Revisions to IFRS for SMEs

The IASB recently published a revised version of IFRS for SMEs following its second comprehensive review of the standard. This article provides a brief overview of some of the amendments that become effective on 1 January 2027.

Entities without public accountability may apply the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs). This is a set of accounting standards based on full IFRS with various simplifications. The IASB performed a second comprehensive review of the standards since their introduction in 2009.

The review focused on whether to incorporate new or amended requirements in full IFRS into IFRS for SMEs, taking into account the information needs of users, who are mainly lenders, as well as the resource constraints that these entities may face.

This article outlines some of the major amendments made to IFRS for SMEs, which take effect from 1 January 2027

Revisions

Concepts and pervasive principles

This section of IFRS for SMEs was modelled on the 1989 *Framework for the Preparation and Presentation of Financial Statements* in full IFRS. The Conceptual Framework for Financial Reporting replaced that standard in 2018. Section 2 of IFRS for SMEs now alignswith the latter while retaining the undue cost or effort concepts not found in the Conceptual Framework.

Consolidated and separate financial statements

The definition of control as the basis for consolidation in IFRS for SMEs now aligns with that in IFRS 10. However, IFRS for SMEs does not have the same extensive application guidance on applying this definition as full IFRS. The standard furthermore retains the rebuttable presumption that an investor with a majority of the voting rights of an investee controls that investee.

IFRS for SMEs still do not provide an investment entity exception as found in IFRS 10.

Financial instruments

The accounting treatment of financial instruments under IFRS for SMEs now aligns with IFRS 9 in many respects.

However, some remaining differences include the use of an incurred loss model for impairment (as opposed to an expected credit loss model (ECL)) and simplified hedging and derecognition requirements.

Introduction of fair value measurement section

IFRS for SMEs contained various fair value measurement requirements. However, it did not have a section dealing with this similarly to IFRS 13. Section 12 of the standard now includes these requirements and aligns with some aspects of IFRS 13. For example, it includes a similar definition of fair value and requirement to apply a fair value hierarchy.

Business combinations

The amended section 19 of IFRS for SMEs includes, among other things, the revised definition of a business, more detailed requirements to identify the acquirer in a combination, and clarification of the treatment of contingent liabilities assumed, as all found in IFRS 3.

Revenue

Section 23 of IFRS for SMEs was modelled on IAS 18, the previous revenue standard under full IFRS. The revised section applies the five-step revenue model found in IFRS 15. The standard, however, provides various simplifications from full IFRS, such as accounting for warranties and contract acquisition costs.

Next steps?

Entities that apply IFRS for SMEs should carefully consider the revised standard. If necessary, they may need input from their accountants or advisors to establish if and how the amendments in 2025 revisions affect them.

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