

# IFRS Technical Bulletin

IFRS for Small and Medium-  
sized Entities

The countdown commences...IFRS for SMEs,  
the new accounting Standard, that is likely to  
affect the future of Irish GAAP

# IFRS for Small and Medium-sized Entities: Your questions answered

As the new Standard for International Financial Reporting is published, the first step is to understand the background and reasons behind its purpose. As such Mazars have provided you with the answers to, what we believe, are the key questions surrounding the Standard.

## *What is it?*

IFRS for Small and Medium-sized Entities (IFRS for SMEs) is the new accounting Standard that has been issued by the International Accounting Standards Board (IASB) in July 2009. It is a set of condensed and simplified accounting principles based on the full International Financial Reporting Standards (IFRS).

## *Who does it apply to?*

It is intended to be applicable to all companies and businesses that do not have public accountability (i.e. do not have their debt or equity investments traded in a public market e.g. ISE or IEX) and have their financial statements published for external users (i.e. published at Companies Registration Office).

## *Why has this Standard been developed?*

The main intended aim is to create a single global accounting standard that can be applied by all companies, who do not have public accountability, throughout the world.

The Standard is intended to enhance international comparability, improve the quality of global reporting whilst lessening the burden where full IFRS or full national GAAP are currently required.

## *Who can apply it?*

The application of this Standard will be on a country-by-country basis and will depend on each local jurisdiction's choice.

Once the Standard is endorsed by the European Union it will be applicable based on a member state choice.

## *Will the ASB require mandatory application?*

Currently the ASB has a convergence project in place that has required all full listed Irish public quoted companies to apply full IFRS since 2005 and has IEX listed companies since 2007 aligned many Irish FRSS with IFRSS. There has been no confirmed decisions made yet on whether IFRS for SMEs will be required to be applied by Irish entities, however it is expected that this Standard will provide the blueprint for the convergence of the Irish national accounting system to IFRS.

The ASB will shortly be publishing a discussion paper on the adoption of IFRS for SMEs and it is expected that the discussion paper will consider the options of: adopting IFRS for SMEs in full; adopting IFRS for SMEs with some carve-outs for more complex areas; or retaining Irish GAAP.

## *Will it just be applicable to small and medium-sized companies?*

The size of a company is not relevant in determining whether or not an entity is in the scope of this Standard. The Standard is intended for use by entities that do not have public accountability and publish their financial statements for external users, including banks, creditors, customers and credit rating agencies.

## *Can full IFRS still be applied?*

IFRS for SMEs has specifically been developed and tailored to be applied by entities that do not have public accountability, whereas full IFRS is aimed at companies operating in public capital markets.

Companies within the scope of this new Standard will however be allowed to apply full IFRS if they so wish.

## *Can it be applied to group financial statements?*

Yes it may be applied by entities preparing group consolidated financial statements, individual separate entity financial statements and by subsidiaries that form part of a public quoted group so long as the entity or subsidiary does not have public accountability. GAAP reconciliations and adjustments will be required between full IFRS and IFRS for SMEs for group reporting purposes.

## *How will it impact a company and the financial statements?*

There are many ways in which IFRS for SMEs will impact companies and their financial statements. The remainder of this technical bulletin aims to highlight some of the key issues.

# IFRS for SMEs is likely to affect many companies whether at an individual entity level in Ireland or for Irish subsidiaries in larger groups located in the Ireland or throughout the world.

## So why would you want to apply IFRS for SMEs?

### You're a subsidiary company which is part of a public quoted group

The main benefit for public quoted groups is to potentially apply a single high quality international reporting standard to all subsidiaries across the world (subject to member state choices), which are based on the full IFRS that are used to prepare the Group consolidated financial statements.

The key benefits are therefore:

- to reduce the different reconciliations required to align national GAAPs to full IFRS and require the one type of reconciliation from IFRS for SMEs to full IFRS. These differences are likely to be fewer than national GAAPs;
- to reduce the costs associated with having different accounting operations for each national GAAP; and
- to ensure greater comparability amongst the accounting systems throughout the Group.

### You're an individual company in Ireland

The key area for concern for all business, but especially individual companies in Ireland is to ensure that the benefits outweigh the costs. The principle issues are therefore to ensure that the financial costs of preparation do not increase and the needs of stakeholders are still met.

The key benefits are therefore:

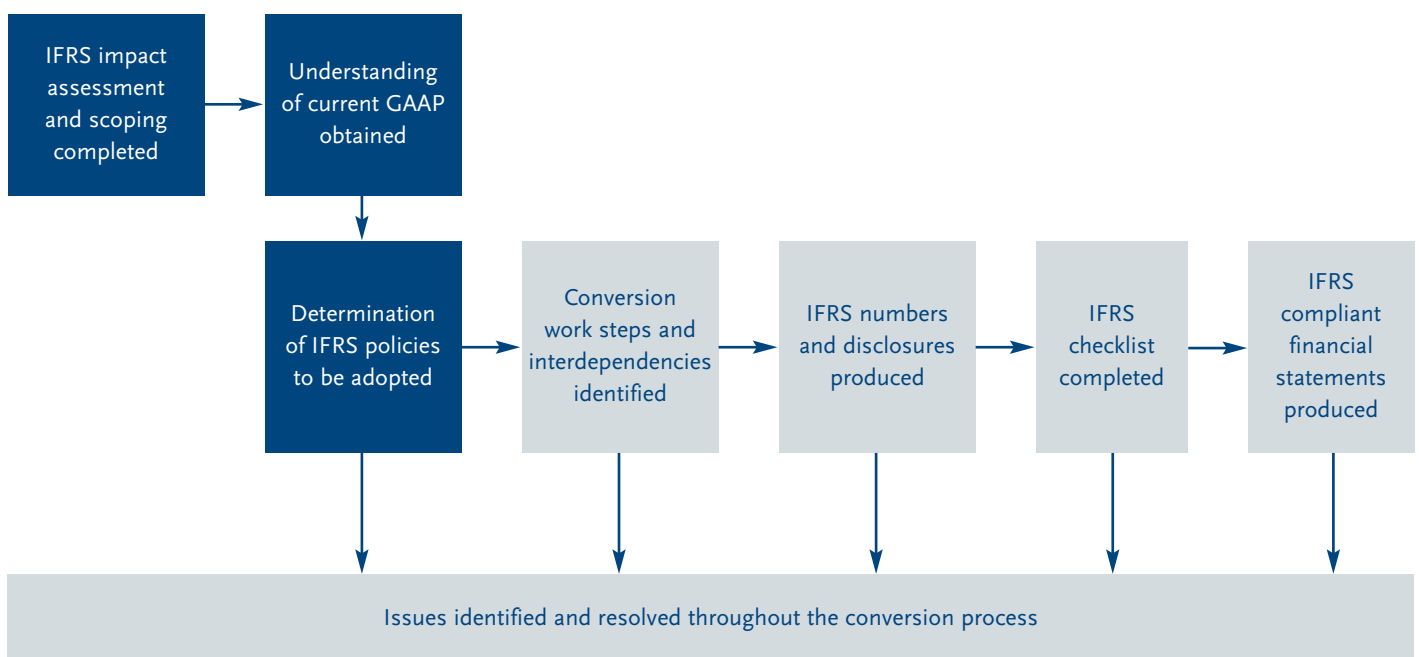
- to ensure that companies can more easily assess themselves against their international competitors;
- to have easier communication with all external users when using a common set of reporting standards and accounting principles; and
- to have a single set of high quality and current accounting principles and concepts which are condensed and specifically tailored for small and medium-sized entities.

## How do you make the transition to IFRS for SMEs?

Whether you're converting to IFRS for SMEs from Irish GAAP, full IFRS or another national GAAP the transition process can be simple and cost-efficient. We recommend that an IFRS transition project is carried out and managed effectively. Mazars has developed and produced an 'IFRS Project

Management Guide' which can assist any business wishing to make the transition to IFRS.

We believe that an IFRS conversion process should be uncomplicated and straight-forward. This is a summary visual illustration of how this can be achieved.



# IFRS for SMEs – Unlocking the door to the detail

This summary addresses the main points and principles about understanding the detail of the new Standard.

## General

IFRS for SMEs is a single, stand-alone Standard currently comprising of 230 pages as well as a Basis for Conclusion to aid user's application. To aid simplicity the Standard does not cross-refer to the full IFRS and given that full IFRS comprises of over 2,500 pages, it has clearly been condensed to aid understandability.

The Standard is organised into 35 sections which are based on each of the full International Financial Reporting Standards, for example Section 13: Inventories is based on IAS 2 'Inventories' and some of the more complex sections, for example on revenue and provisions, include appendices which contain illustrative examples to aid implementation.

The Standard does not however include sections which are not applicable to small and medium-sized entities, for instance segmental reporting, earnings per share and interim reporting.

## Scope

IFRS for SMEs has been specifically developed for use by entities that do not have public accountability and publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

An entity is defined as having public accountability if its debt or equity instruments are traded in a public market (or it is in the process of issuing its debt or equity instruments for trading in a public market), or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

A public market means any domestic or foreign stock exchange market or over-the-counter market for example, ISE and LSE. In general an entity that holds assets in a fiduciary capacity as one of its primary business include banks, insurance companies, mutual funds and investment banks. However if an entity holds these assets for reasons that are incidental to their primary business they are not considered to have public accountability and this therefore may include schools, travel agents and charities.

## Recognition and measurement

The fundamental concepts and accounting principles for recognising and measuring assets, liabilities, income and expenditure in accordance with IFRS for SMEs are the same as those under full IFRS. This is because the International Accounting Standards Board (IASB) have aimed to retain these fundamental principles but have sought to make the new Standard a simplified version of full IFRS.

In doing so therefore the new Standard removes some of the accounting policy options that are allowed under full IFRS, namely in relation to accounting for property, plant and equipment, investment properties, employee benefits. In addition there is a focus on measuring assets and liabilities at cost as opposed to fair value, where there is an 'undue cost or effort' involved in determining the fair value. In relation to financial instruments specifically, there is an accounting policy choice to apply IFRS for SMEs' simplified provisions or IAS 39 from full IFRS completely.

## Disclosure

One of the main aims during the development of this Standard was to ensure that the cost for small and medium-sized entities to prepare their financial statements was not significantly increased and the main way in which this was achieved was by significantly reducing the disclosure requirements as compared to full IFRS.

There are around 3000 disclosure requirements in full IFRS and these have been reduced to around 400 in IFRS for SMEs.

## Other

The IFRS for SMEs is designed to be reviewed and updated on a rolling two/three year basis by the IASB. What this therefore means is that there will not be a burden on companies to continually remain up-to-date with amendments and changes issued, as currently required under Irish and full IFRS. A single amendment document will therefore aim to be issued in one go which will incorporate all the amendments identified over the two/three-year period.

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