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Accounting and financial reporting needs of SMEs

Workshop material:

IFRS for SMEs Adoption & implementation in Asia

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IFRS for SMEs Adoption & implementation in Asia

By Syed Asad Ali Shah



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Adoption status of IFRS for SMEs in Asia

Countries that have adopted the IFRS for SMEs

1. Bangladesh
2. Hong Kong
3. Israel
4. Myanmar (Burma)
5. Singapore
6. Sri Lanka

Countries that have planned the adoption of IFRS for SMEs:

1. Bhutan
2. Jordan
3. Lebanon
4. Pakistan
5. Palestine
6. Qatar
7. Saudi Arabia

Status of IFRS for SMEs in Asia

Country	Status of adoption
Singapore	<p>These are known as Singapore Financial Reporting Standards for Small Entities (SFRS for Small Entities).</p> <p>The only difference appears to be that in Singapore, they have replaced the terms “SME” with small entities.</p> <p>An entity qualifies as a small entity if it meets at least two of the three following criteria:</p> <ul style="list-style-type: none">•total annual revenue of not more than S\$10 million (approximately US\$ 8 million);•total gross assets of not more than S\$10 million (approximately US\$ 8 million);•total number of employees of not more than 50.
Challenges & issues in implementation	<p>No significant issues were reported.</p> <p>Inquiries revealed that very few clients of larger firms are using this standard so far.</p>

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Israel	<p>The IFRS for SME was adopted by the Israel Accounting Standards Board effective 1 January 2011.</p> <p>Due to differences in the measurement requirements between the IFRS for SME and full IFRSs, the Board decided not to make the use of the IFRS for SMEs mandatory at that time. However, the Board stated that it intends to consider again the mandatory use of the IFRS for SMEs after its first revision following the comprehensive review.</p> <p>All SMEs that do not use the IFRS for SMEs are permitted to use either full IFRSs or Israeli GAAP as issued by the Israel Accounting Standards Board or US GAAP.</p>
Status of implementation	<p>Based on my inquiries, “no one has adopted the IFRS for SME's. The main reason is that the income tax authority in Israel do not accept IFRS nor IFRS for SME's and since the main reason for the preparation of financial statements for private companies is for the determination of taxable income, no one has adopted it, I believe no one would in the near future.</p> <p>The standard, as currently adopted, would mandate the usage of the IFRS for SME's from 2015, but currently there are discussions that this mandate would be removed and the standard would only provide an option to adopt IFRS for SME's. Under this state I believe it would be less likely that the IFRS for SME's would be used in Israel.</p>

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Myanmar (Burma)	<p>Myanmar has adopted the IFRS for SMEs by the name of Myanmar Financial Reporting Standards (MFRS) for SMEs.</p> <p>All SMEs are permitted to use the MFRS for SMEs.</p> <p>SMEs that do not use the MFRS for SMEs must use full Myanmar Financial Reporting Standards which are identical to IFRSs.</p>

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Sri Lanka	<p>IFRS for SMEs became effective for financial periods beginning on or after 1st January 2012. These are known as Sri Lankan Financial Reporting Standards for SMEs.</p> <p>No changes were made to IFRS for SMEs to meet the local regulatory requirements.</p>
Significant issues / challenges in implementation	<p>Comments from Sri Lankan users</p> <ul style="list-style-type: none"> •Assessing impairment (for individually significant receivables and collective impairment) has remained a challenge since there is no consistent method in using the impairment model. •Some SMEs had significant impact resulting from Section 11(Basic financial instruments) and 12 on financial instruments of complex financial instruments); •In Sri Lanka, component depreciation were not followed in the past. Due to this some practical issues (some independent valuers could not place values for each significant component) arose especially in the hotel sector. Way forward is currently being discussed by the IFRS implementation committee; and •Fair valuing long outstanding related party receivables and payables were a challenge as forecasting cash flows was considered difficult / unreliable.

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Bangladesh	<p>Institute of Chartered Accountants of Bangladesh (ICAB) adopted IFRS for SMEs as Bangladesh Financial Reporting Standard (BFRS) for SMEs, with effective date on or after Jan 2013.</p> <p>BFRS for SMEs includes all modules except section 31: Financial Reporting in Hyperinflationary Economies.</p> <p>Although the IFRS for SMEs has been adopted by ICAB and made available in Bangladesh, but application and implementation of such standards may not be enforceable, as there are no obligations from any regulatory authority, that has jurisdiction over SMEs.</p>
Challenges	No significant challenges in adoption
Benefit	The benefit is that the companies who had no obligation to follow IFRS and who are SMEs, they have now a full set of globally compatible standard to follow. It will ultimately help the SMEs who want to prepare and present their Financial Statements that are acceptable nationally and globally.

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Hong Kong	<p>The IFRS for SMEs has been adopted as “Hong Kong Financial Reporting Standards (HKFRS) for Private Entities” on April 30, 2010.</p> <p>In addition to the HKFRS for Private Entities, SMEs are permitted to use HKFRSs or, if they are incorporated outside Hong Kong, to use IFRSs as issued by the IASB.</p> <p>The criteria for entities to adopt HKFRS for Private Entities is the same as Section 1 of IFRS for SMEs.</p> <p>Most of entities in Hong Kong opt for full HKFRSs (which are almost identical to full IFRSs).</p>
Challenges	<p>The main challenge faced in implementation of IFRS for SMEs is educational. The HKICPA has organized more than 20 3-day workshops on HKFRS for Private Entities to enhance understanding of the Institute’s members, and to facilitate its implementation.</p>
Benefit	<p>Key benefit of IFRS for SMEs is the relief provided to SMEs / private entities in Hong Kong from necessity to comply with full IFRS and hence the reporting workload of preparers is reduced significantly.</p>

Status of IFRS for SMEs in Asia (Cont.)

Countries – that have not adopted the standard

Country	Status of adoption
China	The Chinese Accounting Standard for Small Entities was published by the Ministry of Finance in October 2011. China used the IFRS for SMEs as an important reference when developing the Chinese Accounting Standard for Small Entities, but has not adopted IFRS for SMEs.
India	The existing Accounting Standards notified under the Indian Companies Act are in vogue, with certain exemptions/relaxations for SMEs. These will continue to be applicable to such entities even after Indian Accounting Standards (Ind. ASs) come into force, or a new, separate set of standards for smaller companies will be developed.
Malaysia	Private entities are permitted to use the Malaysian Financial Reporting Standards (MFRS) Framework (identical to IFRSs) or they may use the Private Entity Reporting Standard (PERS) issued by the Malaysian Accounting Standards Board (MASB). The MASB has issued the IFRS for SMEs as MASB exposure draft for public comment.

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Japan	The IFRS for SMEs have been translated in Japanese, but no deliberations have yet been made to allow unlisted companies to use the IFRS for SMEs in their financial reporting.
Indonesia	<p>The Indonesian Accounting Standard Board has established Indonesian Financial Accounting Standard for Entities without Public Accountability but the IFRS for SMEs has not been adopted.</p> <p>It could not be established whether Indonesian standard was based on SME standard or not?</p>
Middle East	The adoption of IFRS for SMEs is under consideration in Saudi Arabia, Jordan, Lebanon, Qatar and Palestine.
Korea	<p>In September 2008, the Financial Services Commission decided to amend and supplement the existing K-GAAP in order to issue a handbook of accounting standards for private companies rather than adopting the IFRSs for SMEs. Efforts will be made to align the amended and supplemented K-GAAP with IFRS for SMEs in the long run.</p>

Status of IFRS for SMEs in Asia (Cont.)

Country	Status of adoption
Pakistan	<p>The IFRS for SMEs is under consideration for adoption by the Institute of Chartered Accountants of Pakistan (ICAP).</p> <p>Currently the ICAP has issued two separate sets of accounting and financial reporting standards for SMEs. One is for medium-sized companies and is called Accounting and Financial Reporting Standards for 'Medium-Sized Entities (MSEs)'. The other is for small companies and is called Accounting and Financial Reporting Standards for 'Small-Sized Entities (SSEs)'. These standards are based guidelines issued by ISAR -UNCTAD</p> <p>The IFRS for SMEs would replace the MSE standard issued by the ICAP. Accounting and Financial Reporting Standards for SSEs will continue to be applicable to small companies.</p> <p>When adopted, the IFRS for SMEs will have differences in the following areas:</p> <ul style="list-style-type: none">• Borrowing cost on qualifying asset would be allowed to be capitalized;• Revaluation model under IAS 16 would be allowed; and• No valuation allowance would be required for deferred tax asset <p>ICAP is still process of developing a criteria for entities that will be required to follow IFRS for SMEs.</p>

Key differences between Accounting and Financial Reporting Standards for Medium-Sized Entities standards and IFRS for SMEs

Topic	MSE Standard	IFRS for SMEs
Employee benefits	The liability for employee benefits required to be calculated according to actuarial valuation. However, entities may opt to calculate the accrued liability by reference to any other rational method e.g. a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.	The use of an accrued benefit valuation method (the projected unit credit method) is required if the information that is needed to make such a calculation is already available, or can be obtained without undue cost or effort. If this is not the case, an alternative method is permitted.
Borrowing cost	Capitalization of borrowing cost are allowed if directly attributable to the acquisition, construction or production of a qualifying asset.	All borrowing costs are recognised as expense.

Key differences between Accounting and Financial Reporting Standards for Medium-Sized Entities standards and IFRS for SMEs (Cont.)

Topic	MSE standard	IFRS for SMEs
<p>Income taxes</p>	<p>A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.</p> <p>No concept of valuation allowance with respect to deferred tax asset.</p>	<p>A valuation allowance (provision) is recognized so that the net carrying amount of the deferred tax asset equals the highest amount that is more likely than not to be recovered.</p> <p>An entity shall review the net carrying amount of a deferred tax asset at each reporting date and shall adjust the valuation allowance to reflect the current assessment of future taxable profits.</p> <p>There is no concept of valuation allowance in IAS 12.</p>

Key differences between Accounting and Financial Reporting Standards for Medium-Sized Entities standards and IFRS for SMEs (Cont.)

Topic	MSE Standard	IFRS for SMEs
Property, Plant and Equipment (IAS 16)	The standard allows either the cost or the revaluation model.	Revaluation model is not allowed in the IFRS for SMEs
Financial Assets and Liabilities	Investments can be classified into following three categories: (a) at fair value through profit or loss (b) held-to-maturity (c) available for sale	IFRS for SMEs distinguishes financial instruments between basic and complex financial Instruments

Key differences between Accounting and Financial Reporting Standards for Medium-Sized Entities standards and IFRS for SMEs (Cont.)

Topic	MSE Standard	IFRS for SMEs
Intangible Assets other than goodwill	<p>Research cost recognised as expense, but development cost is allowed to be capitalized</p> <p>For measurement subsequent to initial recognition, the standard allows either the cost or the revaluation model</p> <p>The useful life of an intangible asset can be finite or infinite</p>	<p>All research and development costs are recognised as an expense.</p> <p>Revaluation model not allowed in subsequent measurement</p> <p>The useful life of an intangible asset is considered to be finite.</p>

Thank You