

Especially for members in **Business, Industry & Government (BIG)**

IASB Publishes IFRS for SMEs

On July 9, 2009, the International Accounting Standards Board (IASB) issued an International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The standard is a result of a five-year development process.

What is IFRS for SMEs?

The standard is a modification and simplification of full IFRS aimed at meeting the needs of private company financial reporting users and easing the financial reporting burden on private companies through a cost-benefit approach. It is a self-contained global accounting and financial reporting standard totaling 230 pages that is designed to meet the general-purpose financial statement needs of small and medium-sized entities.

What is a SME?

Small and medium-sized entities are defined in the standard as entities that **do not** have public accountability and publish general-purpose financial statements for external users. Public accountability is explained in the standard.

SMEs can also be referred to as private entities and non-publicly accountable entities. Many jurisdictions around the world have developed their own definitions of SMEs for a broad range of purposes, including prescribing financial reporting obligations. Often those national or regional definitions include quantified criteria based on revenue, assets, employees and other factors.

IFRS for SMEs is viewed as an accounting framework for private entities that are not of the size nor have the resources to use full IFRS. In the United States, the term SME

would encompass many private entities.

Why did the IASB issue the standard?

Full IFRS were designed to meet the needs of equity investors in companies in public capital markets. They cover a wide range of issues, contain a sizeable amount of implementation guidance and include disclosures appropriate for public companies. Users of financial statements of SMEs do not generally have the same needs. Users of SME financial statements are more focused on assessing shorter-term cash flows, liquidity and solvency. In addition, many SMEs may find full IFRS too complex and costly to adopt and maintain. In developing IFRS for SMEs, the IASB tried to meet the needs of financial statement users while balancing the costs and benefits from a preparer perspective.

Demand for the new standard is expected to come from both developed and emerging economies. Ultimately, market demand will drive acceptance of the standard globally. Its acceptance in the European Union and other jurisdictions that have adopted full IFRS for public companies will be closely watched.

Can a U.S. private entity adopt IFRS for SMEs?

U.S. private companies are not “required,” like public companies, to use a particular basis of accounting when preparing their financial statements. Currently, private

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companies in the United States can prepare their financial statements in accordance with U.S. GAAP as promulgated by the Financial Accounting Standards Board (“FASB”); another comprehensive basis of accounting (“OCBOA”), such as cash- or tax-basis; or full IFRS, among others. Now, with the issuance of IFRS for SMEs, U.S. private companies have another alternative.

CPAs may need to check with their state boards of accountancy to determine the status of reporting on financial statements prepared in accordance with IFRS for SMEs within their individual state.

What are some reasons a private company in the U.S. might consider using IFRS for SMEs?

A U.S. company owned by a foreign private company or that has a foreign investor or venture partner might be an early candidate for using the new standard. Other companies may find the new standard an attractive alternative to the more complex and voluminous U.S. GAAP.

The market will drive demand. Acceptance of the new standard by lenders and other creditors will be critical to its success in this country.

Looking for More Information?

You can download the standard, illustrative financial statements and a presentation and disclosure checklist at the IASB’s [website](#). The AICPA has developed frequently asked [questions and answers](#), which are available with other links and resources at [IFRS.com](#).

To support the implementation of the IFRS for SMEs, the IASC Foundation is developing comprehensive training material. The training material will be published in a number of languages. The English-language material is expected to be downloadable free of charge on the IASB.org website in late 2009.

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