

IFRS for SMEs Section 3, Issue 2

Departure from a principle in the *IFRS for SMEs*

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 An entity chooses to use a principle that is not allowed under the *IFRS for SMEs* (eg capitalising borrowing costs or revaluing property, plant and equipment), but otherwise complies with the *IFRS for SMEs* in full. Can its financial statements be described in any way as complying with the *IFRS for SMEs*?
- 2 Such a situation arises if a subsidiary of a group applying full IFRSs applies the *IFRS for SMEs* in its own financial statements, but uses one or more full IFRS principles that are used by the group where the *IFRS for SMEs* requires a different principle. It also arises in a jurisdiction where the authorities adopt the *IFRS for SMEs* as their local SME standard, but modify one or more of the sections.

Response

- 3 Paragraph 3.3 notes that 'Financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all the requirements of this IFRS'. Therefore if a company uses the *IFRS for SMEs* except for one or more accounting principles not in accordance with the *IFRS for SMEs*, and the departure does not meet the strict and extremely rare condition in paragraph 3.4, it may not state compliance with the *IFRS for SMEs*.
- 4 Where authorities in a particular jurisdiction adopt the *IFRS for SMEs* as their local SME standard, but modify certain sections, an entity complying with the local SME standard will not be able to state compliance with the *IFRS for SMEs* unless that modification does not affect the entity (ie the financial statements would not be materially different if they were prepared in conformity with the *IFRS for SMEs*). An entity complying with the local SME standard is not prohibited from disclosing that its financial statements are 'in conformity with the local standard which results in the following mandatory departures from the *IFRS for SMEs* [state departure(s)]'. Alternatively, the entity could disclose the local standard 'is the same as the *IFRS for SMEs* except for [state modification(s)]'.

Basis for Conclusions

BC1 Paragraph 3.3 of the *IFRS for SMEs* clearly states that financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all of its requirements. A departure is justified only in the rare circumstances that compliance with the *IFRS for SMEs* is so misleading that it would conflict with the objective of financial statements of SMEs as set out in Section 2 (paragraph 3.4).

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