The South African Institute of Chartered Accountants

WORKING WITH

ED IFRS for Small and Medium Entities

A summary of the Exposure Draft

Foreword

Since the early 1970s, International Financial Reporting Standards have been designed to meet the needs of companies whose securities trade in public capital markets. This has affected the scope of issues covered in IFRSs, the amount of implementation guidance, and the volume of disclosures.

In many countries, this complexity has been pushed down to small and medium-sized entities (SMEs) because they have adopted IFRSs as their national accounting standards or have been converging their national standards with IFRSs. Concerns have been raised about the burden to financial statement preparers and the relevancy of the resulting information to lenders, vendors, credit rating agencies, family investors, development agencies, and others who use SME financial statements.

At the same time, accounting standards used by SMEs in other countries are minimal or outdated or not aimed at providing information to those who provide capital to SMEs. In those countries, SMEs' access to capital may be impeded, or the cost of capital is raised to reflect the 'information risk'.

In recognition of these concerns, the International Accounting Standards Board (which develops IFRSs) is working to develop a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies. In February 2007, the IASB published an Exposure Draft of an International Financial Reporting Standard for SMEs. The proposed standard is based on full IFRSs with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

The proposed IFRS for SMEs incorporates five types of simplifications of full IFRSs:

1. Some topics in IFRSs are not included because they are not relevant to a typical SME.
2. Where an IFRS allows an accounting policy choice, the SME Exposure Draft includes only the simpler option.
3. Simplification of many of the principles for recognising and measuring assets, liabilities, income, and expenses that are in full IFRSs.
4. Substantially fewer disclosures.
5. Simplified redrafting.

The result is an SME standard that is roughly 15 percent the size of full IFRSs.

The Exposure Draft offers a workable, self-contained set of historical cost-based accounting standards that would allow investors for the first time to compare SMEs' financial performance across international boundaries on a like for like basis.

The ACCA has long been a partner with the IASB in efforts to improve financial reporting around the world. We are extremely grateful to ACCA for helping to explain and promote the proposed IFRS for SMEs by publishing this informative booklet.

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This booklet is a summary of the requirements of this exposure draft, and does not contain all the requirements proposed in the exposure draft. The full exposure draft is available from the IASB website www.iasb.org.

Introduction

Preface

The IFRS for SMEs standard is separated into various sections to cover all aspects relating to this specific entity – each of equal authority.

Objectives:

- To develop a set of high quality, understandable and enforceable global standards for SMEs.
- These financial statements are intended to be general purpose financial statements on which an auditor could give a true and fair view or an opinion on fair presentation.

Summary:

- The IFRS for SMEs standard will provide a framework to allow financial statements to be prepared for use of lenders, vendors and other creditors, outside investors, credit rating agencies, and other external parties. The goal is to improve SMEs access to capital.
- The resulting financial statements are likely to be useful for preparing tax returns or determining distributable income only after adjustments to reflect local laws.

Section 1: Scope

Summary:

- SMEs do not have broad public accountability in the way listed companies and banks and other financial institutions do. Instead they are accountable to a more limited group of interested parties. In addition, users of SME financial statements are likely to be more interested in short-term cash flows than in forecasting long-term future earnings.
- SMEs often are required by law to publish general purpose financial statements, or they choose to do so to enhance their ability to raise equity or loan capital.
- Companies whose securities trade in public capital markets and those that take deposits or hold assets in a fiduciary capacity like banks, insurance companies, brokerages, mutual funds, and pension plans would not be eligible to use the IFRS for SMEs.

Section 2: Concepts and Pervasive Principles

Summary:

- SME's financial statements will show the financial position, performance and cash flows of the entity.
- The following qualitative characteristics need to be met: understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.
- Recognition criteria for assets, liabilities, income and expense include probability, reliability and measurability.
- Pervasive principles include basic guidance for initial and subsequent measurements of assets, liabilities, income and expense.

Section 3: Financial Statement Presentation

Summary:

- To describe a set of financial statements as compliant with IFRS for SMEs, all the requirements of the standard must be complied with.
- Financial statements must be presented at least annually, be consistent with prior years, include comparative prior-year data, and include all material items.
- A complete set of financial statements includes:
  - Balance sheet;
  - Income statement;
  - Statement of changes in equity;
  - Cash flow statement; and
  - Notes to the financial statements.
  - A combined statement of income and retained earnings can replace the income statement and statement of changes in equity if the SME does not have any items of income and expense that are recognised directly in equity.

Section 4: Balance Sheet

Summary:

- A current/non-current distinction is normally required for presentation.
- Standard sets out minimum disclosure requirements.

Section 5: Income Statement

Summary:

- Analysis of expenses may be presented by nature or function.
- Standard sets out minimum disclosure requirements.

Section 6: Statement of Changes in Equity and Statement of Income and Retained Earnings

Summary:

- An entity is required to prepare a Statement of Changes in Equity. If the only changes to its equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, it may elect to show a Statement of Income and Retained Earnings.
- Statement of Changes in Equity must show either all changes in equity or changes in equity excluding transactions with equity holders in relation to their capacity as equity holders.
- Statement of Income and Retained Earnings presents an entity's profit and loss for the period and a reconciliation of retained earnings.
- Key areas for disclosure include all dividends paid or payable, any restatements for corrections for errors and adjustments in policy and retained earnings at the beginning and end of periods.

Section 7: Cash Flow Statements

Summary:

- Cash flows are split into operating, investing and financing activities.
- Operating activities may be presented using either the direct or indirect approach.

Section 8: Notes to the Financial Statements

Summary:

- This information is provided to support the primary financial statements.
- It includes a summary of accounting policies, information about judgements, information about estimation uncertainty and externally imposed capital requirements.
- Notes are to be presented in a systematic manner and should disclose specifically required items such as contingent liabilities and assets, dividends proposed and non financial disclosures.

Section 9: Consolidated and Separate Financial Statements

Summary:

- If control exists, a parent company should present consolidated financial statements – (control exists when a parent company is able to govern the financial and operating policies of an entity).
- An intermediate parent need not prepare consolidated financial statements if it is itself a subsidiary of a group where the ultimate parent produces consolidated financial statements under full IFRS or IFRS for SMEs.
- For consolidated accounts, normal consolidation rules apply.
- In a parent's separate financial statements, it may account for subsidiaries, associates and joint ventures that are not held for sale, at cost or fair value through profit and loss.

Section 10: Accounting Policies, Estimates and Errors

Summary:

- Accounting policies are the basis of the financial statements.
- If the standard does not address a specific transaction, management should take the following into account when determining an appropriate accounting policy:
  - Requirements and guidance in the IFRS for SMEs standard dealing with similar or related issues; and
  - The definitions, recognition criteria and measurement concepts in the IFRS for SMEs standard.
- Management may consider the requirements of the full set of IFRS standards in determining an appropriate accounting policy. However, they are not required to do so.
- Accounting policies should be consistent with prior years, unless a change in policy will provide a more reliable outcome or is required by the standard. Voluntary changes in accounting policies are applied retrospectively.
- Changes in accounting estimates are accounted for prospectively.
- Prior period errors are omissions from and misstatements resulting from failures to use information that was available. Errors are corrected retrospectively unless impracticable.

Section 11: Financial Assets and Liabilities

Objective:

- A policy choice exists – an entity may either apply the provisions of this section or apply IAS 39, *Financial Instruments: Recognition and Measurement.* If IAS 39 is adopted by an SME, it must comply with the disclosure requirements of IFRS 7, *Financial Instruments: Disclosure.*

Scope:

- A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity for another.
- Excluded from this section are: interest in subsidiaries, associates and joint ventures; employers' rights; insurance contracts; part of an entity's own equity; leases; most contracts involving non-financial items. These are covered in other sections of the standard.

Summary:

- Financial assets and liabilities are recognised when the parties become bound by the contractual provisions of the instrument. Thus, for example, derivatives are recognised even if there is no up-front cash payment.
- Derecognition of an asset occurs when:
  - the contractual rights to the cash flows from the financial asset expire or are settled;
  - the entity transfers to another party all of the significant risks and rewards relating to the financial asset; or
  - the entity, despite having retained some significant risks and rewards relating to the financial asset, has transferred the ability to sell the asset in its entirety to an unrelated third party who is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.
- A liability is derecognised when the obligation is settled.
- Subsequent measurement is as follows:
  - Financial instruments can be designated on initial recognition as measured at amortised cost less impairment providing they meet the following

requirements (includes most accounts, notes, loans, and debt instruments receivable and payable):

        - It has a specified maturity date or is due on demand and, at/before the specified maturity date, it requires repayment of all or substantially all of the amount of consideration received/paid when it was issued;
        - Returns to the holder: a fixed amount; a fixed rate of return; a variable return that is equal to a single referenced quoted or observable interest rate; or a combination of the above;
        - Has no contractual provision that could result in the holder losing the principal amount and any interest attributable;
        - Has contractual provisions that permit the issuer to prepay the debt or permit the holder to put it back to the issuer before maturity that are not contingent on future events; and
        - There are no conditional returns or repayment provisions except for the variable rate return or and prepayment provisions described above.
    - Financial instruments may be measured at cost less impairment if they:
        - Cannot be settled net in cash;
        - Are expected to meet the conditions for recognition at cost or amortised cost less impairment at execution; and
        - Are designated at initial recognition at cost.
    - Equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.
    - Other financial instruments are measured at fair value through profit or loss.
- For fair value – this needs to be freely available such as a quoted price or an arm's length transaction between two knowledgeable parties.
- At each reporting date, an entity shall assess financial assets for objective evidence of impairment.
- Reversals of impairments are required if they arise as a result of an event after the impairment was recognised.

- Hedge accounting (matching the gains and losses on a hedging instrument and hedged item) is only permitted for the following:
    - interest rate risk of a debt instrument measured at amortised cost;
    - foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;
    - price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or
    - foreign exchange risk in a net investment in a foreign operation.
- Measuring hedge effectiveness is simplified from IAS 39.
- The standard permits hedge accounting only if the hedging instrument has all of following terms and conditions:
    - it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective;
    - it involves a party external to the reporting entity;
    - its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;
    - it has a specified maturity date not later than:
        - the maturity of the financial instrument being hedged,
        - the expected settlement of the commodity purchase commitment, or
        - the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.
    - it has no prepayment, early termination or extension features.
- Disclosure of balance sheet items needs to show the split between the various measurement basis of assets and liabilities and show in total the value recognised.
- For derecognition, the entity shall disclose the nature of the assets, risks and rewards and the carrying amounts as well as any collateral offered.
- Disclosure of income statement and equity items either on the face or in the notes for net gains and losses on financial instruments for each measurement basis.

- Hedge accounting is to be disclosed separately for each hedge detailing the type of hedge, description and the nature of the risks.

Section 12: Inventory

Summary:

- Inventory is an asset for sale in the ordinary course of business, being produced for sale or to be consumed in production.
- Measurement is at the lower of cost and selling price less costs to complete and sell.
- Cost is determined using specific identification, weighted average, or FIFO (LIFO not permitted).
- Included in the cost of inventory are costs to purchase, costs of conversion and costs to bring the asset to its present location and condition.
- Where a production process creates joint products and/or by-products, the costs are allocated on a consistent and rational basis.
- Agricultural produce is measured on initial recognition as inventory at fair value less estimated costs to sell.
- Disclosures include the accounting policies, carrying amounts, amounts expensed during the year, impairments or reversals and any amounts pledged as security.

Section 13: Investments in Associates

Summary:

- Associates are investments where significant influence exists. Significant influence is defined as the power to participate in the financial and operating policy decisions of the associate but where there is neither control nor joint control over those policies.
- Measurement can be based on the cost model, the equity method or fair value through profit and loss.
- For disclosure, the entity must disclose the policy to be used, fair values if available, summarised financial information and any restrictions on the transfer of funds.

Section 14: Investments in Joint Ventures

Summary:

- This is the contractually agreed sharing of control over an entity.
- Three types of joint ventures occur – jointly controlled operations, jointly controlled assets and jointly controlled entities.
- For jointly controlled operations, the venturer should recognise assets that it controls and liabilities it incurs as well as its share of income earned and expenses that are incurred.
- For jointly controlled assets, the venturer should recognise its share of the assets and liabilities it incurs as well as income it earns and expenses that are incurred.
- For jointly controlled entities, measurement to be done using either the cost method, the equity method, proportionate consolidation or fair value through profit and loss.
- For transactions between the venture and venturer, only the portion of gain and loss that is attributable to other investors can be recognised.
- Disclosure should be made of aggregate amounts of commitments to joint ventures, a listing and descriptions of interests in joint ventures and the method used to account for the joint venture.
- Contingent liabilities connected to the joint venture should be disclosed separately from the contingent liabilities of the venturer.

Section 15: Investment Property

Summary:

- Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
- Measurement is initially at cost and includes costs to bring it into use.
- Subsequent measurement is either at:
    - Fair Value, with value changes in profit or loss: follow the measurement and disclosure requirements of IAS 40, *Investment Property.*
    - Cost: follow the guidance for property, plant and equipment (Section 16)

- If the cost method is used, the fair value is not required to be disclosed.

Section 16: Property, Plant and Equipment

Summary:

- At recognition, cost includes the purchase price and other costs to bring into a working position as well as any future dismantling costs and site restoration costs, less any discounts or rebates. If payment is to occur over a period of time, cost is the present value of all future payments.
- The following costs are excluded and should be expensed when incurred: new facility opening costs, new product or services launches and administration and overhead expenditure.
- If parts are replaced, the cost will be added to the carrying value of the asset if it is expected to provide incremental economic benefit. If not, then the repairs should be expensed.
- Subsequent to acquisition, the entity may use either the cost or revaluation model for PP&E. The cost model recognises depreciation and impairment of the carrying value, whilst the revaluation model revalues the asset to current value with value changes recognised directly in equity but with impairment recognised in profit or loss.
- Where the revaluation model is elected, the requirements of IAS 16 *Property, plant and equipment* must be applied. This includes regular revaluations made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Revaluation reserves are part of equity and not recycled to the income statement when the asset is sold.
- Assets shall be depreciated over the anticipated useful life after taking into consideration the residual value at the asset's life end and any changes in accounting estimate over the assets life. The method of depreciation shall be the method that best demonstrates the life of the asset. Separate significant components should be depreciated separately.
- The useful life and residual values of an asset should be reviewed annually, and changes accounted for as a chance in accounting estimate.

- Impairment must be assessed at each reporting date and recognised as a current period expense.
- Derecognition shall occur on disposal or when no future economic benefits are expected from the assets – this may result in gains or losses to be recognised in profit and loss for that period.
- The measurement basis, depreciation methods, useful lives, gross carrying amounts and accumulated depreciation, reconciliation showing additions, disposals, acquisitions, impairments, depreciation, any foreign exchange differences and other changes shall all be disclosed.

Section 17: Intangible Assets other than Goodwill

Summary:

- An identifiable non-monetary asset, without physical substance is recognised as an asset when it is probable that future economic benefits will result and the cost can be measured reliably.
- Measurement at initial recognition:
  - Generally measured at cost, which may include its actual cost, costs to bring to use less any discounts.
  - Measured at fair value in the event of an asset swap arrangement or as part of a business combination.
- Research and Development: expense all research costs. Can expense all development costs or there is an option to capitalise development costs incurred after a commercially viable product has been developed. If the capitalisation method is elected, then the requirements of IAS 38, *Intangible Assets,* must be applied.
- Items that are always recognised as expenses include: internally generated brands/mast head and others, start-up costs, training costs, advertising and relocating of a division or entity.

- Subsequent measurement at cost or revaluation:
  - Cost: measured at original cost less amortisation and impairment.
  - Revaluation: refer to IAS 38 requirements. Limited to those intangibles with readily determinable market prices.
- Two categories of intangible assets:
  - Finite life intangibles: amortised over useful life to zero residual (unless meet specific requirements for using a residual).
  - Infinite life intangibles: test for impairment annually, but not amortised.
- Amortisation method and useful life to be reviewed annually and adjusted as a change in estimate.

Section 18: Business Combinations and Goodwill

Summary:

- All business combinations shall be accounted for on the purchase method.
- Contingent consideration is included when it is probable that it will be paid out, and it can be reliably measured.
- The cost of the acquisition needs to be allocated to the fair value of the identifiable assets and liabilities acquired, and any excess paid is goodwill.
- Goodwill is recorded at cost and is classified as an indefinite life intangible. As a result, it is tested for impairment annually (Section 26).

Section 19: Leases

Summary:

- Leases are split between finance and operating leases. The key difference is that finance leases result in substantially all the risks and rewards incidental to ownership being transferred between the parties, whilst operating leases do not.
- Indicators of a finance lease include: ownership transferring to the lessee; bargain purchase option; the lease is for the major part of the economic life of the asset; leased assets are of a specialised nature; the present value of the minimum lease payments amount to substantially all of the fair value of the asset; the lessee bears

the lessor's losses if cancelled; a secondary rental period at below market rates; and the residual value risk falling to the lessee.

- Lessees – Finance leases:
    - The rights and obligations are to be recognised as assets and liabilities at fair value. Any direct costs of the lessee are added to the asset amount recognised. Subsequently, payments are to be spilt between a finance charge and reduction of the liability. The asset should be depreciated either over the useful life or the lease term.
- Lessees – Operating leases:
    - Payments are to be recognised as an expense on the straight line basis, unless another systematic basis is more representative.
- Lessors – Finance leases:
    - This should be accounted for using IAS 17, *Leases.*
- Lessors – Operating leases:
    - Lessors retain the assets on their balance sheet and income arising from the lease is recognised in the income statement on a straight line basis, unless another systematic process is more representative. All costs and expenses relating to the asset, such as repairs or depreciation are to be recognised as expenses.
- Sale and Leaseback:
    - If a sale and leaseback results in a finance lease, the seller should not recognise any excess as a profit, but recognise the excess over the lease term.
    - If a sale and leaseback results in an operating lease, and the transaction was at fair value, the seller shall recognise any profits immediately.

Section 20: Provisions and Contingencies

Provisions:

- Provisions are recognised when there is a present obligation as a result of a past event; it is probable that the entity will be required to transfer economic benefits; and the amount can be estimated reliably.

- The obligation may arise due to contract or law or when there is a constructive obligation due to valid expectations having been created from past events. However, these do not include any future actions that may create an expectation. Nor can expected future losses be recognised as provisions.
- Initially recognised at the best possible estimate at the reporting date. This value should take into account any time value of money if this is considered material. When the provision has a reimbursive condition from a third party, the reimbursement is to be recognised separately only when it is virtually certain payment will be received.
- Subsequently, provisions are to be reviewed at each reporting date and adjusted to meet the best current estimate. Any adjustments are recognised in profit and loss while any unwinding of discounts is to be treated as a finance cost.
- Contingent Liabilities:
    - These are not recognised as liabilities on the balance sheet.
    - Unless remote, disclose an estimate of the financial effect, indications of the uncertainties relating to timing or amount and the possibility of reimbursement.
- Contingent Assets:
    - These are not recognised as assets on balance sheet.
    - Disclosure requires a description of the nature and the financial effect.

Section 21: Equity

Summary:

- Shares are only recognised as equity when another party is obliged to provide cash or other resources in exchange for the instruments. The instruments are measured at the fair value of cash or resources received, unless the time value of money is significant in which case initial measurement is at the present valued amount.
- Same principles as detailed above should be applied to equity issued by means of options, rights or similar equity instruments.
- Capitalisation and bonus issues and share splits do not result in changes to total equity. An entity shall reclassify amounts within equity as required.
- Compound financial instruments contain both liability and equity components, and these are to be split by the entity at issuance. The liability is measured at its fair value,

whilst the residual amount is the equity component. The liability is subsequently measured using the effective interest rate.

- Treasury shares are an entitie's own shares that are acquired or reacquired. The fair value of the consideration shall be deducted from equity. No gain or loss shall be recognised in profit and loss on subsequent resale of treasury shares.
- Minority interest changes that do not affect control shall not result in a gain or loss being recognised in profit and loss. They are equity transactions between the entity and its owners.
- Disclosure is required of the types of equity held and value of these classes, with reconciliation from the beginning to the end of the period showing any adjustments.

Section 22: Revenue

Summary:

- Revenue results from the sale of goods, services being rendered and the use by others of your assets.
- The following are excluded from this section and dealt with elsewhere: leases (section 19), dividends (section 13 and 14) changes in fair value of financial instruments (section 11 and 12), biological assets (section 35) and agricultural produce (section 35).
- Measurement of revenue shall be the fair value of the consideration received, which excludes any trade discounts or rebates.
- Deferred payment terms result in a financing transaction where the fair value of the consideration is the present value of all future receipts. The difference is recognised as interest revenue.
- Sale of goods is recognised when: the significant risks and rewards have passed; no managerial involvement remains; the amount of revenue and costs can be measured reliably; it is probable that benefits will flow to the entity; and costs can be measured reliably.
- Rendering of services is recognised based on the stage of completion basis when the amount can be reliably estimated – this is achieved when: the amount can be estimated reliably; there is a probable inflow of benefits; the stage of completion can

be measured; and costs incurred and that will be incurred can be reliably estimated.

- If the outcome is unreliable, then revenue should be recognised to the extent of the expenses incurred.
- Interest, royalties and dividends are recognised when it is probable an inflow of economic benefits will occur and it can be reliably measured. Interest is recognised on the effective interest method, royalties on an accrual basis per the agreement and dividends when rights are established.
- Construction contracts result in revenue when it can be reliably estimated and an inflow of economic benefits is probable. Revenue is then recognised based on the stage of completion. An estimation of the stage of completion requires estimates of future costs, billings and time frames to completion.
- For construction contracts, revenue recognition is usually applied to each contract, but can be applied to each separately identifiable component of a contract.

Section 23: Government Grants

Summary:

- Entities can use:
    - The IFRS for SMEs model to account for all grants; or
    - The IFRS for SMEs model for grants related to assets measured at fair value through profit and loss and IAS 20, *Accounting for Government Grants* for all other grants.
- Under the IFRS for SMEs model, grants are measured at the fair value of the assets received or receivable.
- Grants without future performance conditions should be recognised when proceeds are receivable, while if there are conditions only when these are met.

Section 24: Borrowing Costs

Summary:

- Borrowing costs are interest and other costs arising on an entity's financial liabilities.
- Where borrowing costs relate to an asset that takes a substantial period of time to construct, borrowing costs can be accounted for using two methods:
  - Expense model: recognises all borrowing costs as expenses in the period they are incurred; or
  - Capitalisation model: apply IAS 23, *Borrowing Costs.*

Section 25: Share-based Payment

Summary:

- This section covers all share-based payment transactions, being either cash or equity settled.
- Equity Settled:
  - IFRS 2, *Share-based Payments* shall be applied.
  - For transactions with employees, IFRS 2 requires measurement based on the fair value of the equity instruments granted. If these can not be estimated reliably, IFRS for SMEs allows these to be measured with reference to the intrinsic value of the share (being the difference between the fair value of the share, if available, and the price a counterparty is willing to pay for those shares). Intrinsic value is measured at grant date, and subsequently at each reporting date until settlement. Changes are recorded in profit and loss.
- Cash Settled:
  - Liability is to be measured at fair value on grant date and at each reporting date and settlement date, with each adjustment being taken to profit and loss for the period.
  - For employees where shares only vest after a specific period of service has been completed; the expense shall be recognised as the service is rendered.
- Cash Alternatives: apply the provisions of IFRS 2.

Section 26: Impairment of Non-Financial Assets

Summary:

- Inventories:
  - At each reporting date, the carrying amount of the inventory should be compared to the selling price less costs to complete and sell. If the item is impaired, the amount shall immediately be recognised in profit and loss for the period.
  - When the circumstances that led to the impairment no longer exist, the impairment may be reversed.
- Other non-financial assets:
  - An entity shall assess at each reporting date whether there is an indicator of impairment. If there is, the carrying amount of the assets should be compared to the fair value less cost to sell, and any resulting impairment recognised.
  - If an impairment indicator exists, the entity should review the useful life and the depreciation methods even though an impairment may not be recognised.
  - When the circumstances that led to the impairment no longer exist, the impairment may be reversed.
- Goodwill:
  - An entity shall assess at each reporting date whether there is an indicator of impairment of goodwill.
  - If there is an indicator of impairment, the entity should: allocate the goodwill to components of the entity that benefit from the goodwill; measure the fair value of the components; compare the fair value to the carrying amount of the component; recognise any resulting impairment firstly against the goodwill and then against the non-current assets of the component.
  - No reversal of goodwill impairments previously recognised.

Section 27: Employee benefits

Summary:

- Short-term benefits:
  - Measured at an undiscounted rate and recognised as the services are rendered. Other costs such as annual leave are recognised as a liability as services are rendered and expensed when the leave is taken or used.
  - Bonus payments are only recognised when an obligation exists and the amount can be reliably estimated.
- Post-Employment Benefits: Defined Contribution plans
  - Contributions are recognised as a liability or an expense when the contributions are made.
- Post-Employment Benefits: Defined benefit plans
  - Recognise a liability based on the net of present value of defined benefit obligations less the fair value of any plan assets at balance sheet date.
  - Actuarial valuation done on the projected unit credit method. Actuarial gains and losses are recognised in profit or loss when they arise; they are not deferred.
- Other Long-Term benefits:
  - The entity shall recognise a liability at the present value of the benefit obligation less any fair value of plan assets.
- Termination benefits:
  - These are recognised in profit and loss immediately as there are no future economic benefits to the entity.

Section 28: Income Taxes

- Current Tax:
  - An entity recognises a current tax liability should the current tax payable exceed the current tax paid at that point in time. A current tax asset is recognised when current tax paid exceeds current tax payable or the entity has carried a loss forward from the prior year and this can be used to recover current tax in the current year.

- Current tax assets and liabilities for current and prior periods shall be measured at the actual amount that is owed or the entity owes using the applicable tax rates enacted or substantively enacted at the reporting date.

- Deferred Tax:
  - A temporary difference is a difference between the carrying amount of an asset or liability and its tax basis that will result in a taxable or deductible amount in the future.
  - Deferred tax liability is recognised for all taxable temporary differences except on unremitted earnings of foreign subsidiaries, branches, associates and JV's; and on initial recognition of goodwill.
  - Deferred tax assets shall be recognised for all deductible temporary differences and unused tax losses and unused tax credits. However, this is restricted if it is considered that the entity does not expect to have sufficient future profits to enable recovery of the asset.
  - Recognition of changes in current or deferred tax is normally recorded in profit and loss unless the profit or loss that gave rise to the temporary difference was initially recognised in equity.
  - No discounting of deferred tax balances is allowed.

Section 29: Hyperinflationary Economies

Summary:

- Where a county's inflation rate exceeds 100% over a 3 year period, the economy is deemed to be hyperinflationary.
- Entities operating in such countries must prepare general price-level adjusted financial statements by applying IAS 29, *Financial Reporting in Hyperinflationary Economies.*

Section 30: Foreign Currency Translation

Summary:

- Each entity should identify its functional currency, being the currency of the primary economic environment in which it operates. A change in functional currency is applied prospectively from the date of the change.

- Recording transactions in an entitie's functional currency:
    - On initial recognition, an entity shall record the transaction by applying the spot rate at the date of the transaction. An average rate may be used, unless there are significant fluctuations in the rate.
    - At reporting date, the entity shall translate foreign currency monetary items using the closing rate. For non-monetary items measured using historical cost, the exchange rate at the date of the transaction shall be used, whilst for non-monetary items measured using fair value, the exchange rate at the date when the fair value was determined shall be used.
    - For monetary and non-monetary item translations, gains or losses will be recognised where they were initially recognised – either in profit and loss for the period or in equity.
- Exchange differences arising from a monetary item that forms part of the net investment in a foreign operation may be deferred in equity until disposal of the investment.
- Exchange differences on translation of a foreign operation are deferred in equity until disposal of the investment.
- Goodwill arising on acquisition of a foreign operation is deemed to be an asset of the subsidiary, and translated at the closing rate at year end.
- When a foreign operation is disposed of, any cumulative amount in equity is recognised in profit and loss.

Section 31: Segment Reporting

Summary:

- IFRS for SMEs does not require any segmental reporting.
- Should an entity wish to disclose segmental information, it must comply with the requirements of IFRS 8, *Operating Segments.*

Section 32: Events after the end of the Reporting Period

Summary:

- Adjusting Events:
  - An entity should adjust amounts recognised in the financial statements to reflect events that provide evidence of conditions that existed at the reporting date.
- Non-adjusting Events:
  - No adjustment is made for events that are indicative of events that arose after reporting date. The entity shall disclose the nature of event and an estimate of its financial effect.
- Dividends declared after balance sheet date shall not be recognised as a liability at year end.

Section 33: Related Party Disclosures

Summary:

- Relationships between parent entities and subsidiaries shall always be disclosed, including the ultimate controlling party.
- Disclosure is required of key management personnel short-term benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payments. Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors.
- For transactions between related parties, an entity must disclose:
  - Nature of the relationship;
  - Information about the transactions and outstanding balances necessary to understand the potential impact on the financial statements;
  - Amount of the transaction;
  - Provisions for uncollectible receivables; and
  - Any expense recognised during the period in respect of an amount owed by a related party.

Section 34: Earnings per Share

Summary:

- IFRS for SMEs does not require disclosure of earning per share.
- Should an entity wish to disclose earnings per share, it must comply with the requirements of IAS 33, *Earning per Share.*

Section 35: Specialised Industries

Summary:

- Agriculture:
    - Where the fair value of each biological asset is readily determinable without undue cost or effort, an entity engaged in agricultural activity shall apply the fair value through profit or loss model and disclosure requirements of IAS 41, *Agriculture.*
    - Where the fair value is not readily determinable, or is determinable only with undue cost or effort, the entity shall measure its biological assets at cost less accumulated depreciation and impairment.
    - At harvest, agricultural produce shall be measured at fair value less estimated costs to sell.
- Extractive industries:
    - Exploration expenditure shall be recognised as an expense.
    - Expenditure on tangible or intangible assets to be used in extractive activities shall be accounted for under section 16 (property, plant and equipment) and section 17 (Intangible assets other than goodwill) of this standard.
    - Requirements to dismantle or remove items, or restore sites, shall be accounted for using Section 16 (Property, Plant and Equipment) and Section 20 (Provisions and Contingencies) of this standard.
- Insurance:
    - IFRS for SMEs is not intended for entities engaged in insurance activities. These regulated entities have public accountability and should use full IFRSs.

Section 36: Discontinued operations and assets held for sale

Summary:

- A discontinued operation is a component of an entity that has either been disposed of, or classified as held for sale, and:
  - Represents a separate major line of business or geographical area of operations;
  - Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
  - Is a subsidiary acquired exclusively with a view to resale.
- An entity shall disclose as a single amount on the face of the income statement the post tax profit or loss of the discontinued operation; and the post tax gain or loss on the measurement to fair value less cost to sell or on disposal of the assets/group of assets and liabilities constituting a discontinued operation. A detailed analysis of this amount is required in the notes.
- Non-current assets held for sale are assets where the carrying amount will be recovered through sale. These are measured at the lower of the assets carrying amount and fair value less costs to sell.

Section 37: Interim Financial Reporting

Summary:

- SME's are not required to prepare interim reports.
- If they choose to prepare interim reports, IAS 34, *Interim Financial Reporting,* should be applied or the IFRS for SMEs in full.

Section 38: Transition to the IFRS for SMEs

Summary:

- This section is to be applied by first time adopters of the IFRS for SMEs standard, regardless of whether their previous reporting was under full IFRS or another GAAP.
- The opening balance sheet for the comparative period shall be adjusted for:
  - Recognition of assets and liabilities required under IFRS for SMEs;

- Derecognition of assets and liabilities not permitted under IFRS for SMEs;
  - Reclassification of assets, liabilities or equity under this standard; and
  - Any adjustments to the measurement of any assets and liabilities arising from application of this standard.
- The following transactions shall not be amended on adoption of the standard:
  - derecognition of financial assets and liabilities;
  - hedge accounting;
  - estimates; and
  - assets classified as held for sale or discontinued operations.
- Optional exemptions exist on first time adoption for business combinations, fair value or revaluation as deemed cost, cumulative translation differences, compound financial instruments, share-based payment transactions and deferred income taxes.
- Disclosure of the impact of transition on the financial position, financial performance and cash flows is required. In addition, reconciliations of equity and profit and loss as previously reported must be given.

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