The Financial Reporting Faculty answers some of the frequently asked questions on the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), outlining which entities are eligible to use the IFRS for SMEs and highlighting some of the key differences to full IFRSs.

1. **Who is eligible to use the IFRS for SMEs?**
   
The standard is intended for use by entities that do not have ‘public accountability’ (e.g. unlisted companies) and publish ‘general purpose’ financial statements. Despite the title of the standard many entities that do not consider themselves to be small or medium-sized still could be within its intended scope.

   Local legislative authorities in individual jurisdictions (and not the IASB) decide which entities are required or permitted to use the IFRS for SMEs, and whether to use the provisions of the standard, potentially with certain changes, as the basis for local requirements. In the UK, for instance, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is applied, which is broadly based on the IFRS for SMEs.

2. **Can a subsidiary of a parent company which uses full IFRSs use the IFRS for SMEs?**
   
   Yes, subject to local laws and regulations, and assuming the subsidiary itself does not have public accountability. However, as consolidated financial statements are prepared using uniform accounting policies, the subsidiary’s financial statements may require adjustment for consolidation purposes.

3. **Can you use the IFRS for SMEs on its own?**
   
   Yes, the IFRS for SMEs is a stand-alone document. It is written in clear and easily translatable language. It is shorter and generally easier to read than full IFRSs and there is just one cross reference to full IFRSs: an accounting policy option to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* rather than the relevant parts of the IFRS for SMEs on financial instruments. Other than this entities cannot ‘mix and match’ the requirements of the IFRS for SMEs and full IFRSs – the choice is to use one or the other.

   In instances where the IFRS for SMEs does not specifically address a transaction, other event or condition, an entity may consider, but is not required to apply, the requirements and guidance in International Financial Reporting Standards (full IFRSs) dealing with similar issues when developing an accounting policy.

4. **What are the benefits of applying the IFRS for SMEs?**
   
   Applying the more simplified requirements of the IFRS for SMEs (when compared to full IFRSs) still results in fair presentation of the financial position, financial performance and
cash flows of the entity. IFRS for SMEs also has the benefit of being an internationally-recognised standard.

Depending on the jurisdiction, the benefits could also include:

- less onerous reporting requirements than local GAAP; and
- improvements to the robustness and quality of financial reporting.

5. **How is the standard organised?**

The IFRS for SMEs is organised by topic in the manner of a reference manual, rather than being a reference to existing IFRS numbering. It comprises 35 sections and includes a glossary of terms. Illustrative financial statements and a disclosure checklist are presented within separate, non-mandatory implementation guidance.

6. **How does the IFRS for SMEs differ from full IFRSs?**

The IFRS for SMEs is simpler and specifically tailored to the needs of SMEs and users of their accounts. The main differences are:

- the omission of certain topics (IFRS 4 *Insurance Contracts*, IFRS 8 *Operating Segments*, IAS 26 *Accounting and Reporting by Retirement Benefit Plans*, IAS 33 *Earnings Per Share* and IAS 34 *Interim Financial Reporting*);
- the exclusion of the more complex options when choice exists in full IFRSs (for example, financial instruments, intangible assets and government grants);
- simplification of several recognition and measurement criteria (see question 7); and
- a substantial reduction in disclosure requirements including the removal of the requirement to present a second comparative (i.e. three years of information) if there is a prior period error, reclassification or change in accounting policy.

7. **How are recognition and measurement criteria simplified?**

These are simplified across a range of topics. Examples include:

- the expensing of all internally incurred development costs;
- no requirement to classify and measure assets and liabilities to be disposed of as part of a group of assets as a disposal group held for sale (the related requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not reflected in the IFRS for SMEs);
- the amortisation of intangible assets and goodwill over a period not exceeding 10 years if the useful life cannot be established reliably; and
- the expensing of all borrowing costs.

There are numerous built-in exemptions on the grounds of undue cost or effort, impracticability or inability to measure reliably. For example, Section 16 *Investment Property* requires entities to measure all investment properties at fair value provided that it can be measured reliably without undue cost or effort on an ongoing basis. Changes in fair value are recognised in profit or loss. If investment properties can’t be reliably measured at fair value without undue cost then they should be accounted for at cost less accumulated depreciation and impairment in accordance with the cost model in Section 17 *Property, Plant and Equipment*.

8. **To what extent are required disclosures reduced by the IFRS for SMEs?**

There is roughly a 90% reduction in disclosures in comparison with full IFRSs.

9. **Have all recent new and amended IFRSs been incorporated into the IFRS for SMEs?**

No. New IFRS standards and amendments such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* have not been incorporated into the IFRS for SMEs.
Some other less recent IFRS changes also are not reflected within the requirements of the IFRS for SMEs. As an example, the IFRS for SMEs does not include the requirements of IFRS 10 Consolidated Financial Statements, which sets out a single consolidation model that identifies control as the basis of consolidation for all types of entities. Instead, it reflects the requirements of IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities, which were superseded by IFRS 10. Also, the IFRS for SMEs does not reflect the requirements of IFRS 11 Joint Arrangements nor does it allow entities to apply it. Although the IFRS for SMEs includes guidance on fair value measurement, this does not reflect the revised definition of fair value in IFRS 13 Fair Value Measurement.

There are, as a result, some significant differences between the IFRS for SMEs and full IFRSs. Since the IFRS for SMEs is intended to apply to SMEs, these differences are expected to persist in the future, although the extent to which new and amended IFRS standards are incorporated into the IFRS for SMEs at a later date is uncertain.

10. **What changed as a result of the last comprehensive review of the IFRS for SMEs?**

The last comprehensive review was completed in 2015. Changes include:

- the introduction of new accounting policy options to apply the revaluation model for property, plant and equipment and to apply the equity method in separate financial statements to account for investments in subsidiaries, jointly controlled entities and associates;
- Section 29 Income Tax is more closely aligned with full IFRSs;
- the criteria for basic debt instruments have been updated to allow more basic debt instruments within its scope;
- where the useful life of goodwill or another intangible asset cannot be established reliably, the requirement has been changed from a default of 10 year life to an estimate not exceeding a 10 year life; and
- an exemption from the requirement to recognise intangible assets separately in a business combination if it causes undue cost or effort.

The 2015 amendments are required to be applied for periods beginning on or after 1 January 2017. Earlier application is permitted.

11. **When will the IFRS for SMEs be updated?**

The next comprehensive review of the standard is expected to start in early 2019. On an ongoing basis it is expected that amendments will be proposed every three years in an omnibus exposure draft, the necessity for more frequent updates being considered on a case-by-case basis.

12. **How widely used is the standard in practice and have there been modifications to it?**

At the date of publication of these FAQs, the IASB lists 86 countries around the world that require or permit the use of the IFRS for SMEs. Seventy-nine of these jurisdictions have made no modifications to the IFRS for SMEs.

13. **Where can I get further information about the IFRS for SMEs?**

More detailed information on the IFRS for SMEs can be found in the Financial Reporting Faculty’s factsheet *IFRS for SMEs: the basics*. Further information on the IFRS for SMEs can be found on the financial reporting technical pages on the ICAEW website. The full text of the standard can be accessed by registering on the IFRS Foundation website. Those applying the standard may also find it useful to consult the *IFRS for SMEs training material* that has been developed by the IFRS Foundation.
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