INTRODUCTION

On 9th July 2009, The International Accounting Standards Board (IASB) has issued The International Financial Reporting Standards for Small and medium sized entities (IFRS for SMEs), which are the outcome of five long year's development processes and rigorous discussion processes. It is a simplified version of full IFRS after omitting the topics which are not relevant for SMEs.

Full IFRS are applicable to listed and big entities in India from 1st April 2011 and financial reporting for 31st March 2012 would be as per IFRS for all listed and big entities.

Financial statement as per IFRS will be issued as per International Financial Reporting Standard-1(IAS-1) which requires, minimum one year comparative should be given, therefore, the transition date for listed and big entities will be from 1st April 2010,where opening balance sheet would be prepared.

IFRS for SMEs

IFRS for SMEs define SMEs as entities that do not have public accountability and publish general purpose financial statement for external users.

Listed company no matter how small they are will not use IFRS for SMEs. A subsidiary whose parent or group uses full IFRSs 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.

IFRS for SMEs is a standalone document with ability to meet all requirements of SMEs, will cover over 95 percent of all the companies.

To make final IFRS for SMEs standalone document board incorporate some topics which were not there in exposure draft;

• Equity-settled share-based payment with cash alternatives.

• Fair value measurement of biological assets.

• Hyperinflation

• Lesser accounting for finance leases.

• The Direct Method of presenting operating cash flow.

IFRS for SMEs is based on the fundamental principles of full IFRS, but in many cases, it has been simplified to make the accounting requirements less complex and to reduce the cost and effort required to produce the financial statements. Few topics addressed in full IFRS but omitted from IFRS for SMEs because they were not relevant to SMEs such as earning per share, interim financial reporting, segment reporting and special account for assets held for sale.

IFRS for SMEs is a text of 255 pages which is only 10% of full IFRS divided into 35 sections to cover all of the recognition, measurement, presentation and disclosure requirements for SMEs.

Whether an entity is a SME or public interest entity is taken on the basis of turnover (at present 50 crore) and borrowing limit (at present 10 crore) etc. IASB does not interfere with such limits as fixed by appropriate authorities in any country. IASB also does not interfere for what is SME and what is public interest entity.

Small and Medium-sized Entities

In India, various regulatory authorities have defined Small and medium-sized entities, standard define SMEs are entities that do not have public accountability, and publish general purpose financial statements for external users. Examples of external users include:

• Banks that gives loans to SMEs.

• Vendors that do business with SMEs use financial statements to make decisions about credit and price.

• Credit rating agencies and other that use financial statements to rate SMEs.

• Customers use the financial statement to make the decision to do business.

• Shareholder's of SMEs use the financial statement to know the business situation.

An entity has public accountability if:

• 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

• It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

While this definition is necessary for an understanding of the entities to which IFRS for SMEs is applicable, the preface to the standard indicates that the decision as to which entities are required or permitted to apply the standard will lie with the regulatory and legislative authorities in each jurisdiction.

However, if a publicly accountable entity uses the standard, it may not claim that the financial statements conform to IFRS for SMEs even if its application is permitted or required in that jurisdiction, as the entity would not meet the definition of an SME.

Concepts and Pervasive Principles

Objective of SMEs' financial statements is to provide information about financial position, performance, cash flows and also shows results of stewardship of management over resources. Financial position of an entity is assets, liabilities and equity at a point of time and performance is the relationship of income and expenses of an entity during a reporting period.

Qualitative characteristics is to provide the qualitative characteristics of information in financial statements like understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.

Recognition element of financial statement says that an item that meets the definition of an asset, liability, income, or expense is recognized in the financial statements if it is probable that future benefits associated with the item will flow to or from the entity, and the item has a cost or value that can be measured reliably.

IFRS for SMEs describes hyperinflation applies to an entity whose functional currency is the currency of hyperinflationary economy. IFRS for SMEs provides indicators of hyperinflation but not an absolute rate, an entity has to make judgment by considering all available information about the rate at which economy is deemed hyperinflationary.

One indicator is where cumulative inflation approaches or exceeds 100% over a 3 year period. IFRS for SMEs also provides guidance on financial reporting involving specialized activities such as agriculture, extractive industries and Service concession arrangements.

An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted and will be measured at the reporting date as:

• Basic financial assets and liabilities are generally measured at amortized cost

• Other financial assets and liabilities are generally measured at fair value through profit or loss

• Non-financial assets are generally measured using a cost-based measure

• Non-financial liabilities are generally measured at settlement amount.

Transition to the IFRS for SMEs

• As per IFRS 1, an entity adapting IFRS for SMEs first time will makes an explicit and unreserved statement of compliance with the IFRS for SMEs.

• An entity whether previously using full IFRS or GAAP can switch to IFRS for SMEs.

• The date of an entity transition is the beginning of earliest period presented.

• An entity can choose the accounting policy at the time of adoption of standard and adjustment to that effect be made directly in retained earnings.

• An entity will prepare comparable financial statement for one prior year from the date of adoption.

• An entity shall not change the accounting that it followed under its previous financial reporting framework for following transaction:

- De-recognition of financial assets and financial liabilities
- Hedge accounting
- Estimates
- Assets classified as held for sale and discontinued operations
- Optional and mandatory exceptions are also there in standard for an entity.

Benefits

The IFRS for SMEs will provide improved comparability for users of accounts enhance the overall confidence in the accounts of SMEs, and reduce the significant costs involved of maintaining standards on a national basis. The application of this standard is expected to reduce the compliance costs for many smaller entities and help make the financial statements of such entities less complex.

The IFRS for SMEs will also provide a platform for growing businesses that are preparing to enter public capital markets, where application of full IFRSs is required. The underlying benefit is to provide confidence in financial reporting and capital markets, thus facilitating increased business with trading partners and economic growth.

Maintenance

Maintenance to the IFRS will be limited to once every three years. The IFRS for SMEs is separate from full IFRSs and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs.

It is also for each jurisdiction to determine which entities should use the standard. It is effective immediately on issue.

Conclusion

IFRS for SMEs is long awaited step by both developed and emerging economies of the world. In India, one major criticism against the full implementation of IFRS was that it would impose an unnecessary burden and hardship on SMEs. With the issuance of the SME standard, one of the major hurdles for the implementation of IFRS in India has been removed.

As the standard is very principles-based, interpretation issues are likely to arise, which will require a globally consistent resolution. To ensure this standard achieves international consistency and comparability of financial reporting, it is important that interpretations are not developed by each jurisdiction. It would appear logical that the International Financial Reporting Interpretations Committee could be approached to provide any interpretative guidance that users may require.

Vandana Goel, FCA, M Com is a Management and Corporate Tax Consultant and can be reached at bindugoel@gmail.com