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 separate 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


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 FRAMEWORK OF IFRS & SMES
- Accounting Standard →
  - It is the principle which guide and standardize the accounting practices
- IAS
  - 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
  - Full IFRS
  - IFRS for SMEs
- 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.

- 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 Lakh to 10 Crore in case of a manufacturing industry and Rs. 10 Lakh to Rs. 5 Crore in case of a service Sector Company
→ It is a simplification form of Full IFRS
→ Here, SMEs means – It is the entities that
  o Publishes general purpose financial statements for external users
  o Does not have public accountability.
→ Public Accountability means - It is an entity which

→ 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.

• **History of IFRS on SMEs**

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

→ 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.
## IV. DIFFERENCE BETWEEN IFRS AND IFRS FOR SMEs

<table>
<thead>
<tr>
<th>Topic</th>
<th>Subject Area</th>
<th>IFRS for SMEs</th>
<th>Full IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting Framework</strong></td>
<td>Scope</td>
<td>IFRS for SMEs uses an entity that publishes general purpose FS for <em>external users only but don’t have public accountability.</em></td>
<td>Full IFRS uses an entity that publishes general purpose FS for <em>both external users and public accountability.</em></td>
</tr>
</tbody>
</table>
| **Concepts and Principles** | Measurement basis | • **Historical cost** → Common  
• **Fair Value** →  
  ▪ Certain Categories of financial instruments  
  ▪ Investment property  
  ▪ Agriculture asset | It include –  
• Historical cost - common  
• Current cost  
• Realisable Value  
• Present Value  
• Fair Value – Investment property,  
  Biological assets and certain categories of financial instruments |
| | Qualitative characteristics | Qualitative characteristics  
• Understandability  
• Relevance  
• Reliability  
• Comparability  
• Materiality  
• Substance over form  
• Prudence  
• Completeness  
• Timeliness  
• Balance between benefit & cost | 4 Qualitative Characteristics  
• Understandability  
• Relevance  
• Reliability  
• Comparability |
| **Statement of financial Position** | General | There is no prescribed form of balance sheet  
Normally it includes | 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 |
| | Assets | Liabilities |  |
| | Cash & Cash equivalents  
Trade & Other Receivables  
Financial Assets  
Inventories  
Property, plant, equipment  
Invest Property  
Biological assets  
Current tax assets  | Trade & Other Payables  
Financial Liability  
Current tax  
Deferred tax  
Provisions  
Non-controlling interests  | Equity attributable to the owners of the parent |
| Requirements to prepare Consolidated FS | 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 | 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 |
<table>
<thead>
<tr>
<th><strong>Consolidation</strong></th>
<th><strong>Parent securities not traded publicly &amp; the parent in not in the process of issuing securities in public securities markets.</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Reporting Periods</strong></td>
<td><strong>An entity is exempt from consolidation when on acquisition there is evidence that control is intended to be temporary and this entity is only existing subsidiary.</strong></td>
</tr>
<tr>
<td><strong>Same to IFRS for SMEs</strong></td>
<td><strong>In addition- It specify</strong></td>
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<tr>
<td><strong>Purchase Accounting</strong></td>
<td><strong>Maximum difference of the reporting periods (3 Months) &amp;</strong></td>
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<tr>
<td><strong>Cost of acquisition</strong></td>
<td><strong>Requirement to adjust for significant transactions that occur in the gap period</strong></td>
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<tr>
<td><strong>Business combination</strong></td>
<td><strong>Same as IFRS on SMEs</strong></td>
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<tr>
<td><strong>Goodwill</strong></td>
<td><strong>Term of Gain on bargain is used instead of Negative Goodwill</strong></td>
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<td><strong>Negative Goodwill</strong></td>
<td><strong>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 considers amortization of goodwill</strong></td>
</tr>
<tr>
<td><strong>Consolidation</strong></td>
<td><strong>produces consolidated FS that comply with full IFRS or IFRS for SMEs.</strong></td>
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<tr>
<td><strong>Parent securities not traded publicly &amp; the parent in not in the process of issuing securities in public securities markets.</strong></td>
<td><strong>An entity is exempt from consolidation when on acquisition there is evidence that control is intended to be temporary and this entity is only existing subsidiary.</strong></td>
</tr>
<tr>
<td><strong>Reporting Periods</strong></td>
<td><strong>The consolidated FS of the parent &amp; its subsidiary are usually drawn up at the same reporting date.</strong></td>
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<tr>
<td><strong>Purchase Accounting</strong></td>
<td><strong>All business combinations are accounted by applying the purchase method.</strong></td>
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<tr>
<td><strong>Cost of acquisition</strong></td>
<td><strong>It includes</strong></td>
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<td><strong>Goodwill</strong></td>
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<td><strong>Negative Goodwill</strong></td>
<td><strong>It is recognized in P/L immediately after management has reassessed the identification &amp; measurement of identifiable items arising on acquisition and the cost of the business combination.</strong></td>
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<td>Investments in Associates</td>
<td>Significant influence</td>
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<td>Measurement after initial recognition</td>
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<td>Investment in Joint Venture</td>
<td>Accounting for jointly venture entities</td>
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<td>Proportionate consolidation</td>
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<td>Govt grants</td>
<td>Recognition and measurement</td>
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<td>Defined Benefit plans</td>
<td>Actual gains &amp; losses</td>
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<td>Past – service costs</td>
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<td>Financial instruments</td>
<td>Accounting policy option</td>
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<td>Categories</td>
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<td>Initial Measurement</td>
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<td>Investment Property</td>
<td>Subsequent measures</td>
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- Present value of future payments if payment is deferred or financed at an interest rate that is not a market rate

- **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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