On July 9, 2009, the International Accounting Standards Board (IASB) published a 230-page condensed version of International Financial Reporting Standards (IFRS) for small to medium-sized companies: IFRS for SMEs. IFRS for SMEs was developed for private companies and their financial statement users as a simplification of the full IFRS designed for public companies. The IASB defines small to medium-sized entities (SMEs) as businesses that publish general-purpose financial statements for external users and do not have public accountability.

The following represent frequently asked questions for your organization to consider with respect to whether to adopt IFRS for SMEs in place of U.S. GAAP. In making this determination, we encourage you to reach out and consult with the users of your financial statements before making any changes:

Q: What exactly does "small to medium" mean in the U.S.?
A: As defined above, the IASB’s IFRS for SMEs is intended to apply to entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users. This qualifies most private companies within the U.S. to use IFRS for SMEs. Note: the IASB defines an entity as having public accountability if it: (a) files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market or (b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Points (a) and (b) typically apply for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Q: If my organization is a U.S. small private company, what are the pros and cons of transitioning from U.S. GAAP to IFRS for SMEs?
A: IFRS for SMEs was designed to provide improved comparability for users of SMEs’ financial statements, enhance the overall confidence in SMEs’ financial statements and reduce the significant costs involved in maintaining standards on a national basis for SMEs. However, for many private U.S. companies, accounting and reporting under IFRS is unfamiliar. Each organization is unique and must assess various internal and external objectives and factors including in-house expertise with IFRS, system requirements, cost/benefits, impacts on strategic planning (e.g., tax planning and business metrics), comparability with its competitors, needs/expectations of the users of its financial statements and potential regulatory reporting requirements. The pros and cons in considering IFRS for SMEs, therefore, can vary widely.

For example, one private organization that has a non-complex, static business may find the simplified IFRS for SMEs to be less complicated than the extensive volumes of current U.S. GAAP, whereas another with a highly complex, dynamic business may find IFRS for SMEs does not address the unique facts and circumstances of that organization’s business in sufficient detail.
As another example, one organization may be a subsidiary of a foreign company or looking to expand into global markets or perhaps obtain foreign financing and may see the benefit of comparability of reporting in IFRS, whereas another organization that operates solely within the U.S. may not see the benefit of having to educate its employees or users of its financial statements on IFRS when U.S. GAAP remains an acceptable reporting method.

Q: Is there some “tool” my organization can use to help rationally determine if it should switch to IFRS for SMEs? Can BDO help make that decision?

A: As every organization is different, there is no “best practice” for adopting IFRS for SMEs. Each organization must consider its unique facts and circumstances. BDO has held and plans to continue to hold a series of IFRS webinars and self-study courses within its Ac’senseSM program aimed at furthering the understanding of IFRS and the implications of transitioning from U.S. GAAP. Please visit our Ac’sense website to enroll in our thought leadership programs. We further encourage you to reach out and consult with your audit engagement teams. Moreover, we have included additional external resources from the IASB and the AICPA to assist you in educating yourself in the decision-making process.

Q: If I transition from U.S. GAAP to IFRS for SMEs, how will this affect the preparation of my tax returns?

A: Section 29 within the IFRS for SMEs covers accounting for income taxes. Again, all organizations vary greatly with respect to accounting and income tax considerations. For example, IFRS for SMEs does not permit LIFO accounting for inventory. We encourage you to reach out to your internal and external tax professionals and advisors for further guidance in this area so that you can make informed decisions.

Q: How do I present comparative financials for the year of transition?

A: Paragraph 3.14 of IFRS for SMEs requires an entity to disclose, in a complete set of financial statements, comparative information in respect to the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect to more than one comparable prior period. An entity’s date of transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information in accordance with this IFRS in its first financial statements that conform to this IFRS. The IASB has further posted illustrative financial statements on its website to assist preparers in transition.

Q: What if I transition to IFRS for SMEs and then decide to go public?

A: The IASB designed the IFRS for SMEs as a platform for growing businesses that are preparing to enter public capital markets, where application of full IFRS is required. That is, the IASB extracted the fundamental concepts from its “IFRS Framework” and the principles and related mandatory guidance from IFRS (including Interpretations), and considered the modifications for SMEs that are appropriate in light of users’ needs and cost-benefit considerations. IFRS for SMEs highlights the differences from full IFRS that would be required to be adopted and applied by a public company. For example, upon adoption of full IFRS, a company would need to restate prior year financial information prepared using the simplified IFRS for SMEs in order to comply with the more robust requirements of full IFRS.

Q: How can BDO further assist my organization in considering adoption of IFRS for SMEs?

A: BDO is willing and able to assist private companies in their consideration of reporting under IFRS for SMEs. BDO has a vast network of experienced professionals within the U.S. and abroad to serve our clients. We have established policies and procedures with respect to audits of IFRS financial statements that would apply to both full IFRS and IFRS for SMEs and continue to provide our professionals and our clients with ongoing technical training for all areas of the audit, including IFRS. Please visit our BDO IFRS Resource Center for further IFRS guidance and tools.