

## Welcome to the *IFRS for SMEs* Update

The IASB's *IFRS for SMEs* Update is a staff summary of news relating to the International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs*). All issues of the *IFRS for SMEs* Update are available in both HTML and PDF format on the IASB's [website](#). To subscribe use the link on the right.

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### Contact us

If you have news about *IFRS for SMEs* activities in your jurisdiction please contact Paul Pacter and Michelle Fisher (details below)

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### Revised version of *IFRS for SMEs* guide

A revised version of the booklet *A Guide to the IFRS for SMEs* has been posted. This eight-page 'executive briefing' is written in non-technical language for lenders, creditors, owner-managers, and others who use SME financial statements.

It is available to download for free at  
<http://www.ifrs.org/Alerts/SME/SMEs+guide+March+2012.htm>.

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### SME Implementation Group publishes four final Q&As

During April, the SME Implementation Group (SMEIG) published four question and answer documents

(Q&As) on the *IFRS for SMEs*:

- Q&A 2012/01 Application of 'undue cost or effort'
- Q&A 2012/02 Jurisdiction requires fallback to full IFRSs
- Q&A 2012/03 Fallback to IFRS 9 *Financial Instruments*
- Q&A 2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary

These four final Q&As reflect the input that the SMEIG received on the publication of [five draft Q&As](#) in September 2011 (for which the comment period closed in November 2011) and [two draft Q&As](#) in November 2011 (for which the comment period closed in January 2012). After considering the public comments, the SMEIG has decided not to issue final Q&As on the following three draft Q&As:

- General Issue 1—Application of the *IFRS for SMEs* for financial periods ending before the *IFRS for SMEs* was issued
- Section 3 Issue 2—Departure from a principle in the *IFRS for SMEs*
- Section 3 Issue 3—Prescription of the format of financial statements by local regulation

Although Q&As are approved by the IASB, they are issued as informal guidance and not mandatory standards. Consequently, they are published in the name of the SMEIG rather than the IASB. The non mandatory Q&As are intended to help those who use the *IFRS for SMEs* to think about specific accounting questions. They are not intended to modify in any way the application of full IFRSs.

The final Q&As can be accessed at <http://www.ifrs.org/IFRS+for+SMEs/QAsSMEs.htm>. The four Q&As (excluding their Basis for Conclusions, which are available on our website) are set out below for your reference.

Q&A 2012/01

***IFRS for SMEs*** General topics

Application of 'undue cost or effort'

The issue: Several sections of the *IFRS for SMEs* contain exemptions in relation to certain requirements on the basis of 'undue cost or effort' or because they are 'impracticable'. 'Impracticable' is defined in the *IFRS for SMEs* as follows: "applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so". 'Undue cost or effort' is not defined. How should 'undue cost or effort' be applied?

The response: 'Undue cost or effort' is deliberately not defined in the *IFRS for SMEs*, because it would depend on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits. Whether the amount of cost or effort is excessive (undue) necessarily requires consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. Applying a requirement would result in 'undue cost or effort' because of either excessive cost (eg if valuers' fees are excessive) or excessive endeavours by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information. Assessing whether a requirement will result in 'undue cost or effort' should be based on information available at the time of the transaction or event about the costs and benefits of the requirement. On any subsequent measurement, 'undue cost or effort' should be based on information available at the subsequent measurement date (eg the reporting date).

'Undue cost or effort' is specifically included for some requirements. It may not be used for any other requirements in the *IFRS for SMEs*.

'Undue cost or effort' is used either instead of, or together with, 'impracticable' for certain requirements in the *IFRS for SMEs* to make it clear that if obtaining or determining the information necessary to comply with the requirement would result in excessive cost or an excessive burden for an SME, the SME would be exempt from the requirement. Where 'undue cost or effort' is used together with 'impracticable', this should be applied in the same way as for 'undue cost or effort' on its own.

Q&A 2012/02

**IFRS for SMEs** Section 3

Jurisdiction requires fallback to full IFRSs

The issue: A jurisdiction permits all entities meeting the definition of an SME to follow the *IFRS for SMEs*. However the jurisdiction adds a requirement that, where the recognition and measurement requirements for a particular transaction, other event or condition are not specifically covered by the *IFRS for SMEs*, but are covered in full IFRSs, an SME must follow the recognition and measurement requirements in full IFRSs for that transaction, event or condition. May SMEs in that jurisdiction state compliance with the *IFRS for SMEs*?

The response: Whether an SME can assert compliance with the *IFRS for SMEs* in such a case will depend on management's assessment of relevance and reliability as required by paragraph 10.4 of Section 10 *Accounting Policies, Estimates and Errors*. In the absence of specific requirements in the *IFRS for SMEs*, paragraph 10.4 requires management to use its judgement in developing an accounting policy that is reliable and results in information that is relevant to the economic decision-making needs of users. Paragraph 10.5 establishes the following hierarchy for an entity to follow in deciding on the appropriate accounting policy:

- the requirements and guidance in the *IFRS for SMEs* dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

Paragraph 10.6 notes that, in making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in full IFRSs that deal with similar and related issues.

Taken together, paragraphs 10.4 to 10.6 allow the full IFRS principles to be used in the absence of specific guidance in the *IFRS for SMEs*, provided that they do not conflict with requirements in the hierarchy in paragraph 10.5.

This scenario is different from allowing a free choice to follow full IFRS requirements when specific requirements exist in the *IFRS for SMEs* for a transaction, other event or condition. Where there are such specific requirements in the *IFRS for SMEs*, they must be applied even if they differ from full IFRSs. If the entity follows a requirement in full IFRSs for that transaction, other event or condition for which the *IFRS for SMEs* contains different guidance, it will not be able to state compliance with the *IFRS for SMEs* unless the effect is not material.

Q&A 2012/03

**IFRS for SMEs** Section 11

Fallback to IFRS 9 **Financial Instruments**

The issue: Paragraph 11.2(b) gives an entity the option of applying the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to account for all of its financial instruments instead of following the recognition and measurement requirements in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. The IASB has been replacing IAS 39 with IFRS 9 *Financial Instruments* in phases. May an entity choose to apply the recognition and measurement provisions of IFRS 9?

The response: No. The *IFRS for SMEs* refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9.

Q&A 2012/04

**IFRS for SMEs** Section 30

Recycling of cumulative exchange differences on disposal of a subsidiary

The issue: Paragraph 30.13 requires exchange differences arising on translation of a monetary item that forms part of a reporting entity's net investment in a subsidiary to be recognised initially in other comprehensive income and to be reported as a component of equity. It specifically prohibits those cumulative exchange differences from being recognised in profit or loss (ie 'recycled') on disposal of that net investment.

Paragraph 30.18 similarly requires exchange differences arising on translation of a foreign subsidiary into the group's presentation currency for consolidation purposes to be recognised in other comprehensive income. However, paragraph 30.18 is silent on recycling. Are the cumulative exchange differences that arise on translation into a presentation currency also prohibited from being recognised in profit or loss on disposal of the subsidiary?

The response: Yes. Paragraph 9.18 states "The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 Foreign Currency Translation, is recognised in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary". The word 'excluding' should be interpreted as 'not taking the exchange difference into account in measuring the gain or loss on disposal'.

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## Q&As about the **IFRS for SMEs**: status report

The table below provides a list of the Q&As issued by the SMEIG so far. You will find links to each final Q&A here <http://www.ifrs.org/IFRS+for+SMEs/QAsSMEs.htm>. There are currently no additional Q&As being developed by the SMEIG.

When the IASB issued the *IFRS for SMEs* in 2009, it made a commitment to undertake a post implementation review of the standard. The first step in that review will be publication of an Invitation to Comment on whether there is a need to amend the *IFRS for SMEs*:

- to incorporate issues that were addressed in the Q&As;
- to reflect new and amended IFRSs that have been approved since the *IFRS for SMEs* was issued; and
- to address any other identified issues, eg implementation issues raised by constituents.

The IASB is currently developing the Invitation to Comment, with input from the SMEIG. This is expected to be issued for public comment in mid-2012. In light of the comprehensive review, the SMEIG does not expect that it will issue any additional draft Q&As before the review is completed. Following the review, the IASB plans to consider amendments to the *IFRS for SMEs* approximately once every three years

### Final Q&As

Q&A number	Topic	Date Q&A was published
Q&A 2011/01	Use of <i>IFRS for SMEs</i> in a parent's separate financial statements	23 June 2011

Q&A 2011/02	Entities that typically have public accountability	7 December 2011
Q&A 2011/03	Interpretation of 'traded in a public market' in applying the <i>IFRS for SMEs</i>	7 December 2011
Q&A 2012/01	Application of 'undue cost or effort'	10 April 2012
Q&A 2012/02	Jurisdiction requires fallback to full IFRSs	10 April 2012
Q&A 2012/03	Fallback to IFRS 9 <i>Financial Instruments</i>	27 April 2012
Q&A 2012/04	Recycling of cumulative exchange differences on disposal of a subsidiary	27 April 2012

The [Terms of Reference](#) of the SMEIG, as approved by the Trustees of the IFRS Foundation, establish criteria for Q&As (see paragraphs 15-17) and due process steps for issuing a Q&A (see paragraphs 18-36), including review of draft Q&As and final Q&As by the IASB before they are issued

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## News about adoptions of the *IFRS for SMEs*: Bangladesh

The Institute of Chartered Accountants of Bangladesh has adopted the *IFRS for SMEs* as the Bangladesh Financial Reporting Standard (BFRS) for Small and Medium-sized Entities (SMEs). It is available for use in Bangladesh starting in 2013. In a message presented at the front of the standard, Mr Md. Ghulam Hussain, Commerce Secretary of the Bangladesh Ministry of Finance, wrote:

"We feel that there was no common set of accounting standards to be followed by SMEs before adopting and publishing the BFRS for SMEs. But it is true that the SMEs dominate the business in our country. So we believe that such acceptable high quality standard is very much significant for SMEs in Bangladesh for fair presentation of their financial statements....

"I believe that the business community and even the nation at large will be benefitted from such a wonderful publication."

Also, Mr Aftab ul Islam FCA, Chairperson of the Small & Medium Enterprise Foundation in Bangladesh, wrote in a foreword to the BFRS for SMEs:

"We have long been feeling the necessity of a common set of high quality, understandable, transparent and enforceable accounting standards for SMEs in Bangladesh, and I know that the publication of BFRS for SMEs will surely serve the need by providing a framework that will allow SMEs to prepare sound financial statements that could be used by lenders, vendors, credit rating agencies and other stakeholders."

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## *IFRS for SMEs* translations: status report

The Hebrew and Kazakh translations of the *IFRS for SMEs* have been completed and are available online. Here is the current status of translations of the *IFRS for SMEs* approved by the IFRS Foundation:

Completed. Albanian\*, Arabic, Armenian\*, Chinese (simplified)\*, Czech\*, French\*, Hebrew\*, Italian\*, Japanese\*, Kazakh\*, Lithuanian, Macedonian\*, Mongolian\*, Polish\*, Portuguese\*, Romanian\*, Russian\*, Serbian, Spanish\*, Turkish\*

In process. Estonian, Khmer, Ukrainian

Under discussion with the IFRS Foundation. Bulgarian, Georgian

\*Available for free download [here](#)

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## Additional Arabic- and Spanish-language training modules

The Arabic translation of Module 33 *Related Party Disclosures* of the *IFRS for SMEs* training material is now available. In total, 27 Arabic-language modules are now available for download from the IFRS Foundation website (see <http://www.ifrs.org/IFRS+for+SMEs/ArabicModules.htm>). The IFRS Foundation is grateful to the Arab Society of Certified Accountants (ASCA) Jordan for facilitating and funding the translation of the training material.

In addition, the Spanish translation of Module 22 *Liabilities and Equity* of the *IFRS for SMEs* training material is now available. In total, 28 Spanish-language modules are now available for download from the IFRS Foundation website (see <http://www.ifrs.org/IFRS+for+SMEs/Spanish+Modules.htm>). The IFRS Foundation is grateful to the World Bank for facilitating the translation of the training material with funding from the Spanish Trust Fund for Latin America and the Caribbean.

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## **IFRS for SMEs** 'train the trainers' workshop in Cameroon and Bangladesh

On 17–19 April 2012 the IFRS Foundation held a three-day French-language workshop in Douala, Republic of Cameroon, to train the trainers in West Africa on the *IFRS for SMEs*. The event was sponsored by the World Bank for interested parties from the 16 OHADA (L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires) countries. Instructors were Gilbert Gélard (former IASB member) and Michael Wells (Director, IFRS Education Initiative, IASB). The 100 participants came from 12 countries: Benin, Burkina Faso, Cameroon, Democratic Republic of Congo, Burundi, Chad, Côte d'Ivoire, Equatorial Guinea, Gabon, Niger, Senegal, and Togo. The workshop is designed to support informed adoption decisions and to build capacity to apply the *IFRS for SMEs* rigorously and consistently by training local trainers to train others in their respective jurisdictions to apply the requirements. The IFRS Foundation is grateful to the World Bank for organising and funding the workshop and for funding the translation of the workshop material into the French language. The French-language Microsoft PowerPoint® presentations used at the workshop will be made available next month to download for free from the IASB's website.

In addition, on 23–25 April 2012 the IFRS Foundation held a three-day workshop in Dhaka, Bangladesh, to train the trainers in South Asia on the *IFRS for SMEs*. The event was sponsored by the Institute of Chartered Accountants of Bangladesh and the South Asian Federation of Accountants. Instructors were Paul Pacter (IASB member and Chairman of the SMEIG) and Michael Wells. All 54 participants were from Bangladesh. The workshop is designed to build capacity to implement the *IFRS for SMEs* in South Asia by training the trainers in advance of the standard being applied in Bangladesh for the first time in 2013. The IFRS Foundation is grateful to the Institute of Chartered Accountants of Bangladesh and South Asian Federation of Accountants for sponsoring the workshop.

More information about past workshops, including free downloads of the Microsoft PowerPoint® slides used in the workshops, can be found here:

<http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm>

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## Where to obtain **IFRS for SMEs** materials

- [The standard online](#) (available in multiple languages)
- [The standard in hard copy](#)

- [Information about the SME Implementation Group](#)
- [Q & As](#)
- [Presentations at 'train the trainers' workshops](#)
- [Training materials in PDF format](#)
- [Board and staff presentations about the \*\*IFRS for SMEs\*\*](#)
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