FINANCIAL MANAGEMENT WORKSHOP for SMEs

Overview of IFRS for SMEs

Nairobi Safari Club, Lilian Towers, 23rd March 2017

Session Objectives

The aims of the Session:

- To outline the significance of IFRS for SMEs
- To discuss the differences between Full IFRSs and IFRS for SMEs Challenges
- To discuss amendments and IFRS for SMEs 2015

Overview of IFRS for SMEs

- Introduction to IFRS for SMEs
  - Definition of SME
  - SME hierarchy
- Highlight of differences with full IFRSs
- Amendments following the comprehensive review of IFRS for SMEs
- Question and Answer

Overview of IFRS for SMEs

- There is *large disagreement* about how to define SMEs. The Government has adopted a definition, but banks very different ones based on their interests and target markets.

Overview of IFRS for SMEs

- **Definitions in demand-side research**

- The Micro and Small Enterprise Act (2013) as the starting point, and then segment further to develop a more nuanced understanding

Size	Government (employees)
Micro	Less than 10
Small	10 to 49
Medium	50 to 250

Introduction to IFRS for SMEs

IFRS for SMEs is intended for use by small and medium-sized entities (SMEs).

DESCRIPTION OF SMALL AND MEDIUM-SIZED ENTITIES

Small and medium-sized entities are entities that both:

a. Do not have 'public accountability'
b. Publish general purpose financial statements for external users (e.g. owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies).

DEFINITION OF ‘PUBLIC ACCOUNTABILITY’

An entity has ‘public accountability’ if either:

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 domestic or foreign stock exchange or an over-the- counter market, including local and regional markets).

b. It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks will meet this second criterion.

IFRS FOR SMEs AT A GLANCE

IFRS for SMEs published July 2009:

Types of simplifications compared to full IFRSs:

a. Some topics in full IFRSs are omitted because they are not relevant to typical SMEs.
b. Some accounting policy options in full IFRSs are not allowed because a more simplified method is available to SMEs.
c. Simplification of many of the recognition and measurement principles in full IFRSs.
d. Substantially fewer disclosures.
e. Simplified redrafting.

IFRS FOR SMEs AT A GLANCE

IFRS for SMEs published July 2009:

a. Good Financial Reporting Made Simple.

b. 230 pages (full IFRSs has over 3,000 pages).

c. Built on a full IFRS foundation. Simplifications from full IFRSs based on:

1. User needs primarily for information about short-term cash flows, liquidity and solvency (rather than longer-term forecasts of earnings and share prices).
2. Cost-benefits considerations - The IFRS for SMEs is drafted in simplified language.

d. Completely stand-alone.

Highlight of differences with full IFRSs

SECTION 1 SMALL AND MEDIUM SIZED ENTITIES

- Full IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities.

- The IFRS for SMEs is intended to apply to the general purpose financial statements only of entities that do not have public accountability.

Highlight of differences with full IFRSs

SECTION 2-CONCEPTS AND PERVASIVE PRINCIPLES

- The requirements for recognising and measuring assets, liabilities, income and expenses in the IFRS for SMEs are based on pervasive principles that are derived from the IASB Framework for the Preparation and Presentation of Financial Statements and from full IFRSs.

- External users of financial reporting have similar objectives, irrespective of the type of entities in which they invest. Consequently, the objective of general purpose financial reports is the same for all entities.

Highlight of differences with full IFRSs

SECTION 3 -FINANCIAL STATEMENT PRESENTATION

- IAS 1 and Section 3 of the IFRS for SMEs are based on the same principles for the presentation of financial statements. However, since the IFRS for SMEs is drafted in simple language and includes much less guidance on how to apply the principles, differences between IAS 1 and Section 3 may arise in practice.

- In accordance with the IFRS for SMEs, an entity that has changes to equity during the periods for which financial statements are presented that arise only from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity. That presentation simplification is not available to entities that report in accordance with full IFRSs.

Highlight of differences with full IFRSs

- The IFRS for SMEs does not require segment information to be presented in financial statements.

- The IFRS for SMEs does not require earnings per share to be presented in financial statements.

- An entity that chooses to present segment information or earnings per share, or both, must disclose that fact and describe the basis for preparing and presenting that information.

Highlight of differences with full IFRSs

SECTION 4–STATEMENT OF FINANCIAL POSITION

- When financial statements are restated retrospectively full IFRSs require presentation of three statements of financial position. The IFRS for SMEs requires only two.

Highlight of differences with full IFRSs

SECTION 5-STATEMENT OF COMPREHENSIVE INCOME AND INCOME STATEMENT

- The IFRS for SMEs permits an entity to present a statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity if the only changes to its 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 (see paragraph 3.18). This option does not exist in full IFRSs.

- The IFRS for SMEs has only three items of other comprehensive income (OCI)—translating the financial statements of a foreign operation, some changes in fair values of hedging instruments and actuarial gains and losses of defined benefit plans. Full IFRSs have more items of comprehensive income (eg cumulative changes in the fair value of available-for-sale financial assets and gains on the revaluation of property, plant and equipment and intangible assets).

- Full IFRSs require reclassification through profit or loss of some items of OCI (sometimes called 'recycling') when they become realised (eg those in respect of available-for-sale financial assets and the translation of foreign operations). Except for specified gains and losses on hedging instruments (see Section 12 Other Financial Instrument Issues) the IFRS for SMEs does not permit reclassification.

Highlight of differences with full IFRSs

- If the entity that applies full IFRSs classifies its expenses by function, it is also required to disclose information on the nature of expenses. The IFRS for SMEs does not explicitly require these additional disclosures of expenses by nature.

- Full IFRSs (IFRS 5 Non-current Assets Held for Sale and Discontinued Operations) require a non- current asset held for sale (including the non-current assets of a discontinued operation) to be carried at the lower of its carrying amount and fair value less estimated costs to sell the asset.

- The IFRS for SMEs does not require separate presentation in the statement of financial position of ‘non-current assets held for sale’.

Highlight of differences with full IFRSs

SECTION 6-STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAINED EARNINGS

- The IFRS for SMEs allows an entity to present a single statement of income and retained earnings in place of separate statements of comprehensive income and changes in equity if the only changes to its equity in 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. This option does not exist in full IFRSs.

- On disposal of a foreign operation, the IFRS for SMEs does not require 'reclassification' through profit or loss of any cumulative exchange differences that were recognised previously in other comprehensive

Highlight of differences with full IFRSs

SECTION 7-STATEMENT OF CASH FLOWS

- IFRS for SMEs does not explicitly:
  - encourage entities to report cash flows from operating activities using the direct method.
  - require the reporting of particular cash flows on a net basis (see IAS 7 Statement of Cash Flows, paragraph 22).

Highlight of differences with full IFRSs

SECTION 8-NOTES TO THE FINANCIAL STATEMENTS

- The disclosure requirements in the IFRS for SMEs are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:

  a. Some disclosures are not included because they relate to topics covered in full IFRSs that are omitted from the IFRS for SMEs.

  b. Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that have been replaced by simplifications in the IFRS for SMEs.

  c. Some disclosures are not included because they relate to options in full IFRSs that are not included in the IFRS for SMEs.

  d. Some disclosures are not included on the basis of users' needs or cost-benefit considerations

Highlight of differences with full IFRSs

SECTION 9 -CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Control—what to consolidate

Both full IFRSs and the IFRS for SMEs use "control" to determine what is consolidated.

However, the definition of control is different.

- In the IFRS for SMEs control of an entity is "The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities".
- In IFRS 10, which was issued in 2011, control of an entity is "An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee".
- In addition, IFRS 10's approach to how potential voting rights affect control is slightly different to that in the IFRS for SMEs..

Highlight of differences with full IFRSs

Goodwill

- Both full IFRSs and the IFRS for SMEs recognise goodwill in accounting for business combinations. However, there are significant differences between the amount of goodwill recognised and the subsequent measurement of goodwill.

- For example, any directly attributable costs of acquisition form part of goodwill in accordance with the IFRS for SMEs but under full IFRSs such costs are recognised as an expense of the period in which they are incurred.

- In accordance with the IFRS for SMEs, after initial recognition, goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses. Goodwill is amortised over its useful life. If an entity is unable to estimate reliably the useful life of goodwill, the life is presumed to be ten years. In accordance with full IFRS, goodwill is an indefinite-life intangible asset and, consequently is not amortised. Similarly as for the IFRS for SMEs, goodwill is subject to impairment testing. However, the 'triggers' for impairment testing are different.

Highlight of differences with full IFRSs

Reporting period

- In accordance with the IFRS for SMEs the consolidated financial statements must be prepared using the financial statements of the parent and its subsidiaries prepared as of the same reporting date unless it is impracticable to do so.

- IFRS 10 has similar requirements; in addition, it specifies the maximum difference of the reporting periods (three months) and the requirement to adjust for significant transactions that occur in the gap period.

Highlight of differences with full IFRSs

SECTION 10-ACCOUNTING POLICIES, ESTIMATES AND ERRORS

- Full IFRSs (see IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) and the IFRS for SMEs (see Section 10 Accounting Policies, Estimates and Errors) as issued at 9 July 2009 share the same principles for accounting and reporting events after the end of the reporting period.

- However, the IFRS for SMEs is drafted in simple language and includes less guidance on how to apply the principles.

Highlight of differences with full IFRSs

SECTION 11–BASIC FINANCIAL INSTRUMENTS

In the IFRS for SMEs the accounting for basic financial instruments is addressed separately from the accounting for more complex financial instrument transactions and the requirements have been written in simplified language. In addition there are a number of changes in the detail (outlined below).

Under the IFRS for SMEs an entity shall choose to account for all of its financial instruments either:

a)by applying the provisions of both Section 11 and Section 12 in full, or

b)by applying the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of Section 11 and Section 12.

If an entity chooses to apply (b)

The difference between applying (b) and applying full IFRSs is the applicable disclosure requirements. IFRS 7's disclosures are divided into three main categories: significance; risk; and transfers. Section 11 includes many of the 'significance' disclosures that are in IFRS 7. However, the IFRS for SMEs includes none of the 'risk' disclosures that are in IFRS 7. The only disclosure from IFRS 7 relating to 'transfers' that is included in the IFRS for SMEs relates to transfers of financial assets that do not qualify for derecognition.

Highlight of differences with full IFRSs

The reasons that the IFRS for SMEs omits so many of the IFRS 7 disclosures include:

- many of the IFRS 7 disclosures are designed for financial institutions (which are not eligible to use the IFRS for SMEs);
- many of the IFRS 7 disclosures are designed for entities whose securities trade in public capital markets (which are also ineligible to use the IFRS for SMEs); or
- in the case of disclosure of fair values for all financial instruments measured at amortised cost, requiring such disclosures would be burdensome for small or medium-sized entities and contrary to the objective of Section 11, which is an amortised cost section for basic financial instruments.

If an entity chooses to apply (a)

There are many differences between Section 11 and full IFRSs, including the disclosure differences mentioned for (b) above. Other main differences at 9 July 2009 include:

- Classification of financial instruments: Under Section 11, financial instruments that meet specified criteria are measured at cost or amortised cost, with an exemption for a few instruments which are measured at fair value through profit or loss. The fair value option, and the available-for-sale and held-to-maturity classifications in IAS 39 are not available. This therefore removes the requirement to assess management's intentions regarding financial instruments and avoids the need for accounting 'penalties' in Section 11 (eg tainting provisions for held-to-maturity assets).

Highlight of differences with full IFRSs

SECTION 13 -INVENTORIES

- IAS 23 Borrowing Costs requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (including some inventories) to be capitalised as part of the cost of the asset. For cost-benefit reasons, Section 25 Borrowing Costs of the IFRS for SMEs requires such costs to be charged to expense.

Highlight of differences with full IFRSs

SECTION 14 –INVESTMENTS IN ASSOCIATES

- The IFRS for SMEs permits an entity to account for investment in associates in its primary financial statements using three different models—the equity method, the cost model and the fair value model. The chosen model is applied to all investments in associates.
- Full IFRSs require investments in associates to be accounted for using the equity method in an investor's primary financial statements.
- Under the equity method, the IFRS for SMEs requires that implicit goodwill be systematically amortised throughout its expected useful life. Full IFRSs does not allow the amortisation of goodwill

Highlight of differences with full IFRSs

SECTION 15-INVESTMENTS IN JOINT VENTURES

- The IFRS for SMEs permits an entity to choose to account for investments in jointly controlled entities in its primary financial statements using one of three different models—the equity method, the cost model and the fair value model. The chosen model is applied to all its investments in jointly controlled entities.

- Full IFRSs require investments in jointly controlled entities to be accounted for using the equity method in an investor's primary financial statements (IFRS 11)

- Under the equity method, the IFRS for SMEs requires that implicit goodwill be systematically amortised throughout its expected useful life. Full IFRSs does not allow the amortisation of goodwill.

Highlight of differences with full IFRSs

SECTION 16 –INVESTMENT PROPERTY

- Full IFRSs (IAS 40) allow an accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-impairment model is required to provide supplemental disclosure of the fair value of its investment property.

- The IFRS for SMEs does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort on an ongoing basis, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model in Section 17 Property, Plant and Equipment for other investment property. Unlike IAS 40, the IFRS for SMEs does not require disclosure of the fair values of investment property

Highlight of differences with full IFRSs

Section 17 -Property, Plant and Equipment

- Full IFRSs permit an option to use the revaluation model for the measurement of property, plant and equipment after initial recognition. The IFRS for SMEs (2009) does not.

- Full IFRSs require an annual review of residual value, useful life and depreciation method of property, plant and equipment. The IFRS for SMEs requires a review only if there is an indication that there has been a significant change since the last annual reporting date.

Highlight of differences with full IFRSs

SECTION 18 -INTANGIBLE ASSETS OTHER THAN GOODWILL

- Full IFRSs require all research costs to be charged to expense when incurred, but development costs incurred after the project is deemed to be commercially viable are to be capitalised. The IFRS for SMEs requires all research and development costs to be recognised as expenses.

- Full IFRSs require indefinite-lived intangible assets to be carried at cost less impairment loss, if any. The IFRS for SMEs considers all intangible assets (including indefinite-lived intangible assets) to have finite lives. It requires all intangible assets (ie including indefinite-lived intangible assets) to be amortised.

- Full IFRSs permit an option to use the revaluation model for the measurement of intangible assets after initial recognition. The IFRS for SMEs does not.

- Full IFRSs require an annual review of residual value, useful life and amortisation method of intangible assets. The IFRS for SMEs requires a review only if there is an indication that there has been a significant change since the last annual reporting date.

Highlight of differences with full IFRSs

SECTION 20 -LEASES

- When the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases the IFRS for SMEs does not require a lessee or lessor to recognise lease payments under operating leases on a straight-line basis.
- That exception to the straight- line basis is not in IAS 17 Leases.

Highlight of differences with full IFRSs

SECTION 21 -PROVISIONS AND CONTINGENCIES

- Full IFRSs share the same principles for accounting and reporting provisions and for disclosing contingent liabilities and contingent assets.

- However, the IFRS for SMEs is drafted in simple language and includes significantly less guidance on how to apply the principles.

Highlight of differences with full IFRSs

SECTION 22 -LIABILITIES AND EQUITY

- The IFRS for SMEs includes additional requirements to IAS 32 for the recognition of the issue of shares or other equity instruments. However, such guidance is consistent with practice under full IFRSs.

- The IFRS for SMEs contains less detailed requirements than IAS 32 on classifying puttable financial instruments and obligations arising on liquidation that meet the definition of a liability but that may represent the residual interest in the net assets of the entity. Differences may arise in practice because of the simplified classification requirements under Section 22.

Highlight of differences with full IFRSs

SECTION 23 –REVENUE

Sale of goods, rendering of services, interest, dividends and royalties

- Full IFRSs and the IFRS for SMEs share the same principles for accounting and reporting revenue. However, the IFRS for SMEs is drafted in simple language and provides less guidance on how to apply the principles. Furthermore, the disclosure requirements of Section 23 are less detailed than those specified in IAS 18.

Construction contracts

- Full IFRSs and the IFRS for SMEs share the same principles for accounting and reporting construction contracts. However, the IFRS for SMEs is drafted in simple language and provides less guidance on how to apply the principles. Furthermore, the disclosure requirements of Section 23 are less detailed than those specified in IAS 11.

Highlight of differences with full IFRSs

SECTION 25 -BORROWING COSTS

- IAS 23 requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of the asset. For cost-benefit reasons, Section 25 of the IFRS for SMEs requires such costs to be charged to expense.

- The composition of borrowing costs in full IFRSs and the IFRS for SMEs are similar.

- However, differences between borrowing costs as defined in IAS 23 and Section 25 may arise because the requirements for the calculation of the underlying 'finance costs' may be different.

- For example, interest expense calculated in accordance with Section 11 Basic Financial Instruments of the IFRS for SMEs might differ from 'finance cost' calculated on the same instrument in accordance with full IFRSs (ie IAS 39 Financial Instruments: Recognition and Measurement).

Highlight of differences with full IFRSs

SECTION 27 –IMPAIRMENT OF ASSETS

- In accordance with IAS 2, inventories are measured at the lower of cost and net realisable value. In section 27, impairment is assessed by comparing the carrying amount of each item of inventory with its selling price less costs to complete and sell. The IFRS for SMEs does not use the term net realisable value but the definition of net realisable value in IAS 2 is consistent with 'selling price less costs to complete and sell'.

- In accordance with full IFRSs, indefinite life intangible assets and goodwill are assessed for impairment on at least an annual basis. The IFRS for SMEs requires an entity to calculate the recoverable amount of goodwill and other indefinite life intangible assets only if impairment is indicated. Section 27 includes a list of indicators of impairment, based on both internal and external sources of information, as guidance for SMEs.

- Unlike full IFRSs, the IFRS for SMEs requires amortisation of goodwill and all intangible assets. When goodwill is fully amortised (ie its carrying amount is nil) it cannot be further impaired (and reversal of a prior period impairment of goodwill is prohibited). Consequently, in accordance with the IFRS for SMEs, it would no longer be tested for impairment.

- The IFRS for SMEs does not permit use of the revaluation model for property, plant and equipment (IAS 16 paragraph 75) or for intangible assets (IAS 38 paragraph 75). Consequently, impairment tests performed in accordance with Module 27 are not affected by asset revaluations.

Highlight of differences with full IFRSs

SECTION 28 -EMPLOYEE BENEFITS

Short-term employee benefits

- Full IFRSs and the IFRS for SMEs share the same principles for the recognition and measurement of short-term employee benefits. ance on how to apply the principles.

Post-employment benefits Defined contribution plans

- Full IFRSs and the IFRS for SMEs share the same principles for the recognition and measurement of defined contribution plan benefits.

Highlight of differences with full IFRSs

Defined benefit plans

- IAS 19 requires an entity to recognise unvested past service cost as an expense on a straight-line basis over the average period until the benefits become vested. In accordance with the IFRS for SMEs an entity is required to recognise past service costs as an expense in measuring profit or loss of the period of the change (ie immediately).

- IAS 19 requires that a defined benefit obligation should always be measured using the projected unit credit actuarial method. For cost-benefit reasons, the IFRS for SMEs provides for some measurement simplifications that retain the basic IAS 19 principles but reduce the need for SMEs to engage external specialists. Accordingly, if information based on the projected unit credit method is not available and cannot be obtained without undue cost or effort, SMEs must apply an approach that is based on IAS 19 but does not consider future salary progression, future service or possible mortality during an employee's period of service. This approach still takes into account life expectancy of employees after retirement age.

Highlight of differences with full IFRSs

SECTION 29 -INCOME TAX

- The IFRS for SMEs requires current and deferred taxes to be measured initially at the rate applicable to undistributed profits, with adjustment in subsequent periods if the profits are distributed.
- IFRS for SMEs requires the current/non-current classification of deferred tax assets and liabilities to mirror the related asset or liability. The IFRS for SMEs requires all deferred tax assets and liabilities to be classified as non-current.

Highlight of differences with full IFRSs

SECTION 30 –FOREIGN CURRENCY TRANSLATION

- The IFRS for SMEs does not allow or require cumulative exchange differences that relate to a foreign operation that were previously recognised in other comprehensive income to be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised. IAS 21 requires such a treatment.

- The IFRS for SMEs does not have specific procedures for the translation of the results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy into a different presentation currency, while IAS 21 does have such procedures.

Highlight of differences with full IFRSs

SECTION 32 -EVENTS AFTER THE END OF THE REPORTING PERIOD

- Full IFRSs and the IFRS for SMEs share the same principles for accounting and reporting events after the end of the reporting period.

- However, the IFRS for SMEs is drafted in plain language and includes significantly less guidance on how to apply the principles.

Highlight of differences with full IFRSs

SECTION 33 –RELATED PARTY TRANSACTIONS

- A formal difference between Section 33 and IAS 24 is the fact that IAS 24 does not use the term ‘significant voting power’.
- Consequently, a person (or a close member of that person’s family) who holds significant voting power in an entity but who does not have control, joint control or significant influence over the entity and is not a member of the key management personnel of that entity or of a parent of the entity, is not a related party to that entity.
- Although this is a formal difference between those standards, such a difference may affect only a few entities, if any.

- The term ‘significant voting power’ was excluded from IAS 24 because it is undefined and because it creates anomalies.

Highlight of differences with full IFRSs

SECTION 35 -TRANSITION TO IFRS FOR SMES

- The IFRS for SMEs includes an 'impracticability' exemption (which is not in IFRS 1). Restatement for one or more adjustments is not required if impracticable. Similarly comparative disclosures are not required if providing them is impracticable.

- Allows a first-time adopter of the IFRS for SMEs to not recognise, at the date of transition to the IFRS for SMEs, deferred tax assets or deferred tax liabilities. This exemption is not present in IFRS 1.

- There are a number of exemptions in IFRS 1 that are not included in Section 35 because they are not relevant to the accounting requirements in the IFRS for SMEs (eg exemptions relating to insurance, employee benefits, assets and liabilities of subsidiaries, associates and joint ventures, and designation of previously recognised financial instruments).

IFRS FOR SMEs AT A GLANCE

- Entities reporting under *IFRS for SMEs* are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

- The following sections were amended as part of the 2015 version of the *IFRS for SMEs*:

  - ✓ Section 1 – *Small and Medium-sized Entities*
  - ✓ Section 2 – *Concepts and Pervasive Principles*
  - ✓ *Section 4 – Statement of Financial Position*
  - ✓ *Section 5 – Statement of Comprehensive Income and Income Statement*

IFRS FOR SMEs AT A GLANCE

- ✓ *Section 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings*
- ✓ *Section 9 – Consolidated and Separate Financial Statements*
- ✓ *Section 10 – Accounting Policies, Estimates and Errors*
- ✓ *Section 11 – Basic Financial Instruments*
- ✓ *Section 12 – Other Financial Instruments Issues*
- ✓ *Section 14 – Investments in Associates*
- ✓ *Section 15 – Investments in Joint Ventures*
- ✓ *Section 16 – Investment Property*
- ✓ *Section 17 – Property, Plant and Equipment*
- ✓ *Section 18 – Intangible Assets other than Goodwill*

IFS FOR SMEs AT A GLANCE

- ✓ *Section 19 – Business Combinations and Goodwill*
- ✓ *Section 20 – Leases*
- ✓ *Section 21 – Provisions and Contingencies*
- ✓ *Section 22 – Liabilities and Equity*
- ✓ *Section 26 – Share-based Payment*
- ✓ *Section 27 – Impairment of Assets*
- ✓ *Section 28 – Employee Benefits*
- ✓ *Section 29 – Income Tax*
- ✓ *Section 30 – Foreign Currency Translation*
- ✓ *Section 31 – Hyperinflation*
- ✓ *Section 33 – Related Party Disclosures*
- ✓ *Section 34 – Specialised Activities*
- ✓ *Section 35 – Transition to the IFRS for SMEs*

Comprehensive review

- **Initial comprehensive review:** After 2 years implementation experience (1 January 2019)

  ✓ Fix errors and omissions, lack of clarity, and other implementation problems

  ✓ Also consider need for improvements based on recent changes to full IFRSs

- **Thereafter:** Once every three years (approximately)

  ✓ urgent issues may be addressed more frequently The IASB have established a group called the SME Implementation group (‘SMEIG’) which gives a way of addressing any problems that arise between the comprehensive reviews

Comprehensive review

- SMEIG has Two main responsibilities:

  - ✓ to consider implementation questions raised by users of the IFRS for SMEs, with a view to developing proposed guidance in the form of Questions and Answers (Q&As)

  - ✓ to consider, and make recommendations to the IASB on the need to amend the IFRS for SMEs for implementation issues that cannot be addressed by Q&As, and for new and amended IFRSs that have been adopted since the IFRS for SMEs was issued or last amended.

Comprehensive review

- Q&As are available to download on the IASB's website and are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SME Implementation Group.

- Draft Q&As are published for public comment, after which the SMEIG considers the comments received and sometimes a final Q&A is then issued. Any changes required as a result of the Q&As are incorporated into the relevant sections within the Standard when Amendments are issued after a comprehensive review.

APPLICABLE ACCOUNTING AND FINANCIAL REPORTING STANDARDS

For annual financial period beginning on or after January 01, 2015

CLASS OF COMPANIES	APPLICABLE ACCOUNTING AND FINANCIAL REPORTING STANDARDS
• Large Sized Company • Public Interest Company • Public Interest and Large Sized Company licensed under the Companies Act	International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).
• Medium Sized Company • Small and Medium-Sized Company licensed in Kenya	International Financial Reporting Standards for Small and Medium- Sized Entities (IFRS for SMEs) issued by IASB as adopted in Kenya.

Conclusion

- **The IFRS for SMEs has resulted in:**
  - Better quality reporting
  - Tailored for the capabilities of small companies
  - Tailored for the needs of lenders and creditors
  - Understandability across borders
- **confidence in the financial figures, an SME's ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.**

The End

- Discussion
- Questions?