

SME Accounting Fact Sheet

IASB's goals include

- to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full IFRS, developed primarily for listed companies;
- to make modifications and simplifications based on users' needs and cost-benefit considerations;
- to provide emerging economies with an internationally recognized basis for financial reporting, helping to raise the quality of financial reporting in many countries while offering entities a clear path to upgrade to compliance with full IFRS.

Definition of SME

- an entity with no public accountability. An entity has public accountability (and should therefore use full IFRS) if:
 - it has issued debt or equity securities in a public market; or
 - it holds assets in a fiduciary capacity for a broad group of outsiders (eg. bank, insurance company, pension fund, mutual fund)

The proposed standard is suitable for SMEs required to prepare general purpose financial statements – ie. statements intended to meet the needs of investors, lenders, creditors, rating agencies, employees, customers and others outside the business. ***Jurisdictions will decide which non-publicly accountable entities must use full IFRS.***

Examples of simplifications in the proposed IFRS for SMEs

- two categories of financial instruments rather than four (no held-to-maturity or tainting rules, no available for sale)
- much simplified hedge accounting
- goodwill impairment indicator approach, rather than annual impairment testing
- recognize all research and development costs as expense
- cost method for associates and joint ventures
- less fair value for agriculture
- significantly reduced disclosure requirements in a number of areas

Examples of simplifications rejected by the IASB

- drop the cash flow statement
- classify all leases as operating
- classify all pension plans as defined contribution
- non-recognition of deferred taxes
- no consolidation
- amortization of goodwill over a specified maximum period