
Accounting (Basics) - Lecture 1

IFRS for SMEs

About the course

- Literature:
 - International financial reporting standard for small and medium-sized entities (IFRS for SMEs). London: International Accounting Standards Board, 2009. 230 s. ISBN 9781907026171. Available at: <http://eifrs.iasb.org/eifrs/sme/en/IFRSforSMEs2009.pdf>
 - IFRS Foundation: Training Material for the IFRS for SMEs. London: International Accounting Standards Board. Available at: <http://www.ifrs.org/IFRS-for-SMEs/Pages/Training-Modules.aspx>

About the course

- Requirements for successful accomplishment of the course:
 - 85% participation (i.e. absence at max 2 seminars is excused)
 - 1 presentation of theory or practice during the semester (if by the end of the semester a student doesn't have a presentation, 10 points will be deducted from total number of points received from both mid-semester tests). In case of practical presentation (i.e. exercise), the exercise is chosen by a student or by a lecturer always minimally one week in advance. Unless the student is excused (he/she is ill), the student has to present the exercise at specified date. Topics for theoretical presentations should be agreed with a lecturer at the beginning of the semester.
 - Two control tests, minimum required amount is 60% of correct answers. Points from two tests are accumulated. Tests contain theoretical (questions) and practical part (exercises).
 - Final test is a written exam. Attention! Getting a minimum amount of points from two control tests is a necessary requirement for being eligible to take a final exam.

Contents

- IASB, IFRS, IFRS vs. GAAP
- International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)

IASB

- The International Accounting Standards Board (IASB) was established in 2001 as part of the International Accounting Standards Committee (IASC) Foundation.
- The objectives of the IASC Foundation and of the IASB are:
 - a) to develop a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
 - b) to promote the use and rigorous application of those standards;
 - c) to take account of the special needs of small and medium-sized entities and emerging economies; and

IASB

- d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.
- IASB is the standard-setting body of the IASC Foundation - it is responsible for approving International Financial Reporting Standards (IFRSs, including Interpretations) and related documents, such as the Framework for the Preparation and Presentation of Financial Statements, exposure drafts and discussion documents.
- The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting.
- IASs and related Interpretations, which were adopted before IFRS were developed, remain applicable with the same authority as IFRSs, unless and until they are amended or withdrawn by the IASB.

IFRS

- IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements.
- IFRSs are based on the Framework. The objective of the Framework is to facilitate the consistent and logical formulation of IFRSs. It also provides a basis for the use of judgement in resolving accounting issues.
- IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

IFRS vs. GAAP

- *“Accounting policy is one of the most difficult and controversial topics to deal with. It is the same around the world”, - Hans Hoogervorst, Chairman of IASB, June 2012*
- *“Transparency is not just a buzz word or a cliché. It is a fundamental and absolutely essential attribute of sound financial markets. Relevant, trustworthy, and timely information is the oxygen of financial markets”, - Robert H. Herz, Chairman of FASB, June 2009*
- Goals of FASB and IASB - the highest relevance, representational faithfulness, transparency and comparability of accounting information =>
- Memorandum of understanding or Norwalk Agreement (2002) and removal of obligation of US GAAP reconciliation (2007) – “Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to US GAAP”

IFRS vs. GAAP

- General comparison of US GAAP and IAS/IFRS:

US GAAP

- rules-based
- procedure-oriented
- emphasis on best practice

IFRS

- principles-based
- objective-oriented
- emphasis on professional judgment

IFRS for SMEs

- International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) are designed for small and medium-sized entities (SMEs), private entities, and non-publicly accountable entities.
- The term small and medium-sized entities as used by the IASB is defined as entities that:
 - a) do not have public accountability, and
 - b) publish general purpose financial statements for external users.
- An entity has public accountability if:
 - a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market, or
 - ~~b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.~~

IFRS for SMEs

- The Fourth Accounting Directive of EC allows Member States to prescribe lighter reporting regimes for SMEs, which are defined as following:

	Micro	Small	Medium-sized
Balance sheet total	≤ € 500 000	≤ € 4 400 000	≤ € 17 500 000
Net turnover	≤ € 1 000 000	≤ € 8 800 000	≤ € 35 000 000
Average number of employees during the financial year	≤ 10	≤ 50	≤ 250

IFRS for SMEs

- Some entities may hold assets in a fiduciary capacity for a broad group of outsiders (e.g. AUM). If they do so for reasons incidental to a primary business, that does not make them publicly accountable.
- A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that uses full IFRSs, is not prohibited from using IFRS for SMEs in its own financial statements if that subsidiary by itself does not have public accountability.
- Financial statements prepared in conformity with the IFRS for SMEs are unlikely to comply fully with all of the measurements required by a jurisdiction's tax laws and regulations.
- Decisions on which entities are required or permitted to use full IFRS or IFRS for SMEs rest with legislative and regulatory authorities and standard-setters in individual jurisdictions.