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A COMPARATIVE STUDY ON IFRS FOR SMES & FULL IFRS

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ABSTRACT

International Financial Reporting Standards (IFRS) are the global accounting standards issued and maintained by International Accounting Standard Board (IASB) Since 2001 April onwards. After a some years, IASB decide to separates the IFRS into two categories such as one is Full IFRS for meet the need of large companies with complicated requirements and second one is IFRS for SMEs (Small & Medium Enterprise) for small companies with fewer regulations. This study "A Comparative Study on Full IFRS and IFRS for SMEs", tries to make a brief description about IFRS for SMEs & Full IFRS and also find out the difference between IFRS for SMEs and Full IFRS. Finding of the study reveals that many of the principles in Full IFRS for financial statements have been simplified and topics not relevant to SMEs have been omitted. Earnings per share, interim financial reporting, segment reporting ... etc are some examples for omitted topics. And also some options available under full IFRS which are not included in the IFRS for SMEs.

KEYWORDS: *global accounting standards, International Accounting Standard*

I. INTRODUCTION

. International Accounting Standards are issued by International Accounting Standard Committee (IASC) from 1973 to 2001. International Accounting Standard Board (IASB) replaced instead of IASC on 2001 April 1. After 1 April 2001, IASB issued Accounting standards which is known as International Financial Reporting Standards (IFRS).

It could be argued that company financial statements should be two types such as simple one for small companies with fewer regulation and requirements and complicated one for large companies with extensive and detailed requirements. This sometimes called the big GAAP / little GAAP divide. This area is discussed in many years and many jurisdictions have their own standard for small and medium sized entities which reduce the reporting requirements for these entities. But there was no guidance on this area from the IASB until 2009.

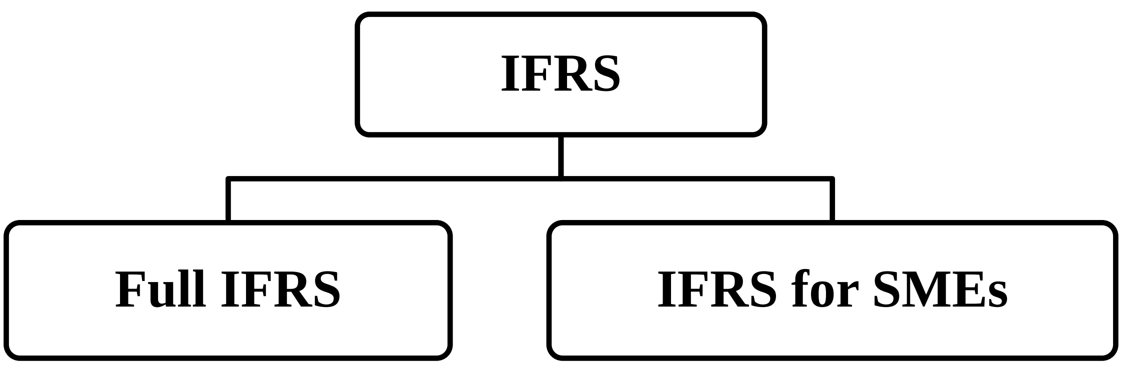
In July 2009, IASB issued IFRS for SMEs. So, IASB issues Full IFRS and IFRS for SMEs. It will effect from 2017 onwards. This study makes comparison between Full IFRS and IFRS for SMEs.

II. OBJECTIVES OF THE STUDY

- To provide a brief description about IFRS for SMEs & Full IFRS.
- To find out the difference between full IFRS and IFRS on SMES

III. A CONCEPTUAL FRAME WORK OF IFRS & SMES

- **Accounting Standard –:**
  - → It is the principle which guide and standardize the accounting practices
- **I A S**
  - → IAS – Abbreviated form of International Accounting Standards
  - → It is the Accounting Standards which issued and developed by International Accounting Standard Committee (IASC).
  - → It issued from April 1973 to April 2001.
- **IFRS**
  - → IFRS - Abbreviated form of International Financial Reporting System
  - → It is a Single set of Accounting Standard, developed and maintained by the International Accounting Standard Board (IASB).
  - → It issued after 2001 April 1.
  - → The main aim of the IFRS is to provide a Global Framework for the Public Companies to prepare and disclose their Financial Statements.
- **SMEs**
  - → SMEs – Abbreviated form of Small and Medium Enterprises
  - → In India, SMEs are the enterprises where the investment in plant & machinery or equipment is between Rs. 25 Lakhs to 10 Crore in case of a manufacturing industry and Rs. 10 Lakh to Rs. 5 Crore in case of service Sector Company
- **Types of IFRS**



→ On the basis of size of the company, the company's financial statements, classified into two-

- Simple – ones for small companies with fewer regulations and disclosure requirements – IFRS for SMEs.
- Complicated – one for large companies with extensive and detailed requirements – Follows Full IFRS.

- **IFRS for SMEs**
  - → It is a self -contained standard (less than 250 pages), designed to meet the needs and capabilities of small and medium entities.

→ It is a simplification form of Full IFRS

→ Here, SMEs means – It is the entities that

- Publishes general purpose financial statements for external users
- Does not have public accountability.

→ Public Accountability means - It is an entity which

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→ In July 2009 the IASB publish its IFRS for SMEs – This was the result off a project going to 2003 in exposure draft has been field tested with the participation of 116 small companies in 20 countries.

→ The Final IFRS for SMEs is a stand – alone document

→ Many of the principles in full IFRS for recognizing and measuring the elements of financial statements have been simplified and topics not relevant to SMEs have been omitted.

→ Revisions in IFRS for SMEs will be limited to once every 3 years

→ Omitted Topics –

- Earnings per share
- Interim Financial reporting
- Segment reporting
- Special accounting for assets held for sale

→ Options available under full IFRS which are not included in the IFRS for SMEs are

- The revaluation model for PPE and intangible assets
- The accounting policy choice between cost and fair value models for investment property
- The various options for treatment of government grants.

- **History of IFRS on SMEs**

Sl.No	Date	Development
1	2001	Project carried over from old IASC
2	24 June 2004	Published ' Preliminary Views on Accounting Standards for Small and Medium sized Entities ' – it is a discussion paper
3	15 Feb 2007	Published a draft for ' Small and Medium sized entities '
4	9 July 2009	Issued IFRS for Small and Medium size Entities by IASB
5	26 June 2012	Publish – Request for a comprehensive Review of the IFRS for SMEs
6	3 October 2013	Publish – Propose amendments to the IFRS for SMEs
7	21 May 2015	Issued 2015 Amendments to the IFRS for SMEs issued
8	1 January 2015	Effective for annual periods beginning on or after 1 January 2015

IV. DIFFERENCE BETWEEN IFRS AND IFRS FOR SMEs

<table>
<tr><th>Topic</th><th>Subject Area</th><th>IFRS for SMEs</th><th>Full IFRS</th></tr>
<tr><td>Accounting Framework</td><td>Scope</td><td>IFRS for SMEs uses an entity that publishes general purpose FS for - external users only but don't have public accountability.</td><td>Full IFRS uses an entity that publishes general purpose FS for - both external users and public accountability.</td></tr>
<tr><td rowspan="2">Concepts and Principles</td><td>Measurement basis</td><td>Historical cost → Common
Fair Value →
Certain Categories of financial instruments
Investment property
Agriculture asset</td><td>It include –
Historical cost - common
Current cost
Realisable Value
Present Value
Fair Value – Investment property, Biological assets and certain categories of financial instruments</td></tr>
<tr><td>Qualitative characteristics</td><td>Qualitative characteristics
Understandability
Relevance
Reliability
Comparability
Materiality
Substance over form
Prudence
Completeness
Timeliness
Balance between benefit & cost</td><td>4 Qualitative Characteristics
Understandability
Relevance
Reliability
Comparability</td></tr>
<tr><td>Statement of financial Position</td><td>General</td><td>There is no prescribed form of balance sheet
Normally it includes
<table>
<tr><th>Assets</th><th>Liabilities</th></tr>
<tr><td>Cash & Cash equivalents
Trade & Other Receivables
Financial Assets
Inventories
Property ,plant, equipment
Invest Property
Biological assets
Current tax assets
Deferred tax assets</td><td>Trade & Oth Payables
Financial Liabilit
Current tax
Deferred tax
Provisions
Non –Controlli interests
Equity attributal to the owners the parent</td></tr>
</table></td><td>Items in IFRS for SMEs +
Some additional items-
Total assets are classified as held for sale & assets included in disposal groups classified as held for sale
Liabilities included in disposal groups classified as held for sale
Only those investments that are to be accounted for using the equity method are presented as a line item</td></tr>
<tr><td></td><td>Requirements to prepare Consolidated FS</td><td>Parent Company prepare a Consolidated FS that include all subsidiary
Exemptions applied to a parent company, that itself a subsidiary and immediate or ultimate parent</td><td>Exemptions applied to a parent company,
That itself a Wholly owned / the owners of the minority interests have been informed about and do not object to the parent's not presenting consolidated FS</td></tr>
</table>

Consolidation		produces consolidated FS that comply with full IFRS or IFRS for SMEs. • An entity is exempts from consolidation when on acquisition there is evidence that control is intended to be temporary and this entity is only existing subsidiary.	• Parent securities not traded publicly & the parent in not in the process of issuing securities in public securities markets.
	Reporting Periods	The consolidated FS of the parent & Its subsidiary are usually drawn up at the same reporting date .	Same to IFRS for SMEs In addition- It specify • Maximum difference of the reporting periods (3 Months) & • Requirement to adjust for significant transactions that occur in the gap period
Business combination	Purchase Accounting	All business combinations are accounted by applying the purchase method.	Accounting under it – not a cost – allocation model It valued at fair value
	Cost of acquisition	It includes- • Fair value of asset given • Liability incurred or assumed • Equity instruments issued by the acquirer in exchange for the control of the acquire. • Directly attributable costs	Only Fair value of consideration includes. It excludes transaction cost.
	Goodwill	It is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities It consider amortization of goodwill	Compare fair value of acquired asset & liabilities with the fair value of considerations Amortisation of goodwill is not permitted
	Negative Goodwill	It is recognised in P/L immediately after management has reassessed the identification & measurement of identifiable items arising on acquisition and the cost of the business combination	Same as IFRS on SMEs Term of Gain on bargain is used instead of Negative Goodwill

Investments in Associates	Significant influence	It exist when – the investor holds at least 20% of the investees voting power. Not exist when – the investor holds less than 20% of the investees voting power.	It exist when - the investor holds • At least 20% of the investees voting power. • If < 20% of the investees voting power, consider- Representation on the board of directors or equivalent body Participate in policy making Material transaction b/w investor 7 investee Provision for technical information Interchange of managerial persons
	Measurement after initial recognition	Using any one of the following • Cost model • The equity method • The fair value through profit or loss model	Using Equity method only
Investment in Joint Venture	Accounting for jointly venture entities	Use any one of them • Cost model • The equity method • The fair value through profit or loss model	Use either • The proportionate consolidation method or • The equity method •
	Proportionate consolidation	Not permitted	Permitted
Govt grants	Recognition and measurement	Grants measured at Fair value of asset received or receivables	Grant measure at capital approach or income approach
Defined Benefit plans	Actual gains & losses	Actual gain or loss on liabilities are recognised in full in profit/loss or other comprehensive income in the period in which they occur	It arise on both Assets and liabilities
	Past – service costs	It recognised in full in P/L in the period in which they occur	It recognised as an expense
Financial instruments	Accounting policy option	It has a choice to apply either Sec 11 and 12 of IAS 39	Not applicable
	Categories	It distinguishes b/w basic(Sec 11) and complex financial instruments (Sec12)	It distinguishes 4 measurement categories • Financial assets/liabilities at fair value through P/L • Held to maturity investments • Loans and receivables • Available for sale financial assets
	Initial Measurement	• Financial instruments are measure at - Transaction price cost & Fair value through P/L • Assets and liabilities are measure at	Measured at fair value

		– Present value of future payments if payment is deferred or financed at an interest rate that is not a market rate	
Investment Property	Subsequent measures	Measure at Fair value	Measure at fair value or cost

- **Advantages of IFRS for SMEs compared with Full IFRS**

There are lots of advantages in adopting IFRS for SMEs. That's are given below,

→ Comparability
→ Easy to Understand
→ Prepared in Simplest Format
→ Widening Cross – border trade
→ Enhance confidence
→ Easy to follow Full IFRS
→ Reduce Cost for maintain standards
→ Audit Cost is too Low
→ Increase Company Productivity
→ Improve International funding

- **Disadvantages of IFRS for SMEs compared with Full IFRS**

→ Increase cost
→ Use of less Stringent accounting rules
→ Redesign the internal entity
→ Lack of professionalism
→ Involve complex topics
→ Huge adoption cost

- **Full IFRS**

Accounting Standards which are designed to meet the needs & capabilities of large companies with extensive and detailed requirements.

V.CONCLUSION

Both full IFRS and IFRS for SMEs are developed and maintained by International Accounting Standard Board (IASB). Compared with full IFRS, the IFRS for SMEs is less complex in number of ways, such as topics not relevant for SMEs are omitted, many principles for recognizing and measuring assets, liabilities, income and expenses in full IFRS are simplified, fewer disclosure is required , simple and clear etc. Any way this separation of IFRS is very use full for SMEs If they are ready to overcome the minor drawbacks regarding the implementation of IFRS for SMEs.

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