- Overview IFRS for SMEs
- Effect of comprehensive review 2015

Introduction

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone (only ‘fallback’ option to full IFRS is the option to use IAS 39 instead of the financial instruments sections 11 of IFRS for SMEs)
- Designed specifically for SMEs
- Internationally recognised
- First edition issued 9 July 2009 (reviewed in 2015)

Eligibility

Any entity that does not have public accountability...

- securities not publicly traded
- not a financial institution

... and is required or chooses to produce General Purpose Financial Statements (GPFS)

Requirement for GPFS

Which entities must produce GPFS is a public interest issue

- Decided by parliaments and regulators, not by IASB
- Why? There is a public benefit in good financial information about companies

Simplification

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting

benefits

- Improved access to capital
- Improved comparability
- Improved quality of reporting
- Less of a burden

Audit report statement

- **Something like:**

  “Fairly presents financial position, results of operations, and cash flows in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities”

Section 1

- Defines SME as used by IASB:
  - not publicly accountable, and
  - publish general purpose financial statements for external users
- Listed companies may not use, no matter how small

Section 2

Concepts and principles

- Objective: Information about financial position, performance, cash flows
  - Also shows results of stewardship of management over resources
- Qualitative characteristics: Relevance, reliability, etc
- Definitions: Asset, liability, equity
- Definitions: Income and expenses

Section 2

- Basic recognition concepts
- Basic measurement concepts
- Pervasive recognition and measurement principles
  - Source of guidance if a specific issue is not addressed in the *IFRS for SMEs*
- Concepts of profit or loss and total comprehensive income
- Principles for offsetting

Section 3

Financial statement presentation

- Fair presentation: presumed to result if IFRS for SMEs is followed (maybe need for supplemental disclosures)
- Full compliance: State compliance with IFRS for SMEs only if the financial statements comply in full
- Comparatives: At least one year comparative financial statements and note data

Section 3

- **Complete set of financial statements:**
  - Statement of financial position
  - Either single statement of comprehensive income, or two statements: Income statement and statement of comprehensive income
  - Statement of changes in equity
  - Statement of cash flows
  - Notes

Section 3

Single Statement of Comprehensive Income:

- Revenue
- Expenses:
  - Finance costs
  - P&L from associates / JVs Tax expense
  - Discontinued operations
- Profit or loss
- Items of Other Comprehensive Income
- Total comprehensive income

Two statements:

Income Statement:

- Bottom line is profit or loss (as at left)

Statement of Comprehensive Income:

- Begins with profit or loss
- Items of OCI
- Bottom line is Total Comprehensive Income

Section 3

- Can present only an income statement (no statement of comprehensive income) if no items of other comprehensive income (OCI)
- The only OCI items under IFRS for SMEs are:
  1. Some foreign exchange gains and losses
  2. Some changes in fair values of hedging instruments
  3. Some actuarial gains and losses

Section 4

- May still be called “balance sheet”
- Current/non-current split is not required if entity concludes liquidity approach is better
- Some minimum line items
- And some items that may be in the statement or in the notes
- But sequencing, format, and titles are not mandated

Section 5

- Income Statement and Statement of Comprehensive Income
- One-statement or two-statement approach
- Must segregate discontinued operations
- Must present “profit or loss” subtotal if entity has items of other comprehensive income
- If an SME presents consolidated financial statements:
- Bottom line (Profit or Loss in the income statement and Total Comprehensive Income in the statement of comprehensive income) is before allocating those amounts to non-controlling interest and owners of the parent

Section 6

Statement of Changes in Equity

- Shows all changes to equity including
  - total comprehensive income
  - owners investments and withdrawals
  - dividends
  - treasury share transactions
- Can omit if no owner investments or withdrawals other than dividends

Section 7

- Statement of cash flows

- All SMEs must present a statement of cash flows
- Option to use the
  - indirect method, or
  - direct method

  to present operating cash flows

Section 8 Notes

- Disclose basis of preparation (ie *IFRS for SMEs*)
- Summary of significant accounting policies
  - Information about judgements
  - Information about key sources of estimation uncertainty
- Supporting information for items in financial statements
- Other disclosures

Section 9 Consolidation

- Consolidation is required when parent-subsidiary relationship except:
  - Sub was acquired with intent to dispose within one year
  - Parent itself is a sub and its parent or ultimate parent uses full IFRSs or IFRS for SMEs
- Basis of consolidation: control
  - Consolidate all controlled SPEs

Section 10

Accounting policies

- If *IFRS for SMEs* addresses an issue, must follow *IFRS for SMEs*
- If *IFRS for SMEs* does not address an issue:
  - Choose policy that results in most relevant and reliable information
  - Try to analogise from requirements in the *IFRS for SMEs*
  - Or use concepts/pervasive principles in Sec 2
  - May look to guidance in full IFRSs – but not required

Section 10

- Change in accounting policy:
  - If mandated, follow the transition guidance as mandated
  - If voluntary, retrospective
- Change in accounting estimate: prospective
- Correction of prior period error: restate prior periods if practicable

Section 11

- Basic financial instruments
- Section 11 is an amortised historical cost model with one exception:
  - Equity investments with quoted price or readily determinable fair value are at fair value through P&L.
- Option to follow IAS 39 instead of sections 11 and 12
  - Even if IAS 39 is followed, make Section 11/12 disclosures (not IFRS 7 disclosures)

Section 11

- **Scope of Sec 11 includes:**
  - Cash
  - Demand and fixed deposits
  - Commercial paper and bills
  - Accounts and notes receivable and payable
  - Debt instruments where returns to the holder are fixed or referenced to an observable rate
  - Investments in non-convertible and non-puttable ordinary and preference shares
  - Most commitments to receive a loan

Section 11

- Amortised cost – effective interest method
- Must test all amortised cost instruments for impairment
- Reversal of impairment
- Guidance on fair value and effective interest method
- Derecognition
- Criteria for basic instruments similar to IFRS 9 ie no HTM or AFS – same as IFRS 9.

Section 12

Complex financial instruments

- Financial instruments not covered by Section 11 are at fair value through profit or loss. This includes:
    - Investments in convertible and puttable ordinary and preference shares
    - Options, forwards, swaps, and other derivatives
    - Financial assets that would otherwise be in Section 11 but that have “exotic” provisions that could cause gain/loss to the holder or issuer
- Hedge accounting

Section 13 Inventories

- At cost, which may be
  - specific identification for specialised items
  - FIFO or weighted average for others
- Impairment (write down to estimated selling price less costs to complete and sell)

Section 14 Associates

- Option to use:
  - Cost model (except if published quotation then must use Fair Value through P&L)
  - Equity method
  - Fair value through profit or loss (if impracticable, then use cost)
  - **Cost and FV models are not allowed by IAS 28.**

Section 15 Joint ventures

- Option to use:
  - Cost model (except if published quotation then must use Fair Value through P&L)
  - Equity method
  - Fair value through profit or loss (if impracticable, then use cost)
- Proportionate consolidation is prohibited
- Cost and FV models are not allowed by IAS 31.
- Proportionate consolidation is allowed by IAS 31.

Section 16 Investment property

- If fair value can be measured reliably without undue cost or effort, use Fair Value through P&L
- Otherwise, must treat investment property as property, plant and equipment using Section 17

- **IAS 40 is pure accounting policy choice – either depreciation model or fair value through P&L.**

Section 17 Property, plant & equipment

- Historical cost – depreciation – impairment model only. No revaluation model.
- Section 17 applies to investment property if fair value cannot be measured reliably
- Section 17 applies to property held for sale
    - Holding for sale is an impairment indicator
- IAS 16 allows reval of PP&E through equity.
- IFRS 5 requires separate treatment for non-current assets held for sale

Section 17 Property, plant & equipment

- Component depreciation only if major parts of an item of PP&E have "significantly different patterns of consumption of economic benefits"
- Review useful life, residual value, depreciation rate only if there is a significant change in the asset or how it is used

- Impairment testing and reversal – follow Section 27

Section 18 Intangibles other than goodwill

- No recognition of internally generated intangible assets
- IAS 38 requires capitalisation of development costs incurred after a determination of commercial viability

Section 18

- Amortise intangibles that are purchased separately, acquired in a business combination, acquired by grant, and acquired by exchange of other assets
- Amortise over useful life. If unable to estimate useful life, then use 10 years
- Impairment testing – follow Section 27

Section 19 Business combinations & goodwill

- Acquisition method
- Amortise goodwill. If unable to estimate useful life, then use 10 years.
- Impairment testing and reversal – follow Section 27
- Negative goodwill – first reassess original accounting. If that is ok, then immediate credit to P&L

- **Goodwill amortisation is prohibited by IAS 38.**

Section 20 Leases

- Finance and operating lease classification similar to IAS 17
- Measure finance leases at lower of FV of interest in leased property and present value of minimum lease payments
- For operating leases, do not force straight-line expense recognition if lease payments are structured to compensate lessor for general inflation

Section 21 Provisions & contingencies

- Accrue if an obligation arising from a past event and amount can be estimated reliably
- Disclose (no accrual) contingent liability
- Measure at best estimate
  - Large population – weighted average calculation
  - Single obligation – adjusted most likely outcome
- Includes an appendix of examples

Section 22 Liabilities and equity

- Guidance on classifying an instrument as liability or equity:
  - Instrument is a liability if the issuer could be required to pay cash
  - However, if puttable only on liquidation or death or retirement of owner, then it is equity

Section 22 Liabilities and equity

- Section 22 also covers:
  - original issuance of shares and other equity instruments
  - sales of options, rights and warrants
  - stock dividends and stock splits

Section 23 Revenue

- Same principles as IAS 18 and IAS 11
  - Goods: Revenue recognised when risks and rewards are transferred, seller has no continuing involvement, measurable
  - Services and construction contracts: Recognised by percentage of completion
- Principle for measurement is fair value of consideration received or receivable

Section 24 Government grants

- All measured at the fair value of the asset received or receivable
- Recognition as income:
  - Immediately if no performance conditions are imposed
  - If conditions, recognise when conditions are fulfilled

Section 25 Borrowing costs

- All charged to expense when incurred
- No capitalisation

Section 26 Share-based payment

- Must recognise
- Measure at fair value if practicable
- If it is impracticable to determine the fair value of the option or other instrument granted, the entity’s directors should use their judgement to apply the most appropriate valuation method

Section 27 Impairment of assets

- **Inventories** - write down selling price less costs to complete and sell, if below carrying amount
- **Other assets** - write down to recoverable amount, if below carrying amount
- **Recoverable amount** is the greater of fair value less costs to sell and value in use

Section 28 Employee benefits

- For defined benefit plans, use projected unit credit calculation only if entity is able without undue cost or effort. Otherwise, can simplify:
  - Ignore estimated future salary increases
  - Ignore future service of current employees (assume closure of plan)
  - Ignore possible future in-service mortality

Section 28 Employee benefits

- Actuarial gains and losses may be recognised in profit or loss or as an item of other comprehensive income
  - No deferral, including no corridor approach

Section 29 Income tax

- Recognise deferred taxes if the tax basis of an asset or liability is different from its carrying amount
- Tax basis assumes recovery by sale. (If zero capital gains tax, no deferred tax)
- No deferred tax on an asset or liability if recovery or settlement of carrying amount is not expected to affect taxable profit

Section 29 Income tax

- Exception: No deferred tax on unremitted earnings of foreign subsidiaries and JVs
- Recognise deferred tax assets in full, with valuation allowance
  - Criterion is that realisation is probable (more likely than not)
- Deferred taxes all non-current

Section 30

- Foreign currency translation
- Functional currency approach similar to that in IAS 21
- No recycling of gains or losses on net investment in a foreign entity that are initially recognised in other comprehensive income

Section 31 Hyperinflation

- An entity must prepare general price-level adjusted financial statements when its functional currency is hyperinflationary
    - Approximately greater than 100% over three years

Section 32 Events after End of Reporting Period

- Adjust financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period
- Do not adjust for events or conditions that arose after the end of the reporting period
- Dividends declared after end of period are not a liability

Section 33 Related party disclosures

- Government departments and agencies are not related parties simply by virtue of their normal dealings with an entity
- Disclosure of key management personnel compensation only as one number in total
- Fewer disclosures about transactions

Section 34 Specialised activities

- Agriculture – use historical cost model unless fair value is readily determinable without undue cost or effort
- Oil and gas and mining – not required to charge exploration costs to expense
- Service concession arrangements – financial assets = FV & Amort.Cost; intangible assets = FV & C-D-I

Section 35 First-time adoption

- Prepare current year and one prior year's financial statements using the IFRS for SMEs
- But there are many exemptions for restating specific items
- And a general exemption for impracticability

No sections covering these topics

- Segment reporting
- Earnings per share
- Interim reporting
- Assets held for sale

Thank You

Interactive Session

Contacts

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