

IFRS for SMEs Section 3, Issue 1

Jurisdiction requires fallback to full IFRSs

Draft Q&As are published by the SME Implementation Group (SMEIG), which assists the IASB¹ in supporting the implementation of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the Implementation Group by users implementing the *IFRS for SMEs*.

The SMEIG invites comments on whether the proposed Q&A provides useful and sufficient guidance on the matter.

Comment deadline: 30 November 2011.

Comments must be submitted electronically via the IASB's website: <http://go.ifrs.org/IFRS+for+SMEs+QandA>.

Comment documents should state the name and address of the organisation or individual submitting the comment (and, if an organisation, the name of a contact person), and a contact email address.

All comments will be posted on the IASB's website.

Issue

- 1 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 they 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*?

Response

- 2 Yes—in such situations SMEs can state compliance with the *IFRS for SMEs*. In the absence of specific requirements for transactions, events or conditions, paragraph 10.4 of the *IFRS for SMEs* 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:
 - (a) the requirements and guidance in the *IFRS for SMEs* dealing with similar and related issues; and
 - (b) 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 dealing with similar and related issues.
- 3 When following paragraphs 10.4 and 10.5, the full IFRS principles may be used in the absence of specific guidance in the *IFRS for SMEs*. Since paragraph 10.4 and Section 2 are based on full IFRSs, using requirements in full IFRSs will result in an appropriate accounting treatment.

- 4 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* those 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*. Paragraph BC68 identifies the twelve main areas where the *IFRS for SMEs* would mandate a recognition or measurement principle that is different from full IFRSs.

Basis for Conclusions

- BC1 In paragraph BC67 in the Basis for Conclusions issued with the *IFRS for SMEs* the Board explains why SMEs are not permitted to make optional use of full IFRSs instead of applying requirements contained in the *IFRS for SMEs*. The addition of paragraph 10.6, which states that management may consider full IFRSs when applying 10.4, is intended to tell entities that they may look to full IFRSs to help them to develop a suitable accounting policy in the absence of specific requirements in the *IFRS for SMEs*. That is a different situation from a free-choice option to use full IFRSs when an issue is addressed in the *IFRS for SMEs*.
- BC2 Paragraph BC95 explains that the *IFRS for SMEs* was developed by extracting the fundamental concepts from the *Framework* and the principles and related mandatory guidance from full IFRSs and then making modifications in light of user needs and cost-benefits. Therefore, since full IFRSs and the *IFRS for SMEs* are based on the same fundamental concepts, unless specific modifications have actually been made in the *IFRS for SMEs*, the recognition and measurement requirements under full IFRSs will be appropriate for SMEs applying the *IFRS for SMEs*.

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