IFRS for SMEs

CPD presentation for
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IFRS for SMEs

1. Introduction

Small and medium-sized entities are entities that:

(a) do not have **public accountability (*cf* para 1.3), and**

(b) publish **general purpose financial statements for external users;** external users include (i) owners who are not involved in managing the business, (ii) existing and potential creditors, (iii) financiers, and (iv) credit rating agencies.

IFRS for SMEs

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.

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** (eg. travel or real estate agents, schools, charitable organisations, 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), that does **not** make them publicly accountable.

IFRS for SMEs

If a **publicly accountable entity** uses this IFRS, its financial statements shall not be described as conforming to the *IFRS for SMEs—even if law or regulation in its jurisdiction* permits or requires this IFRS to be used by publicly accountable entities.

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 SMEs, it must comply with all of the provisions of* this IFRS.

IFRS for SMEs

A subsidiary whose parent uses full IFRS, or is part of a consolidated group that uses full IFRS, is not permitted to make the **simplified disclosures required by the *IFRS for SMEs*** **AND** to follow the ***accounting recognition and measurement principles in full IFRSs*** that are used by its parent **if they are different** from the accounting recognition and measurement principles in the *IFRS for SMEs* *(ie the IFRS for SMEs is a standard appropriate* for non-publicly accountable entities, not a 'pick and choose' set of options).

IFRS for SMEs

Because both full IFRSs and the *IFRS for SMEs allow accounting policy choices for some* recognition and measurement principles, differences between the accounting policies of a parent using full IFRSs and its subsidiaries *using the IFRS for SMEs can be minimised by* particular accounting policy choices. The circumstances in which the *IFRS for SMEs* would mandate a recognition or measurement principle that is different from a measurement under full IFRSs are limited. At 9 July 2009 the following are the **principal examples**:

IFRS for SMEs

(a) Non-current assets (or groups of assets and liabilities) held for sale

• *IFRS for SMEs: Holding assets for sale triggers an assessment for* impairment, but otherwise no special 'held-for-sale' classification or special accounting requirements.

• IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:*

Measured at lower of carrying amount and fair value less costs to sell. Depreciation stops when classified as held for sale.

(b) Unvested past service cost of defined benefit pension plans

• *IFRS for SMEs: Recognised in profit or loss immediately.*

• IAS 19 *Employee Benefits: Recognised as an expense on a straight-line* basis over the average period until the benefits become vested.

(c) Exchange differences on a monetary item that forms part of the net investment in a foreign operation, in consolidated financial statements

• *IFRS for SMEs: Recognise in other comprehensive income and do not* reclassify in profit or loss on disposal of the investment.

• IAS 21 *The Effects of Changes in Foreign Exchange Rates: Reclassify in profit* or loss on disposal of the investment.

(d) Borrowing costs

• *IFRS for SMEs: Must be charged to expense.*

• IAS 23 *Borrowing Costs: Costs directly attributable to the acquisition,* construction or production of a qualifying asset must be capitalised.

(e) Investment in an associate for which there is a published price quotation

• *IFRS for SMEs: Must be measured at fair value through profit or loss.*

• IAS 28 *Investments in Associates: Must be measured using the equity* method.

(f) Investment in a jointly controlled entity for which there is a published price quotation

• *IFRS for SMEs: Must be measured at fair value through profit or loss.*

• IAS 31 *Interests in Joint Ventures: Must be measured using the equity* method or proportionate consolidation.

(g) Investment property whose fair value can be measured reliably without undue cost or effort

• *IFRS for SMEs: Must be measured at fair value through profit or loss.*

• IAS 40 *Investment Property: Accounting policy choice of fair value* through profit or loss or cost-depreciation-impairment model.

(h) Biological assets

• *IFRS for SMEs: Measure at fair value through profit or loss only if fair* value is readily determinable without undue cost or effort.

• IAS 41 *Agriculture: Presumption that fair value can be reliably* measured.

(i) Income tax

• *IFRS for SMEs: Where a different tax rate applies to distributed income,* initially measure current and deferred taxes at the rate applicable to undistributed profits.

• Exposure draft *Income Tax: In such a case, initially measure current* and deferred taxes at the tax rate expected to apply when the profits are distributed.

(j) Share-based payments with cash alternatives in which the terms of the arrangement provide the counterparty with a choice of settlement

• *IFRS for SMEs: Account for the transaction as a cash-settled share-based* payment transaction unless either the entity has a past practice of settling by issuing equity instruments or the option to settle in cash has no commercial substance.

• IFRS 2 *Share-based Payment: Accounting akin to a compound* instrument.

IFRS for SMEs

Financial statements show the results of the stewardship of management—the accountability of management for the resources entrusted to it.

Understandability-comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance-relevant to the decision-making needs of users. Information has the quality of **relevance when it is capable of influencing the economic decisions** of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality-Information is **material—and therefore has relevance—if its omission or misstatement** could influence the economic decisions of users made on the basis of the financial statements.

Reliability-Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Substance over form – self-explanatory

IFRS for SMEs

Prudence-is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. Prudence does not permit bias.

Completeness-neither understated nor overstated.

Comparability-over time and between entities.

Timeliness-within the decision time frame. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

Benefit vs Cost

IFRS for SMEs

FINANCIAL POSITION:

Assets – resource controlled by entity resulting from past event and expected to give rise to inflow of future economic benefits

Liabilities – present obligation (constructive or legal) arising from past event expected to result in outflow of economic resources embodying economic benefits

(Provisions – present obligation …… “or”)

(Contingent liability - ??????? “and”)

Equity – residual interest (net)

[What about compound instruments???]

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Performance is the relationship of the income and expenses of an entity during a reporting period. This IFRS permits entities to present performance in a single financial statement (a statement of comprehensive income) or in two financial statements (an income statement and a statement of comprehensive income). Total comprehensive income and profit or loss are frequently used as measures of performance or as the basis for other measures…

Income (Revenue vs Gains) is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors.

Expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity investors.

The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities.

IFRS for SMEs

Recognition of assets, liabilities, income and expenses

(a) it is **probable that any future economic benefit associated with the item will flow** to or from the entity,

(b) the item has a cost or value that can be measured reliably.

The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies used or by notes or explanatory material.**

Measurement involves the selection of a basis of measurement. This IFRS specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.

PRESENTATION OF FINANCIAL STATEMENTS

Fair presentation

Compliance with the *IFRS for SMEs*

Going concern

Frequency of reporting

Consistency of presentation

Comparative information [and re-statements]

Materiality and aggregation

Complete set of financial statements

Identification of financial statements

Significant estimates and other judgements

IFRS for SMEs

Presentation of information:

If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity.

If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement, or it may present a statement of comprehensive income in which the bottom line' is labelled 'profit or loss'.

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This IFRS does not address presentation of:

- segment information,
- earnings per share, or
- interim financial reports by a small or medium-sized entity.

An entity making such disclosures shall describe the basis for preparing and presenting the information.

Other differences between IIFRS for SMEs and full IFRS:

- Income Statement options
- No three Statements of Financial Position
- Non-current assets held for sale and Discontinued operations
- reclassification/'recycling' not allowed in SMEs except for specific hedging instruments
- Investment property must be measured at fair value wherever possible but without undue cost
- PPE must be measured at cost less depreciation and impairment
- Government Grants significant differences
- Borrowing costs are expensed

IFRS for SMEs

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

If the investor prepares **combined financial statements** and describes them as conforming to the *IFRS for SMEs, those statements shall comply with all of the requirements of this* IFRS. Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances.

BASIC FINANCIAL INSTRUMENTS

The *IFRS for SMEs contains two options for accounting for financial instruments:*

* Applying the requirements of both Section 11 and Section 12 in full, or

* Applying the recognition and measurement requirements of IAS 39 *Financial Instruments:Recognition and Measurement (of full IFRSs) and the disclosure requirements of Sections 11* and 12.

Whichever of the options above an entity applies, it **must also apply** Section 22 *Liabilities and Equity, which establishes principles for classifying financial instruments as either liabilities or equity* and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as owners).

IFRS for SMEs

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

Section 9 Consolidations (IAS27, IFRS 10)	-Control comes from 'power to control' and does not involve risks, benefits of control, etc. -Goodwill is amortised over useful life -NCI does not contain goodwill -in separate financial statements value at either cost or fair value -Combined financial statements are possible
S 11,12 (IAS 39 – IFRS 7) Basic Financial Instruments	Must choose either sections 11 and 12 or IAS 39 and IFRS 7 -simpler de-recognition requirements -SMEs disclosures simpler and slightly different

IFRS for SMEs

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 13 (IAS 2) Inventory	-No concept of NRV -No inclusion of borrowing costs
S 14, 15 (IAS 28, 31) JVs, Associates	-choice of measurement by cost, fair value or equity accounting -goodwill must be amortised
S 16 (IAS 40) Investment Property	-must be at fair value as long as there is no undue cost on an on-going basis
S 17 (IAS 16) PPE	-must be at cost less depreciation less impairment -review residual value and estimated useful lives only if there are indicators of change

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 18 (IAS 38)	-expense all research & development
Intangibles	-must be at cost less amortisation less impair
	-must amortise over useful life
S 19 (IFRS 3)	-based on acquisition method but old IFRS 3
Bus Comb &	- any attributable costs to be included
Goodwill	-in staged acquisition use fair value each stage
	-contingencies at cost if probable, measureable
	-goodwill must be amortised over life
	-non-controlling interests exclude goodwill
	-goodwill not necessarily allocated over CGUs

IFRS for SMEs

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 20 (IAS 17) Leases	- no straight-lining
S 24 (IAS 20) Gov Grants	-Main differences are in specific areas eg biological assets, not covered by SMEs
S 25 (IAS 23) Borrow Costs	-must be expensed
S 27 (IAS 36) Impairment	-must be implemented only if there are clear indicators of impairment
S 30 (IAS 21) Forex	-does not cater for foreign ops in hyperinflation -cumulative exchange differences for foreign operations not re-cycled

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 26 (IFRS 2) -fewer disclosures but three specific additions
SBP -NO intrinsic value!
-modifications only for investing conditions of equity-settled SBP with employees (SMEs all centre on equity-settled transactions)
-some definition differences

S 28 (IAS 19) -defined benefit plan costs recognised
Empl Benefits immediately, not spread (principle!)
-measurement does not require expert
-simplist measurement, not annually

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 29 (IAS 12)	-differences relate to full IFRS exposure draft
Taxation	-in SMEs all deferred tax is non-current
	-silent on tax in business combinations
	-tax base is measured relative to sale
	-different treatment of subsidiaries, JVs, assocs
	-deferred tax recognised in full, not conditional
S 33 (IAS 24)	-use of term ‘significant voting power’
Related	-relationship with the State is different
Parties	-simplification of disclosures

MAIN DIFFERENCES BETWEEN full IFRS and IFRS FOR SMEs

S 35 (IFRS 1)	-Impracticability alllowed
Transition	-deferred tax assets/liabilities not recognised
	-reduced disclosures eg on deemed cost

IFRS for SMEs

Exposure Draft ED/2013/9

Section	Change
1 SMALL AND MEDIUM-SIZED ENTITIES	Re-wording and clarification
2 CONCEPTS AND PERVASIVE PRINCIPLES	Guidance on 'undue cost or effort'
4 STATEMENT OF FINANCIAL POSITION	Relief from comparative information disclosures
5 STATEMENT OF COMPREHENSIVE INCOME AND INCOME STATEMENT	Clarification re discontinued operations impairment and groupings of OCI items
6 STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAINED EARNINGS	Clarifies entity's presentation of analysis of each component of OCI either in SoCE or in notes
9 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	Clarification on (i) entities acquired for disposal; (ii) consolidation of different reporting dates; (iii) recycling of cumulative exchange differences on disposal of a subsidiary ; and (iv) amendment to definition of 'combined financial statements'
11 BASIC FINANCIAL INSTRUMENTS	Addition of undue cost or effort re FV of equity instruments Clarification of Forex loan should be basic fin instruments Clarification on fair value measurement evidence
12 OTHER FINANCIAL INSTRUMENTS ISSUES	Addition of undue cost or effort in FV measurement Clarification re changes in FV of hedges Clarification re hedge accounting including of foreign op
17 PROPERTY, PLANT AND EQUIPMENT	Clarification re spare parts and servicing equipment
18 INTANGIBLE ASSETS OTHER THAN GOODWILL	Uncertain useful life – then 10 years
19 BUSINESS COMBINATIONS AND GOODWILL	Clarification of measurement of employee benefits Guidance on calculation of NCI Additional clarification on undue cost or effort Uncertain useful life – then 10 years

IFRS for SMEs

20 LEASES	Interest-rate variation clauses are scoped in
22 LIABILITIES AND EQUITY	Clarification between equity and liabilities
	Exemption from initial measurement of equity instruments as part of business combination
	Incorporation of *IFRIC 19 Extinguishing fin liab with eq instr*
	Incorporation of *Tax effect of distribution to shareholders*
	Amendment re liability component of compound financial instruments
	Additional guidance on accounting for dividends by non-cash assets
26 SHARE-BASED PAYMENT (SBP)	SBPs include shares of other group companies;
	All SBP transactions are included, not just those required by law; clarification of accounting treatments for vesting conditions; clarification of modifications to grants of equity instruments;
27 IMPAIRMENT OF ASSETS	Clarification that this section does not apply to construction contracts
28 EMPLOYEE BENEFITS	Removal of requirements to disclose policy on termination benefits
29 INCOME TAX	Alignment of principles for recognition and measurement of deferred tax
	Addition of undue costs or efforts exemption in offsetting tax assets and liabilities
30 FOREIGN CURRENCY TRANSLATION	Clarifies different treatment of derivative from financial instruments in foreign currency
33 RELATED PARTY DISCLOSURES	Aligns definition of Related Party
34 SPECIALISED ACTIVITIES	Relief from disclosing comparative information for biological assets
	Clarification of accounting treatment of extractive industries
35 TRANSITION TO THE *IFRS FOR SMEs*	Numerous amendments

CONCLUSION

1. **Should we consider IFRS for SMEs? Yes!**
2. **Should we consider IFRS for SMEs if part of a Group? Depends on circumstances**
3. **If we decide to adopt IFRS for SMEs, what do we need to do to implement it?**

IFRS for SMEs