



INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMEs

1.0 Introduction

- 1.1 In July 2009, the International Accounting Standards Board (IASB) finally issued the long awaited IFRS for SMEs. This standard takes immediate effect. Without doubt this is a welcome development in the profession in Botswana especially in view of the fact that Botswana has legislated compliance with full IFRS through the Companies Act 2003. The SMEs standard will significantly reduce the compliance burden for companies in Botswana and it is going to be the reporting framework for more than 90% of the companies in Botswana. The IASB has left the responsibility with the respective jurisdictions to guide their members as to what constitutes an SME and consequently being eligible to use the IFRS for SMEs.

2.0 Types and Forms of Companies in Botswana in Terms of the Companies Act 2003

- Public Companies
- Private Companies
- Closed Companies

- 2.1 Section 19 (4) states that every company limited by shares or by guarantee shall be a public company unless it is stated in its application for incorporation or its constitution that it is a private company.

3.0 Classification of Companies and Financial Reporting in Terms of the Companies Act 2003.

- 3.1 In accordance with the Companies regulations 2007, companies can be either

Exempt – not subject to audit.
Non-Exempt - subject to audit.

- 3.2 Public companies are subject to audit regardless of size. Non exempt companies have to fall within financial thresholds established from time to time as well as satisfy the requirement of not having another corporate entity as a shareholder. Currently the financial thresholds are:

- Total assets of more than P5 million.
- Total Turnover of more than P10 million in the proceeding financial year.

- 3.3 The major consequences of the non-exempt status are that the Financial Statements of the company should comply with IFRS and they should be audited in accordance with ISAs. This also applies to public companies

4.0 The Scope of the IFRS for SMEs.

Authority of the IFRS for Small and Medium-sized Entities

The preface to the IFRS for Small and Medium-sized Entities states:

*Decisions on which entities are required or permitted to use the IASB's standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. This is true for **full IFRSs** and for the **IFRS for Small and Medium-sized Entities**. However, a clear definition of the class of entity for which the IFRS for Small and Medium-sized Entities is intended – as set out in Section 1 of the Standard – is essential so that (a) the IASB can decide on the accounting and disclosure requirements that are appropriate for that class of entity and (b) the legislative and regulatory authorities, standard-setters, and reporting entities and their auditors will be informed of the intended scope of applicability of the IFRS for Small and Medium-sized Entities. A clear definition is also essential so that entities that are not small or medium-sized entities, and therefore are not eligible to use the Standard, do not assert that they are in compliance with the IFRS for Small and Medium-Sized Entities (see paragraph 1.5)."*

Description of small and medium-sized entities as per the IFRS for SMEs

1.2 Small and medium-sized entities are entities that:

- (a) do not have public accountability; and
- (b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

1.3 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for **reasons incidental to a primary business** (as, for example, may be the case for travel or real estate agents, schools, charitable organizations, co-operative

enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), they are not considered to be publicly accountable.

1.5 If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the IFRS for Small and Medium-sized Entities – even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities.

*1.6 A **subsidiary** whose **parent** uses **full IFRSs**, or that is part of a consolidated **group** that uses full IFRSs, is not prohibited from using this IFRS in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the IFRS for Small and Medium-sized Entities, it must comply with all of the provisions of this IFRS.”*

5.0 Application of the Scope by the Botswana Institute of Accountants

5.1 The Botswana Institute of Accountants has decided that the IFRS for SMEs may be applied as follows:

- a) Based on the concepts of the Companies Act 2003, public companies may not apply the IFRS for SMEs.
- b) Public Interest Entities (PIE) as defined by BIA (see definition of PIE in section 5.2 below) may not use the IFRS for SMEs.
- c) All other entities not included in a) and b) may apply the IFRS for SMEs except where the entities are required by legal provisions or other regulations to comply with a specific financial reporting framework other than the IFRS for SMEs.

5.2 Definition of a Public Interest Entity as it applies to 5.1 (b)

A publicly accountable entity or an entity that represents public interest may be described as having any one of the following characteristics:

- An entity that takes deposits or loans from the public except in circumstances incidental to its primary business.
- An entity that offers its shares or debt to the public.
- An entity that is a Parastatal or other non Government organisation that is funded by Government through a subvention or a similar form of funding arrangement.
- An entity that holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity except in circumstances incidental to its primary business.

- Net assets – P100 million
- Total revenue – P500 million
- Number of employees – 100 employees
- Third party borrowing – P50 million

6.0 Requirement to Prepare Consolidated Financial Statements

Paragraph 9.2 of the IFRS for SMEs requires a parent company to prepare consolidated financial statements in which it must include all its subsidiaries.

Paragraph 9.3 provides an exemption to the requirement to prepare consolidated financial statements if:

- (a) both of the following conditions are met:
 - (i) the parent is itself a subsidiary; and
 - (ii) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial statements** that comply with full **International Financial Reporting Standards** or with this IFRS for SMEs; or
- (b) it has no subsidiaries other than one that was acquired with intention of selling or disposing of it within one year. In this case, the parent shall account for such a subsidiary:
 - (i) at fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably, or
 - (ii) otherwise at cost less impairment.

The exemption will also apply if the ultimate or intermediate parent produces consolidated financial statements that comply with IFRS.

Except where the criteria in paragraph 9.3 of the IFRS for SMEs are met, the preparation of consolidated financial statements will be required. Where an entity does not prepare consolidated financial statements when required to do so by the IFRS for SMEs, this will result in non-compliance with the IFRS for SMEs. Non-consolidation will therefore result in a modified audit opinion.

This paragraph should be read along with Sections 207 and 208 of the Companies Act 2003.

7.0 Audit Reporting Consideration

The IFRS for SMEs constitutes an acceptable financial reporting framework for entities within the scope of the IFRS for SMEs, as determined by the Botswana Institute Accountants. It is also a “comprehensive accounting framework”.

Consequently, an auditor can express an opinion that financial statements are “presented fairly”, in all material respects, in accordance with the IFRS for SMEs.

When an auditor issues an audit report on an entity applying the IFRS for SMEs, the audit report should identify the accounting framework as the ‘International Financial Reporting Standard for Small and Medium-sized Entities’.

8.0 Transitional Arrangements

First time adoption of the IFRS for SMEs

The IFRS for SMEs states that an entity is a first-time adopter of the standard when in its first financial statements the entity makes an explicit and unreserved statement of compliance with the IFRS for SMEs. This is the case regardless of whether its most recent financial statements were prepared under full IFRS or national requirements that are not consistent with the IFRS for SMEs in all respects.

Accordingly, companies or other entities, currently using:

- IFRS; or
- an entity’s specific basis of accounting; will all be classified as first-time adopters of the IFRS for SMEs when they adopt that standard. The transition provisions of Section 35 of the IFRS for SMEs will apply.

By order of Council

Botswana Institute of Accountants_____ September 2009.