be outsiders (for example, the investors all participate in the investment decisions), then those investors would not constitute a broad group of outsiders. Examples of entities that do not hold assets in a fiduciary capacity for a broad group of outsiders include:

  - a venture capital fund with a few investors, all of whom are directly involved in the fund’s investment and management decisions;
  - a pooled investment fund whose participants are limited to a parent, its subsidiaries and a few of its associates or joint arrangements; and
  - a pooled investment fund, closed to the general public and with only a few specifically selected participants.

Entities with public accountability cannot state compliance with the Standard

Decisions on which entities are required or permitted to use the *IFRS for SMEs* Accounting Standard rest with the legislative and regulatory authorities and standard-setters in individual jurisdictions. Jurisdictions can incorporate the Standard into their local GAAP if they wish to allow certain publicly accountable entities to use it, for example small listed entities. However, those entities would state compliance with local GAAP, not with the Standard (see paragraph 1.5).

Examples—Publicly accountable

Ex 5 **An entity operates two types of business from its premises—banking and retail clothing. Its banking operation takes deposits from the general public in return for a promise to pay to its clients their deposit plus a return of 2% of the amount deposited 90 days after receiving the cash from them. The entity uses the funds generated in its banking operation partially to fund its retail clothing operations.**

The entity is publicly accountable because through its banking operation (a primary business) it holds assets in a fiduciary capacity for a broad group of outsiders (its banking customers).

Ex 6 **An entity's shares are not listed on a stock exchange but do trade in an over-the-counter market that is subject to government regulation.**

The entity is publicly accountable because its shares are traded in a public market. The over-the-counter market is a public capital market.

Ex 7 **An entity is a pension scheme set up by a company to provide retirement income for employees of the company. The pension scheme accumulates contributions from both the employer and the employees, which are then invested into assets (such as shares, bonds and real estate) and managed over time.**

The pension scheme is publicly accountable because the entity invests and manages assets in a fiduciary capacity for a broad group of outsiders (the employees).

Pension schemes are sometimes referred to by various other names, such as 'pension plans', 'superannuation schemes' or 'retirement benefit schemes'.

Ex 8 **An entity provides loans and savings accounts to its local community (therefore the entity is deposit-taking).**

The entity is publicly accountable because it holds assets in a fiduciary capacity for a broad group of outsiders (the local community) as a result of its deposit-taking activities.

Examples—Not publicly accountable

Ex 9 **A microfinance entity provides loans to entrepreneurs who require funding to start or grow their businesses. The entity earns interest on these loans. The entity obtains all of its funds directly from a high-net-worth individual who is the owner of the microfinance entity—the entity does not take deposits from customers.**

The entity is not publicly accountable because its instruments are not traded in a public market and it does not hold assets in a fiduciary capacity for a broad group of outsiders. The business of lending money to the general public does not itself give rise to public accountability. Banks typically have public accountability because of their deposit-taking activities rather than their lending activities. The entity in this example does not take deposits from a broad group of outsiders—it holds assets only from its owner.

Ex 10 **The ordinary shares of an entity's parent are listed on a stock exchange.**

The entity is not publicly accountable. The fact that the ordinary shares of an entity's parent are listed on a stock exchange does not, in itself, make the entity (the subsidiary) publicly accountable.

Ex 11 **An entity is the only provider of electricity and natural gas in its jurisdiction. The entity is also one of the largest business entities in the jurisdiction and its activities constitute around 4% of the jurisdiction's gross domestic product.**

The entity is not publicly accountable. The fact that the entity provides an essential public service (electricity and natural gas), its size and its significance in its local economy do not, in themselves, make the entity publicly accountable as defined in the *IFRS for SMEs* Accounting Standard (see paragraph BC1.6 of the Basis for Conclusions).

Example—Micro entity

Ex 12 **An entity has fewer than 10 employees and low levels of revenue and gross assets. The entity is considered to be a micro entity in Jurisdiction A.**

The fact that an entity is a micro entity does not automatically mean it is not publicly accountable. Regardless of size, entities whose securities are traded in a public market have public accountability. Furthermore, regardless of size, entities that hold assets in a fiduciary capacity for a broad group of outsiders have public accountability.

1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

Examples—Holding assets is incidental to a primary business

Ex 13 **An entity whose assets include investment property and demand deposits prepares its financial statements in compliance with the *IFRS for SMEs* Accounting Standard. The entity requires tenants to pay a refundable deposit equal to two months' rent before occupying its investment property. Provided the property rented is not damaged during the tenant's lease term, the entity repays the deposit to the tenant when the tenant vacates the premises at the end of the lease term.**

The holding of rental deposits does not in itself make the entity publicly accountable. The holding of deposits is incidental to the entity's main business.

Ex 14 **An entity whose only business is operating a travel agency prepares its financial statements in compliance with the *IFRS for SMEs* Accounting Standard. The entity requires its clients to pay a deposit equal to 60% of the price of its holidays when booking. The balance (40%) must be paid 30 days before departure. The deposit is refunded in full if the client cancels the booking more than 60 days before the departure date. No refunds are provided for later cancellations.**

The holding of travel deposits does not in itself make the entity publicly accountable. The holding of deposits is incidental to the entity's primary travel agency business.

Example—Holding assets is not incidental to a primary business

Ex 15 **An entity whose main business is operating a supermarket wishes to prepare its financial statements in compliance with the *IFRS for SMEs* Accounting Standard. In the current reporting period, the entity extended its operations to include taking deposits from its customers in return for a promise to return to each customer their deposits plus a return of 2% of the amount deposited 90 days after receiving the cash from the customer. At the end of the reporting period, the deposit-taking business represents less than 1% of the entity's assets and liabilities. It also represents less than 1% of the entity's profit for the current year.**

The entity is publicly accountable. The entity has started a banking operation in which it holds assets in a fiduciary capacity for a broad group of outsiders (its banking customers). The banking business is not incidental to its supermarket operations—it is a second primary business.

If the entity nevertheless prepares its financial statements in compliance with the *IFRS for SMEs* Accounting Standard, for example, because legislation in the jurisdiction in which the entity operates requires it to do so, the entity must not assert its financial statements comply with the *IFRS for SMEs* Accounting Standard in the notes (see paragraph 1.5).

1.5 If a publicly accountable entity applies this Standard, its financial statements shall not be described as conforming to the *IFRS for SMEs* Accounting Standard—even if a law or regulation in that entity's jurisdiction permits or requires this Standard to be used by publicly accountable entities.

Educational notes

An entity whose financial statements comply with all the requirements of the *IFRS for SMEs* Accounting Standard is required to make an explicit and unreserved statement of such compliance in its financial statements (see paragraph 3.3). However, a publicly accountable entity is prohibited from making this statement (see paragraph 1.5) even if it is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard.

An entity that is not publicly accountable and complies with all the requirements of the *IFRS for SMEs* Accounting Standard could satisfy the disclosure requirement in paragraph 3.3 for example by including the following statement in its disclosures:

Note 2 Basis of preparation and accounting policies (extract)
These financial statements have been prepared in accordance with the *IFRS for SMEs* Accounting Standard.

Examples—Compliance statement not appropriate

Ex 16 A small community bank that takes deposits from the general public wishes to apply the *IFRS for SMEs* Accounting Standard and assert that its financial statements are prepared in compliance with its requirements. The jurisdiction in which the bank operates has no formal reporting requirements that apply to the entity.

The entity has public accountability because it holds assets in a fiduciary capacity for a broad group of outsiders as its primary business (see paragraph 1.3(b)). Therefore, it is not within the scope of the Standard and even if it prepares its financial statements by applying the *IFRS for SMEs* Accounting Standard, it cannot assert that its financial statements comply with the Standard.

Ex 17 An entity whose ordinary shares are traded on Jurisdiction A's securities exchange (a public market) prepares its financial statements applying the *IFRS for SMEs* Accounting Standard. Jurisdiction A's securities exchange requires an entity whose ordinary shares are traded to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard.

The entity has public accountability because its shares are traded in a public market (see paragraph 1.3(a)). Even though the entity is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard (see paragraph 1.5), it cannot assert that its financial statements comply with the Standard.

Ex 18 An entity whose debt instruments (but not its shares) are traded on Jurisdiction A's securities exchange (a public market) wishes to assert that its financial statements are prepared in compliance with the requirements of the *IFRS for SMEs* Accounting Standard.

The entity has public accountability because its debt instruments are traded in a public market (see paragraph 1.3(a)). Therefore, it cannot assert that its financial statements comply with the *IFRS for SMEs* Accounting Standard (see paragraph 1.5).

Ex 19 An entity that is in the process of listing its ordinary shares on Jurisdiction A's securities exchange (a public market) wishes to assert that its financial statements are prepared in compliance with the requirements of the *IFRS for SMEs* Accounting Standard.

The entity has public accountability because it is in the process of issuing its ordinary shares for trading in a public market (see paragraph 1.3(a)). Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Accounting Standard (see paragraph 1.5).

1.6 A **subsidiary** whose **parent** applies **full IFRS Accounting Standards**, or that is part of a consolidated **group** that applies full IFRS Accounting Standards, is not prohibited from applying this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the *IFRS for SMEs* Accounting Standard, it must comply with all of the requirements of this Standard.

1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to apply this Standard in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS Accounting Standards or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Educational notes

Eligibility assessment based on an entity's own circumstances

SMEs assess their eligibility to use the *IFRS for SMEs* Accounting Standard in their own financial statements on the basis of their own circumstances, regardless of whether they also submit financial information in accordance with full IFRS Accounting Standards to a parent, venturer or investor. The assessment would apply to the SMEs' own single-entity financial statements. If an entity is a parent entity (either an ultimate or intermediate parent), it separately assesses whether the group (which might be a subgroup) for which it is required to prepare consolidated financial statements does not have public accountability and, therefore, is eligible to use the *IFRS for SMEs* Accounting Standard in those consolidated financial statements.

Full IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard allow accounting policy choices for some recognition and measurement requirements. Therefore, differences between the accounting policies of a parent using full IFRS Accounting Standards and its subsidiaries using the *IFRS for SMEs* Accounting Standard could in some cases be minimised by particular accounting policy choices.

In some jurisdictions, parent entities are required to, 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. If a parent entity is required to present consolidated financial statements in accordance with full IFRS Accounting Standards, it may still be able to apply the *IFRS for SMEs* Accounting Standard in its separate financial statements if the parent itself does not have public accountability.

IFRS 19—A better alternative for subsidiaries that are SMEs

In May 2024, the IASB issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures* to simplify the preparation of subsidiaries' financial statements.

IFRS 19 is a voluntary IFRS Accounting Standard for use by eligible subsidiaries. A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with full IFRS Accounting Standards.

An eligible subsidiary applies the requirements in full IFRS Accounting Standards except for the disclosure requirements, and instead applies the reduced disclosure requirements in IFRS 19. The disclosure requirements in IFRS 19 are a reduced version of those set out in other IFRS Accounting Standards. In developing IFRS 19, the IASB applied the same principles to reduce disclosure requirements as it used when it developed the *IFRS for SMEs* Accounting Standard, because eligible subsidiaries are a subset of SMEs (see paragraph BC31 of the Basis for Conclusions). Therefore, the needs of users of the subsidiaries' financial statements would be satisfied by information meeting the needs of users of SMEs' financial statements.

If a subsidiary has a parent that produces consolidated financial statements that comply with full IFRS Accounting Standards, applying the *IFRS for SMEs* Accounting Standard might be unattractive because there are recognition and measurement differences between the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards. As a result, subsidiaries applying the *IFRS for SMEs* Accounting Standard would likely need to maintain two sets of accounting records.

IFRS 19 resolved these challenges by:

- enabling subsidiaries to keep only one set of accounting records to meet the needs of both their parent company and the users of the subsidiaries' own financial statements; and
- reducing the disclosure requirements to better suit the needs of the users of the subsidiaries' own financial statements.

Subsidiaries reporting to their parent, for consolidation purposes, applying full IFRS Accounting Standards are expected to prefer to apply full IFRS Accounting Standards (with IFRS 19) for their own financial statements rather than use the *IFRS for SMEs* Accounting Standard.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Accounting Standard to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of financial statements assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of the Standard, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7 of the Standard, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties.

Public accountability assessment

An entity that has public accountability is not permitted to assert compliance with the *IFRS for SMEs* Accounting Standard. Usually, little difficulty is encountered in determining whether an entity has public accountability. However, in some cases it might be difficult to determine whether or not an entity's activity of holding assets in a fiduciary capacity for a broad group of outsiders is incidental to a primary business of the entity.

COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

Full IFRS Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Full IFRS Accounting Standards may be used by entities whether they have public accountability or not. The *IFRS for SMEs* Accounting Standard is intended to apply only to the general purpose financial statements of entities without public accountability.

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 1 *Small and Medium-sized Entities* of the Standard and the characteristics of the entities for which use of the Standard is intended by answering the questions provided.

Assume all items mentioned are material.

Once you have completed the test, check your answers against those supplied on page 24.

Mark the box next to the most correct statement.

Question 1

In which of these situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* Accounting Standard in its financial statements?

- ☐ (a) The entity prepares its financial statements in accordance with local tax requirements that are substantially the same as the *IFRS for SMEs* Accounting Standard.
- ☐ (b) The entity prepares its financial statements in accordance with local tax requirements that are, except in name, word for word the same as the *IFRS for SMEs* Accounting Standard.
- ☐ (c) The entity prepares its financial statements in accordance with local tax requirements that are, except in name, word for word the same as full IFRS Accounting Standards.
- ☐ (d) (b) and (c).

Question 2

In which of these situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* Accounting Standard in its financial statements?

- ☐ (a) The entity prepares its financial statements in accordance with local GAAP that is substantially the same as the *IFRS for SMEs* Accounting Standard.
- ☐ (b) The entity prepares its financial statements in accordance with local GAAP that is, except in name, word for word the same as the *IFRS for SMEs* Accounting Standard.
- ☐ (c) The entity prepares its financial statements in accordance with the *IFRS for SMEs* Accounting Standard.
- ☐ (d) (b) and (c).

Question 3

Which of these entities must not describe its financial statements as being in compliance with the *IFRS for SMEs* Accounting Standard even if it is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard? Assume the entity itself does not have public accountability.

- ☐ (a) The entity is a subsidiary whose parent uses full IFRS Accounting Standards.
- ☐ (b) The entity is an associate of an investor that uses full IFRS Accounting Standards.
- ☐ (c) The entity is a jointly controlled entity whose venturers (investors) use full IFRS Accounting Standards.
- ☐ (d) (a)–(c).
- ☐ (e) None of the cases.

Question 4

Which of these entities must not describe its financial statements as being in compliance with the *IFRS for SMEs* Accounting Standard even if it is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard?

- ☐ (a) An entity that holds assets in a fiduciary capacity for a broad group of outsiders as its primary business (for example, a bank).
- ☐ (b) An entity that operates two divisions in each of its retail outlets—a supermarket and a bank (which holds assets in a fiduciary capacity for a broad group of outsiders). Both divisions are primary businesses of the entity.
- ☐ (c) An entity that operates primarily as a supermarket chain. However, it also enters into insurance contracts (as the insurer) with its customers. The entity's short-term insurance and life insurance operations are small relative to the size of its supermarket operations and are operated from the entity's supermarkets.
- ☐ (d) An entity holds assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to a primary business (for example, a law firm that is legally required to hold in trust advances from its clients for legal services to be rendered).
- ☐ (e) (a)–(c).
- ☐ (f) (a)–(d).

Question 5

Which of these entities must not describe its financial statements as being in compliance with the *IFRS for SMEs* Accounting Standard even if it is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Accounting Standard?

- ☐ (a) An entity whose shares are traded in a public market (for example, a local securities exchange).
- ☐ (b) An entity whose debt instruments—but not its shares—are traded in a public market (for example, a local securities exchange).
- ☐ (c) An entity that is in the process of issuing its shares for trading in a public market (for example, a local securities exchange).
- ☐ (d) An entity that is in the process of issuing its debt instruments (but not its shares) for trading in a public market (for example, a local securities exchange).
- ☐ (e) (a) and (b).
- ☐ (f) (a)–(d).

Question 6

An entity that does not have public accountability prepares its financial statements in accordance with the *IFRS for SMEs* Accounting Standard. Which of these statements is true?

- ☐ (a) The entity can describe its financial statements as in compliance with the *IFRS for SMEs* Accounting Standard.
- ☐ (b) The entity can describe its financial statements as in compliance with IFRS Accounting Standards and IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.
- ☐ (c) The entity can describe its financial statements as in compliance with IFRS Accounting Standards.
- ☐ (d) (a) and (b).
- ☐ (e) (a)–(c).
- ☐ (f) None of the cases.

Answers

Q1 (b)—see paragraphs 1.5 and 3.3.

Q2 (d)—see paragraphs 1.5 and 3.3.

Q3 (e)—see paragraphs 1.5, 1.6 and 3.3.

Q4 (e)—see paragraphs 1.2, 1.3(b), 1.4, 1.5 and 3.3.

Q5 (f)—see paragraphs 1.2, 1.3(a), 1.5 and 3.3.

Q6 (a)—see paragraph 1.5. The entity would be unable to state compliance with full IFRS Accounting Standards and IFRS 19 in its financial statements because of differences between the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards. IFRS 19 is part of IFRS Accounting Standards, and therefore an eligible subsidiary that applies IFRS 19 would also apply full IFRS Accounting Standards. In its financial statements the subsidiary would assert its compliance with IFRS Accounting Standards and state that it has applied IFRS 19.

APPLY YOUR KNOWLEDGE

You can apply your knowledge of the requirements in Section 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* Accounting Standard by completing the case study provided.

Once you have completed the case study, check your answers against those on page 26.

Case study

In previous years, a jurisdiction required all entities to use either local GAAP or full IFRS Accounting Standards. In the current year, the jurisdiction adopted the *IFRS for SMEs* Accounting Standard. Entities without public accountability are permitted to use the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards from the current year.

Entities A–F are based in that jurisdiction and are considering transitioning to the *IFRS for SMEs* Accounting Standard in the current year. In previous years, Entities A–E prepared their financial statements using local GAAP and Entity F prepared its financial statements applying full IFRS Accounting Standards.

In the current reporting period, none of the debt or equity instruments of Entities A–F are traded in a public market. However, in the current reporting period, Entity A started the process of issuing compulsorily redeemable fixed-rate debentures on the domestic stock exchange (a public market).

Entity B's primary business is the operation of a private school. An applicant applying for a place at the school pays a deposit to Entity B. If the applicant is not admitted, Entity B refunds the deposit when it informs the applicant of the decision. If the applicant is admitted and enrols as a student, Entity B refunds the deposit when the student leaves the school. If the applicant is admitted but chooses not to enrol, the applicant forfeits the deposit.

Entity C operates a travel agency. It requires its clients to pay a deposit equal to 80% of the price of its package holidays when booking. The balance (20%) becomes due 30 days before departure. If the client cancels the booking 60 days or more before the departure date, the deposit is refunded in full. No refunds are provided for later cancellations.

Entity D's main business is food retail. As a sideline, it takes deposits from its customers in return for a promise to repay to each customer the amount deposited 120 days after receiving the customer's cash plus a return of 3%.

Entity E's main business is food retail. It also provides its employees with short-term interest-free loans so that they can purchase annual rail cards to travel to and from work. The entity deducts the repayments from the employees' salaries in 12 equal monthly instalments.

Entities A–E are not part of a group.

Entity F's main business is food retail. Entity F is a wholly owned subsidiary of a parent entity that prepares consolidated financial statements available for public use in accordance with full IFRS Accounting Standards.

Which entities are eligible to use the *IFRS for SMEs* Accounting Standard in their financial statements?

Answer to case study

Entities B, C, E and F do not have public accountability and therefore meet the definition of an SME in accordance with the *IFRS for SMEs* Accounting Standard.

SMEs must assess their eligibility to apply the *IFRS for SMEs* Accounting Standard on the basis of their own circumstances, even if they also submit financial information in accordance with full IFRS Accounting Standards to their parent for consolidation purposes.

Entities A and D are publicly accountable and therefore are not SMEs as defined in the *IFRS for SMEs* Accounting Standard:

- Entity A is publicly accountable because it is in the process of issuing debt instruments for trading in a public market (see paragraph 1.3(a)).
- Entity D has public accountability because it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (see paragraph 1.3(b)). This part of its operations is not incidental to its food-retailing operations.

Like Entity D, Entities B and C also hold assets in a fiduciary capacity for a broad group of outsiders. However, because Entities B and C do so for reasons incidental to their primary businesses (unlike Entity D), this does not make them publicly accountable (see paragraph 1.4). Unless other factors give Entities B and C public accountability, they satisfy the definition of an SME in the *IFRS for SMEs* Accounting Standard.

The fact that Entity E provides its employees with short-term interest-free loans does not give rise to public accountability. The provision of loans in itself does not result in holding assets in a fiduciary capacity for a broad group of outsiders.

Entity F meets the definition of an SME and is eligible to apply the *IFRS for SMEs* Accounting Standard. However, Entity F is also eligible to apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures.* IFRS 19 permits eligible subsidiaries to apply full IFRS Accounting Standards with reduced disclosure requirements.

IFRS 19 is a voluntary standard for eligible subsidiaries. A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

If Entity F's parent applies full IFRS Accounting Standards and Entity F applies the *IFRS for SMEs* Accounting Standard there could be recognition and measurement differences between Entity F's own financial statements and the amounts reported to its parent for group consolidation purposes. Entity F will assess the costs and benefits of IFRS 19 in contrast to applying the *IFRS for SMEs* Accounting Standard to decide which Standard to apply.

NOTES

IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel +44 (0) 20 7246 6410
Email **customerservices@ifrs.org**

ifrs.org