



## The International Financial Reporting Standard for Small and Medium-Sized Entities

A new international financial reporting standard has been launched, specifically adapted to the needs of privately owned businesses, which can reduce the reporting burden for companies already using IFRS and provide an internationally recognised framework for first time adopters.

The International Financial Reporting Standard (IFRS) for non-listed, small and medium-sized entities ("IFRS for SMEs") provides a simplified set of accounting principles based on full IFRS. The IFRS for SMEs is published by the International Accounting Standards Board (IASB), the same accounting body who issue full IFRS, thus providing a full quality standard which will be recognised by banks, governments, auditors and regulators. The standard was published in July 2009 with immediate effect. The IASB estimates that SMEs as defined in this standard represent about 95% of companies worldwide.

**Who is eligible to adopt IFRS for SMEs?**

**Any privately owned entity that:**

- publishes general purpose financial statements for stakeholders and external users; and
- does not have public accountability.

The standard does not contain a limit on the size of an entity that may use the IFRS for SMEs. However it is not designed for small owner managed cash based businesses.

IFRS for SMEs is available for use immediately by those entities based in jurisdictions which either do not specify the GAAP which must be applied or which have adopted IFRS for SMEs as an acceptable GAAP.

**Examples of external users include:**

- owners who are not involved in managing the business,
- existing and potential creditors, and credit rating agencies.

General purpose financial statements present the financial position, operating results, and cash flows of the entity.

**An entity has public accountability if:**

- a. its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or
- b. it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks).

**An entity may use IFRS for SMEs if it holds assets in a fiduciary capacity as an incidental part of its business.**

Entities that fall into this category may include:

- public utilities or public sector entities,
- travel and real estate agents,
- schools, charities and other not-for profit entities.

A subsidiary whose parent or group uses full IFRS may use the IFRS for SMEs if the subsidiary itself does not have public accountability.

The standard does not require any special approval by the owners of an SME for it to be eligible to use the IFRS for SMEs.

## What are the advantages and disadvantages of adoption?

### Advantages

- Reducing compliance costs and ease of use. The full IFRS run to over 2,600 pages, IFRS for SMEs is just under 240 pages.
- Making financial statements less complex and more user friendly;
- Reducing the burden of changes and amendments: the IASB will only review the standard on a rolling two/three year basis;
- Enhancing the comparability of financial statements;
- Simplifying global trading and improving access to international funding;

### Disadvantages

- Change always involves some financial and time cost, which can be more difficult to handle for smaller companies. Companies may need to contend with some unfamiliar accounting, new terminology as well as changes to information systems, software and processes;
- Like IFRS, the standard is very much principles based, interpretation issues are likely to arise, particularly between jurisdictions.
- The simplicity and lack of accounting options permitted by the standard could be seen by some as inflexible.

## Are there any restrictions to adopting the standard?

Immediate adoption is permitted for all eligible entities, although it will be up to individual countries to permit, require or prohibit its adoption locally. Entities wishing to apply this standard will also need to consider the legislative requirements in their jurisdiction to determine whether and when they are permitted to apply the standard.

## Are there any other considerations?

Major changes undertaken by businesses are often underestimated in terms of the impact, effort, cost and level of resource and skills required. The key to any successful transition is proper planning, and adoption of IFRS for SMEs is no different.

In addition, any business wishing to apply the IFRS for SMEs standard should be considering their medium- to long-term strategy, as there is no short-cut approach if they later decide, or need to adopt full IFRS.

A business would also not be able to pick and choose accounting policies to suit them from IFRS for SMEs and full IFRS. If a company adopts IFRS for SMEs, only the accounting policies and principles permitted by that standard should be applied.

## How can Moore Stephens help?

Transition to IFRS for SMEs can be simple and cost effective if the appropriate planning is put in place. Moore Stephens International member firms will advise you on the implications of the new standard, help you decide if it is the right move for your business and then assist in the implementation. Senior members of in the association have been instrumental in preparing the guidelines for IFRS for SMEs, so have an in-depth knowledge of its application.

We have developed an IFRS for SMEs starter pack including:

- A model set of financial statements prepared under IFRS for SMEs.
- An electronic copy of the standard
- A suitability checklist aimed at highlighting potential problem areas for companies wishing to adopt the standard.

To obtain an IFRS for SMEs starter pack and find out more about whether you are eligible to apply IFRS for SMEs and the impact on your company, please contact us.

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