

Applying IFRS for SMEs

2ND EDITION



- Based on new standard issued in 2015
- Interpretation and application
- Worked examples
- Illustrative disclosures



Foreword by Darrel Scott

*IASB Board Member
International Accounting Standards
Board
August 2015*

Increasingly, policymakers are recognising the critical role of Small and medium-sized entities (SMEs) in the growth of developed, and perhaps more especially, developing economies. This recognition has been accompanied by significant support for the activities of SMEs at both the national level, and, through the guidance of International financial institutions such as the World Bank, at a global level. A key part of this support is ensuring that the regulation of these businesses occurs at a level that, whilst robust and supportive of the general goals of the economies, is none-the-less not overly burdensome. Indeed, one of the main focuses of recent changes in the business environment in many countries has been the removal of impediments and barriers to the establishment of SMEs and toward encouraging their subsequent growth.

One of the regulatory requirements applied to almost all small entities is the requirement to prepare financial statements. Financial statements are

considered key, not just for the measurement of activities within an economy, but also for more directly beneficial activities such as facilitating the raising of capital, the granting of financing and the enhancement of trade between entities. The *IFRS for SMEs*, published in 2009, recognises the need for SMEs to prepare financial statements, but also acknowledges the need to reduce the burden on these smaller entities. The standard is self-contained, is tailored to the needs and capabilities of smaller businesses, and is understandable across borders. As such, it is in line with the growing trend of facilitating the easy operation of SMEs.

The IFRS Foundation has in recent years developed and posted profiles about the use of IFRS in individual jurisdictions. By June 2015, profiles had been completed for 140 jurisdictions, including all the G20 jurisdictions. Seventy-three of those jurisdictions require or permit the *IFRS for SMEs*. The standard is also currently under consideration in a further 14 jurisdictions. This widespread uptake for a standard that has only been in existence for 6 years is evidence both that the standard addresses a real need, and that it is successful in doing so.

The publication of this second edition of *Applying IFRS for SMEs* coincides with the May 2015 publication by the IASB (the Board) of revisions to the *IFRS for SMEs* following the completion of a comprehensive review of the standard. Given the success of the *IFRS for SMEs* to date, an immediate question is why the Board considered it necessary to make changes?

When originally considering the development of a separate standard for SMEs, the Board expressed a view that changes to related requirements for SMEs should be proposed concurrently with each exposure

draft of the corresponding IFRS or Interpretation. The effective dates of the new or revised requirements for SMEs would probably be the same as the effective date of the new or revised IFRSs. However, our constituents did not agree. They explained that because SMEs do not have internal accounting resources or the ability to hire accounting advisers on an ongoing basis, the *IFRS for SMEs* should be updated only periodically, perhaps only once in two or three years. On balance, the Board found these arguments persuasive. In concluding this, the board acknowledged that, compared to full IFRS, there is a considerable greater need for a stable platform in the SME environment.

Consequently, at the time of issuing the standard, the Board undertook to only update the *IFRS for SMEs* on a periodic basis, and noted its plan to perform an initial comprehensive review within two or three years. The objective of the review would be to assess the experience entities had had in implementing the standard and to consider whether practice indicated a need for amendments.

This review commenced in 2012, and was completed with the publication of amendments in 2015. By design, these amendments have been limited. The Board felt that, given that was the first review since the initial publication of the *IFRS for SMEs*, and that in many jurisdictions, the standard has only been effective for a short period of time, there was an even greater need for stability during this review than there may be in future reviews. The effective date of these amendments is January 2017.

Although not part of the formal standard, the IASB also published its approach for future reviews of the IFRS for SMEs. In accordance with these published plans, the next review of the IFRS for SMEs will commence in 2019, approximately two years after the effective date of the existing amendments. This should allow time for SMEs to apply the amendments, and for interested parties to identify and comment on any implementation issues or unintended consequences that result from those amendments. Additionally, the Board will shortly decide whether there is a need for an interim review to consider any new and revised IFRSs not yet incorporated or any urgent amendments that have been identified.

The Board is of the view that this process will mean that amendments to the *IFRS for SMEs* will not be expected to be more frequent than approximately once every three years.

In the foreword for the previous edition of this publication, Paul Pacter wrote ‘An important public interest is served when those who provide capital have good information on which to base their lending, credit, and investment decisions. The *IFRS for SMEs* will bring those benefits to South Africa and the rest of the world.’ It is my belief that this continues to be outcome of the SME standard. In our efforts to ensure this, we will continue to work with preparers, users, educators, regulators and others involved in the process in those jurisdictions where the *IFRS for SMEs* has already been adopted. We will also continue to encourage the adoption of the standard in those jurisdictions where it has not yet been adopted.



<http://www.wconsulting.co.za>

<http://www.applyingifrsforsmes.co.za>

info@wconsulting.co.za