IFRS for Small and Medium-Sized Entities (IFRS for SMEs)

Quick Article Links

History of the *IFRS for SMEs*

Date	**Development**	**Comments**
2001	Project carried over from old IASC	History of the project (https://www.iasplus.com/en/projects/completed/fs/sme)
24 June 2004 (https://www.iasplus.com/en/news/2004/June/news1470)	Discussion Paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* published	Comment deadline 24 September 2004
15 February 2007 (https://www.iasplus.com/en/news/2007/February/news3278)	Exposure Draft *Proposed IFRS for Small and Medium-sized Entities* published (Various translations were also subsequently published)	Comment deadline ~~1 October 2007~~ 30 November 2007
9 July 2009 (https://www.iasplus.com/en/news/2009/July/news4969)	*IFRS for Small and Medium-sized Entities* issued	Effective immediately on issue (subject to jurisdictional adoption)
26 June 2012 (https://www.iasplus.com/en/news/2012/june/iasb-publishes-request-for-information-comprehensive-review-of-the-ifrs-for-smes)	Request for Information *Comprehensive Review of the IFRS for SMEs* published	Comment deadline 30 November 2012

3 October 2013 (https://www.iasplus.com/en/news/2013/10/sme-ed)	ED/2013/9 *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* published	Comment deadline 3 March 2014
21 May 2015 (https://www.iasplus.com/en/news/2015/05/smes)	*2015 Amendments to the IFRS for SMEs* issued	Effective for annual periods beginning on or after 1 January 2017; earlier application permitted
29 September 2023 (https://www.iasplus.com/en/news/2023/09/smes-pillar-two)	*International Tax Reform — Pillar Two Model Rules (Amendments to the 'IFRS for SMEs' Standard)* issued	The amendments introduce an exception to the requirements in the standard that an entity does not recognise and does not disclose information about deferred tax assets and liabilities related to the OECD pillar two income taxes; an entity applies the exception and the requirement to disclose that it has applied the exception immediately upon issuance of the amendments; the remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023

Amendments under consideration by the IASB

- Second comprehensive review of the IFRS for SMEs (https://www.iasplus.com/en/projects/major/ifrs-for-smes-review)
- IFRS for SMEs — OECD pillar two model rules (https://www.iasplus.com/en/projects/completed/tax/ias-12-pillar-two-smes)

Summary of the IFRS for SMEs

Special edition of Deloitte's IAS Plus Newsletter on the IFRS for SMEs

Click to download a special edition of our IAS Plus Update Newsletter – Simplified financial reporting – IASB Provides Relief for SMEs (https://www.iasplus.com/en/binary/iasplus/0907ifrsforsmes.pdf) (PDF 86k).

IFRS for SMEs resources on IASB's website

In addition to making the complete IFRS for SMEs (including implementation guidance and basis for conclusions) available for free download from its website, the IASB has posted additional no-charge IFRS for SMEs resources. Links are below.

- **Complete IFRS for SMEs:** http://go.ifrs.org/IFRSforSMEs (http://archive.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs-and-related-material.aspx). Currently available in Albanian, Arabic, Armenian, Bosnian, Chinese (simplified), Croatian, Czech, English, Estonian, French, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish, and Ukranian.
- **Comprehensive self-study training materials:** http://go.ifrs.org/smetraining (http://go.ifrs.org/smetraining). One module for each of the 35 sections of the IFRS for SMEs. Currently, 34 modules are available. Translations into Arabic, English, Russian, Spanish and Turkish are also available.
- **3-day train-the-trainers workshops:** http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm (http://archive.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm). Several workshops already held, others scheduled.
- **Training presentations:** http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm (http://archive.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm). PDFs of the 20 PowerPoint presentations used at the train-the-trainers workshops.

IFRS for SMEs Update newsletter: http://www.ifrs.org/IFRS+for+SMEs/Update.htm (http://archive.ifrs.org/IFRS+for+SMEs/Update.htm)

Subscribe to IFRS for SMEs email alerts: http://www.ifrs.org/IASB+Registration.htm (http://archive.ifrs.org/IASB+Registration.htm)

Q&As

The SME Implementation Group (SMEIG) develops non-mandatory guidance for implementing the IFRS for SMEs in the form of questions and answers (Q&As). These Q&As can be accessed via the IASB's website: http://www.ifrs.org/IFRS+for+SMEs/QAsSMEs.htm (http://archive.ifrs.org/IFRS+for+SMEs/QAsSMEs.htm)

Webcasts on IFRS for SMEs

The World Bank has published on their website a two-part webcast presentation by IASB member Paul Pacter entitled **An Overview of the IFRS for SMEs**. The presentation is based on the first of the 20 training modules used in the IASB's 'Train the trainer' workshops for the IFRS for Small and Medium-sized Entities. The first module reviews the requirements in each of the 35 sections of the IFRS for SMEs and highlights differences with full IFRSs. Each part of the webcast is approximately one hour long.
Click for:

Webcast presentation on the first module (http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1276630882791/ifrs-webcast1.html) (link to World Bank website)

All training modules used in the IASB's 'Train the trainer' workshops for the IFRS for SMEs (http://archive.ifrs.org/IFRS+for+SMEs/Training+modules.htm) (link to IASB website)

AICPA IFRS for SMEs – US GAAP comparison tool

This tool has been developed by the American Institute of CPAs (AICPA) staff and is being added to collaboratively by those who use the tool. AICPA technical staff monitor and review the additions. Here is the AICPA's description:

The purpose of this Wiki is to provide a detailed and comprehensive comparison of the International Accounting Standards Board's International Financial Reporting Standard for Small-and Medium-Sized Entities ('IFRS for SMEs') with corresponding requirements of United States generally accepted accounting principles ('US GAAP'). But this is more than just a comparison resource, it is a Wiki. That means it is a collaborative, ongoing work in progress for anyone to contribute and use.

This Wiki is intended to be a rich resource. The AICPA Accounting Standards team decided to introduce the comparison resource during its development stage to help you learn and to learn ourselves about the similarities and differences between IFRS for SMEs and US GAAP. Anyone preparing financial statements under IFRS for SMEs in the United States and anyone interested in the differences between the two sets of accounting standards will find this comparison resource valuable.

The comparison resource will cover all sections of IFRS for SMEs. Disclosure requirements of the IFRS for SMEs sections are excluded. As the AICPA completes sections, it will add the information to the Wiki. The AICPA Accounting standards team welcomes anyone with an interest in and knowledge of IFRS for SMEs and US GAAP to read the Wiki and contribute.

Inasmuch as this Resource is a work-in-progress, the completeness and accuracy of the content varies from section to section. True to the wiki platform, the AICPA looks to AICPA members and the accounting profession to complete, correct, and improve upon the work begun by the Accounting Standards team. Sources of authoritative literature should be consulted when preparing or reporting upon financial statements.

As more fully explained [on the Wiki website], contributions to the Wiki will be monitored and reviewed by AICPA technical staff. It is expected that after all sections of the comparison resource are introduced and exposed for review and editing, the resource will be maintained and updated periodically by the AICPA.

Click here to access the AICPA IFRS for SMEs – US GAAP Comparison Tool (http://wiki.ifrs.com/) (http://wiki.ifrs.com/)

Announcement of issuance of the IFRS for SMEs

On 9 July 2009, the IASB issued the *IFRS for SMEs*. This is the first set of international accounting requirements developed specifically for small and medium-sized entities (SMEs). It has been prepared on IFRS foundations but is a stand-alone product that is separate from the full set of International Financial Reporting Standards (IFRSs). The *IFRS for SMEs* has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. Compared with full IFRSs, it is less complex in a number of ways:

Topics not relevant to SMEs are omitted.

Where full IFRSs allow accounting policy choices, the IFRS for SMEs allows only the easier option.

Many of the principles for recognising and measuring assets, liabilities, income and expenses in full IFRSs are simplified.

Significantly fewer disclosures are required.

And the standard has been written in clear, easily translatable language.

To further reduce the reporting burden for SMEs, revisions to the IFRS will be limited to once every three years. It is suitable for all entities except those whose securities are publicly traded and financial institutions such as banks and insurance companies. The 230-page standard is a result of a five-year development process with extensive consultation of SMEs worldwide. Accompanying the standard is implementation guidance consisting of illustrative financial statements and a presentation and disclosure checklist. The *IFRS for SMEs* is available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is up to each jurisdiction to determine which entities should use the standard. It is effective immediately on issue. The standard and accompanying guidance and basis for conclusions may be downloaded immediately without charge from the IASB's website. To support the implementation of the *IFRS for SMEs* the IASC Foundation is developing comprehensive training material. The Foundation is also working with international development agencies to provide instructors for regional workshops to 'train the trainers' in the use of the training material, particularly within developing and emerging economies. The training material will be published in a number of languages (initially English). The training material – one module for each of the 35 sections of the IFRS for SMEs – is downloadable free of charge from Here on IASB's Website (http://archive.ifrs.org/IFRS+for+SMEs/Training+material.htm). Click for:

- IASB Press Release (https://www.iasplus.com/en/binary/pressrel/0907ifrsforsmes.pdf) (PDF 39k)
- IFRS for SMEs Fact Sheet (http://archive.ifrs.org/IFRS-for-SMEs/Documents/Fact-Sheet/SME-Fact-Sheet-July-2013.pdf)(link to IASB website) The Fact Sheet includes details of:
    - Project history
    - Outreach and consultation
    - Five types of simplifications
    - Omitted topics
    - Examples of options in full IFRSs not included in the IFRS for SMEs
    - Recognition and measurement simplifications
    - Main changes from the exposure draft

Key dates in the process to get to the final Standard

- Sept 2003: World Standard Setters survey
- June 2004: Discussion Paper (117 comments)
- April 2005: Questionnaire on recognition and measurement (94 responses)
- Oct 2005: Roundtables on recognition and measurement (43 groups)
- Feb 2007: Exposure Draft (162 comments)
- Nov 2007: Field tests (116 real SMEs)
- Mar – Apr 2008: Board education sessions
- May 2008 – Apr 2009: Redeliberations
- May 2009: Near-final draft posted on IASB website
- 1 June 2009: Ballot draft sent to the Board
- 9 July 2009: Final IFRS for SMEs issued

Contents of the *IFRS for SMEs*

Section

- Preface
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- 3 Financial Statement Presentation
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- 5 Statement of Comprehensive Income and Income Statement
- 6 Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings

Separate booklets

Section-by-section summary of the *IFRS for SMEs*

Preface

The IFRS for Small and Medium-sized Entities is organised by topic, with each topic presented in a separate section. All of the paragraphs in the standard have equal authority.

The standard is appropriate for general purpose financial statements and other financial reporting of all profit-oriented entities. General purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large.

The IASB intends to issue a comprehensively reviewed standard after two year's implementation, to address issues identified and also, if appropriate, recent changes to full IFRSs. Thereafter, an omnibus proposal of amendments will be issued, if necessary, once every three years.

Section 1 Small and Medium-sized Entities

Defines SME as used by IASB:

Small and medium-sized entities are entities that:

(a) do not have public accountability, and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. General purpose financial statements are those that present fairly financial position, operating results, and cash flows for external capital providers and others.

An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. If an entity holds assets in a fiduciary capacity as an incidental part of its business, that does not make it publicly accountable. Entities that fall into this category may include public utilities, travel and real estate agents, schools, and charities.

The standard does not contain a limit on the size of an entity that may use the IFRS for SMEs provided that it does not have public accountability

Nor is there a restriction on its use by a public utility, not-for-profit entity, or public sector entity

A subsidiary whose parent or group uses full IFRSs may use the IFRS for SMEs if the subsidiary itself does not have public accountability

The standard does not require any special approval by the owners of an SME for it to be eligible to use the IFRS for SME

Listed companies, no matter how small, may not use the IFRS for SMEs

Q&A 2011/01 (published June 2011) states that a parent entity assesses its eligibility to use the IFRS for SMEs in its separate financial statements on the basis of its own public accountability without considering whether other group entities have, or the group as a whole has, public accountability.

Section 2 Concepts and Pervasive Principles

Objective of SMEs' financial statements: To provide information about financial position, performance, cash flows

Also shows results of stewardship of management over resources

Qualitative characteristics (understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, balance between benefit and cost, undue cost or effort*)

Definitions:

Asset: Resource with future economic benefits

Liability: Present obligation arising from past events, result in outflow of resources

Income: Inflows of resources that increase equity, other than owner investments

Expenses: Outflows of resources that decrease equity, other than owner withdrawals

Financial position: the relationship of assets and liabilities at a specific date

Performance: the relationship of income and expenses during a reporting period

Total comprehensive income: arithmetic difference between income and expenses

Profit or loss: arithmetic difference between income and expenses other than those items of income or expense that are classified as 'other comprehensive income'.

There are only 3 items of other comprehensive income (OCI) in the IFRS for SMEs:

Some foreign exchange gains and losses relating to a net investment in a foreign operation (see Section 30)

Some changes in fair values of hedging instruments – in a hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (see Section 12) (Note that hedge accounting is optional)

Some actuarial gains and losses (see Section 28) (Note that reporting actuarial gains and losses in OCI is optional)

- Basic recognition concept – An item that meets the definition of an asset, liability, income, or expense is recognised in the financial statements if:
    - it is probable that future benefits associated with the item will flow to or from the entity, and
    - the item has a cost or value that can be measured reliably
- Basic measurement concepts
    - Historical cost and fair value are described
    - Basic financial assets and liabilities are generally measured at amortised cost
    - Other financial assets and liabilities are generally measured at fair value through profit or loss
    - Non-financial assets are generally measured using a cost-based measure
    - Non-financial liabilities are generally measured at settlement amount
- Section 2 includes pervasive recognition and measurement principles
    - Source of guidance if a specific issue is not addressed in the IFRS for SMEs (see Section 10)
- Concepts of profit or loss and total comprehensive income
- Offsetting of assets and liabilities or of income and expenses is prohibited unless expressly required or permitted

*'undue cost or effort' added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 3 Financial Statement Presentation

- Fair presentation: presumed to result if the IFRS for SMEs is followed (may be a need for supplemental disclosures)
- State compliance with IFRS for SMEs only if the financial statements comply in full
- Does include 'true and fair override' but this should be 'extremely rare'
- IFRS for SMEs presumes the reporting entity is a going concern
- SMEs shall present a complete set of financial statements at least annually
- At least one year comparative prior period financial statements and note data
- Presentation and classification of items should be consistent from one period to the next
    - Must justify and disclose any change in presentation or classification of items in financial statements
- Materiality: an omission or misstatement is material if it could influence economic
- Complete set of financial statements:
    - Statement of financial position
    - Either a single statement of comprehensive income, or two statements: an income statement and a statement of comprehensive income
    - Statement of changes in equity
    - Statement of cash flows
    - Notes
- If the only changes to equity arise from profit or loss, payment of dividends, corrections of errors, and changes in accounting policy, an entity may present a single (combined) statement of income and retained earnings instead of the separate statements of comprehensive income and of changes in equity (see Section 6)
- An entity may present only an income statement (no statement of comprehensive income) if it has no items of other comprehensive income (OCI)
- The only OCI items under the IFRS for SMEs are:
    - Some foreign exchange gains and losses relating to a net investment in a foreign operation (see Section 30)
    - Some changes in fair values of hedging instruments – in a hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (see Section 12)
    - Some actuarial gains and losses (see Section 28)

Section 4 Statement of Financial Position

- May still be called 'balance sheet'
- Current/non-current split is not required if the entity concludes that a liquidity approach produces more relevant information
- Some minimum line items required. These include:

- Cash and equivalents
- Receivables
- Financial assets
- Inventories
- Property, plant, and equipment
- Investment property at cost*
- Investment property at fair value
- Intangible assets
- Biological assets at cost
- Biological assets at fair value
- Investment in associates
- Investment in joint ventures
- Payables
- Financial liabilities
- Current tax assets and liabilities
- Deferred tax assets and liabilities
- Provisions
- Non-controlling interest
- Equity of owners of parent

And some required items may be presented in the statement or in the notes

- Categories of property, plant, and equipment
- Information about assets with binding sale agreements
- Categories of receivables
- Categories of inventories
- Categories of payables
- Employee benefit obligations
- Classes of equity, including OCI and reserves
- Details about share capital

Sequencing, format, and titles are not mandated

*added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 5 Statement of Comprehensive Income and Income Statement

One-statement or two-statement approach – either a single statement of comprehensive income, or two statements: an income statement and a statement of comprehensive income

Must segregate discontinued operations

Must present 'profit or loss' subtotal if the entity has any items of other comprehensive income

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

No item may be labelled 'extraordinary'

- But unusual items can be separately presented
- Expenses may be presented by nature (depreciation, purchases of materials, transport costs, employee benefits, etc) or by function (cost of sales, distribution costs, administrative costs, etc) either on face of the statement of comprehensive income (or income statement) or in the notes

Single statement of comprehensive income:

- Revenue
- Expenses, showing separately:
  - finance costs
  - profit or loss from associates and jointly controlled entities
  - tax expense
  - discontinued operations)
- Profit or loss (may omit if no OCI)
- Items of other comprehensive income
- Total comprehensive income (may label Profit or Loss if no OCI)

Separate statements of income and comprehensive income:

Income Statement:

- Bottom line is profit or loss (as above)

Statement of Comprehensive Income:

- Begins with profit or loss
- Shows each item of other comprehensive income
- Bottom line is Total Comprehensive Income

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

Shows all changes to equity including

- total comprehensive income
- owners' investments
- dividends
- owners' withdrawals of capital
- treasury share transactions

Can omit the statement of changes in equity if the entity has no owner investments or withdrawals other than dividends and elects to present a combined statement of comprehensive income and retained earnings

Section 7 Statement of Cash Flows

Presents information about an entity's changes in cash and cash equivalents for a period

- Cash equivalents are short-term, highly liquid investments (expected to be converted to cash in three months) held to meet short-term cash needs rather than for investment or other purposes

Cash flows are classified as operating, investing, and financing cash flows

Option to use the indirect method or the direct method to present operating cash flows

Interest paid and interest and dividends received may be operating, investing, or financing

Dividends paid may be operating or financing

Income tax cash flows are operating unless specifically identified with investing or financing activities

Separate disclosure is required of some non-cash investing and financing transactions (for example, acquisition of assets by issue of debt)

Reconciliation of components of cash

Section 8 Notes to the Financial Statements

Notes are normally in this sequence:

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

- Comparative prior period amounts are required by Section 3 (unless another section allows omission of prior period amounts)

Section 9 Consolidated and Separate Financial Statements

- Consolidated financial statements are required when a parent company controls another entity (a subsidiary).
- Control: Power to govern financial and operating policies to obtain benefits
- More than 50% of voting power: control presumed
- Control exists when entity owns less than 50% but has power to govern by agreement or statute, or power to appoint majority of the board, or power to cast majority of votes at board meetings
- Control can be achieved by currently exercisable options that, if exercised, would result in control
- A subsidiary is not excluded from consolidation because:
  - Investor is a venture capital organisation
  - Subsidiary's business activities are dissimilar to those of parent or other subs
  - Subsidiary operates in a jurisdiction that imposes restrictions on transferring cash or other assets out of the jurisdiction
- However, consolidated financial statements are not required, even if a parent-subsidiary relationship exists if:
  - Subsidiary was acquired with intent to dispose within one year
  - Parent itself is a subsidiary and its parent or ultimate parent uses IFRSs or IFRS for SMEs
- Must consolidate all controlled special-purpose entities (SPEs)
- Consolidation procedures:
  - Eliminate intracompany transactions and balances
  - Uniform reporting date unless impracticable
  - Uniform accounting policies
  - Non-controlling interest is presented as part of equity
  - Losses are allocated to a subsidiary even if non-controlling interest goes negative
- Guidance on separate financial statements (but they are not required).
  - 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 or using the equity method*
- Guidance on combined financial statements (but they are not required)

*'equity method' added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 10 Accounting Policies, Estimates and Errors

- If the IFRS for SMEs addresses an issue, the entity must follow the IFRS for SMEs
- If the IFRS for SMEs does not address an issue:
  - Choose policy that results in the most relevant and reliable information
  - Try to analogise from standards in the IFRS for SMEs
  - Or use the concepts and pervasive principles in Section 2
  - Entity may look to guidance in full IFRSs (but not required)
- 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

- IFRS for SMEs has two sections on financial instruments:
  - Section 11 on Basic Financial Instruments
  - Section 12 on Other FI Transactions
- Option to follow IAS 39 instead of sections 11 and 12
- Even if IAS 39 is followed, make Section 11 and 12 disclosures (not IFRS 7 disclosures)

- Essentially, Section 11 is an amortised historical cost model
  - Except for equity investments with quoted price or readily determinable fair value. These are measured at fair value through profit or loss.
- Scope of Section 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 nonconvertible and non-puttable ordinary and preference shares
  - Most commitments to receive a loan
- Initial measurement:
  - Basic financial assets and financial liabilities are initially measured at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may be indicated in relation to the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.
- Measurement subsequent to initial recognition:
  - Debt instruments at amortised cost using the effective interest method
  - Debt instruments that are classified as current assets or current liabilities are measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment) unless the arrangement constitutes, in effect, a financing transaction. If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.
  - Investments in non-convertible preference shares and non-puttable ordinary or preference shares:
    - if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort*, measure at fair value with changes in fair value recognised in profit or loss
    - measure all other such investments at cost less impairment
- Must test all amortised cost instruments for impairment or uncollectibility
- Previously recognised impairment is reversed if an event occurring after the impairment was first recognised causes the original impairment loss to decrease
- Guidance is provided on determining fair values of financial instruments
  - The most reliable is a quoted price in an active market
  - When a quoted price is not available the most recent transaction price provides evidence of fair value
  - If there is no active market or recent market transactions, a valuation technique may be used
- Guidance is provided on the effective interest method
- Derecognise a financial asset 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.
- Derecognise a financial liability when the obligation is discharged, cancelled, or expires
- Disclosures:
  - Categories of financial instruments
  - Details of debt and other instruments
  - Details of derecognitions
  - Collateral

- Defaults and breaches on loans payable
- Items of income and expense

*'undue cost or effort' added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 12 Additional Financial Instruments Issues

- Financial instruments not covered by Section 11 (and, therefore, are within Section 12) are measured 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 involves matching the gains and losses on a hedging instrument and hedged item.
  - It is allowed only for the following kinds of risks:
    - 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
    - foreign exchange risk in a net investment in a foreign operation.
  - Section 12 defines the type of hedging instrument required for hedge accounting.
  - Hedges must be documented up front to qualify for hedge accounting
  - Section 12 provides guidance for measuring assessing effectiveness
  - Special disclosures are required

Section 13 Inventories

- Inventories include assets for sale in the ordinary course of business, being produced for sale, or to be consumed in production
- Measured at the lower cost and estimated selling price less costs to complete and sell
- Cost is determined using:
  - specific identification is required for large items
  - option to choose FIFO or weighted average for others
  - LIFO is not permitted
- Inventory cost includes costs to purchase, costs of conversion, and costs to bring the asset to present location and condition
- Inventory cost excludes abnormal waste and storage, administrative, and selling costs
- If a production process creates joint products and/or by-products, the costs are allocated on a consistent and rational basis
- A manufacturer allocates fixed production overheads to inventories based on normal capacity
- Standard costing, retail method, and most recent purchase price may be used only if the result approximates actual cost
- Impairment – write down to net realisable value (selling price less costs to complete and sell – see Section 27)

Section 14 Investments in Associates

- 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. Presumption that significant influence exists if investor owns 20% or more of the voting shares.
- Option to use:
  - Cost-impairment model (except if there is a published quotation – then must use fair value through profit or loss)
  - Equity method (investor recognises its share of profit or loss of the associate – detailed guidance is provided)
  - Fair value through profit or loss
- Investments in associates are always classified as non-current assets

Section 15 Investments in Joint Ventures

For investments in jointly controlled entities, there is an option for the venturer to use:

Cost model (except if there is a published quotation – then must use fair value through profit or loss)

Equity method (using the guidance in Section 14)

Fair value through profit or loss

Proportionate consolidation is prohibited

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

Section 16 Investment Property

Investment property is investments in land, buildings (or part of a building), and some property interests in finance leases held to earn rentals or for capital appreciation or both

Property interests that are held under an operating lease may be classified as an investment property provided the property would otherwise have met the definition of an investment property

Mixed use property must be separated between investment and operating property

If fair value can be measured reliably without undue cost or effort, use the fair value through profit or loss model

Otherwise, an entity must treat investment property as property, plant and equipment using Section 17

Section 17 Property, Plant and Equipment

Historical cost-depreciation-impairment model or revaluation model*

Section 17 applies to most investment property as well (but if fair value of investment property can be measured reliably without undue cost or effort then the fair value model in Section 16 applies)

Section 17 applies to property held for sale – there is no special section on assets held for sale. Holding for sale is an indicator of possible impairment.

Cost model: Measurement is initially at cost, including costs to get the property ready for its intended use; subsequent to acquisition, the entity uses the cost-depreciation-impairment model, which recognises depreciation and impairment of the carrying amount

Revaluation model: Measurement is at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses; revaluations must be made with sufficient regularity*

The carrying amount of an asset, less estimated residual value, is depreciated over the asset's anticipated useful life. The method of depreciation shall be the method that best reflects the consumption of the asset's benefits over its life. Separate significant components should be depreciated separately.

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. Any adjustment is a change in estimate (prospective).

Impairment testing and reversal – follow Section 27

*'revaluation model' added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 18 Intangible Assets other than Goodwill

No recognition of internally generated intangible assets. Therefore:

Charge all research and development costs to expense

Charge the following items to expense when incurred: Costs of internally generated brands, logos, and masthead, start-up costs, training costs, advertising, and relocating of a division or entity

Amortisation model for 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 the entity is unable to estimate useful life, then use the management's best estimate but not more than 10 years*.

Review useful life, residual value, depreciation rate only if there is a significant change in the asset or how it is used. Any adjustment is a change in estimate (prospective)

- Impairment testing – follow Section 27
- Any revaluation of intangible assets is prohibited

*clarified by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017 - originally the standard required the use of 10 years if the entity is unable to estimate useful life

Section 19 Business Combinations and Goodwill

- Section does not apply to combinations of entities under common control
- Acquisition (purchase) method. Under this method:
  - An acquirer must always be identified
  - The cost of the business combination is measured. Cost is the fair value of assets given, liabilities incurred or assumed, and equity instruments issued, plus costs directly attributable to the combination
  - At the acquisition date, the cost is allocated to the assets acquired and liabilities and provisions for contingent liabilities assumed. The identifiable assets acquired and liabilities and provisions for contingent liabilities assumed are measured at their fair values. Any difference between cost and amounts allocated to identifiable assets and liabilities (including provisions) is recognised as goodwill or so-called 'negative goodwill'.
- All goodwill must be amortised. If the entity is unable to estimate useful life, then use 10 years.
- 'Negative goodwill' – first reassess original accounting. If that is ok, then immediate credit to profit or loss
- Impairment testing of goodwill – follow Section 27
- Reversal of goodwill impairment is not permitted

Section 20 Leases

- Scope includes arrangements that contain a lease [IFRIC 4]
- Leases are classified as either finance leases or operating leases.
  - Finance leases result in substantially all the risks and rewards incidental to ownership being transferred between the parties, while operating leases do not.
  - Substantially all risks and rewards of ownership are presumed transferred if:
    - the lease transfers ownership of the asset to the lessee by the end of the lease term
    - the lessee has a 'bargain purchase option'
    - the lease term is for the major part of the economic life of the asset even if title is not transferred
    - at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
    - the leased assets are of such a specialised nature that only the lessee can use them without major modifications
    - the lessee bears the lessor losses if cancelled
    - a secondary rental period at below market rates
    - the residual value risk is borne by the lessee.
- Lessees – finance leases:
  - The rights and obligations are to be recognised as assets and liabilities at fair value, or, if lower, the present value of the minimum lease payments. 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 payments are structured to increase in line with expected general inflation or another systematic basis is better representative of the time pattern of the user's benefit.
- Lessors – finance leases:
  - The rights are to be recognised as assets held, i.e. as a receivable at an amount equal to the net investment in the lease. The net investment in a lease is the lessor's gross investment in the lease (including unguaranteed residual value) discounted at the interest rate implicit in the lease.
  - For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in profit or loss.

Lessors – finance leases by a manufacturer or dealer:

A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

finance income over the lease term.

The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales.

If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.

Lessors – operating leases:

Lessors retain the assets on their balance sheet and payments are to be recognised as income on the straight line basis, unless payments are structured to increase in line with expected general inflation or another systematic basis is better representative of the time pattern of the user's benefit.

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 21 Provisions and Contingencies

Provisions:

Provisions are recognised only when (a) there is a present obligation as a result of a past event, (b) it is probable that the entity will be required to transfer economic benefits, and (c) 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 any time value of money if this is considered material. When all or part of a provision may be reimbursed by 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.

Must accrue provisions for (examples):

Onerous contracts

Warranties

Restructuring if legal or constructive obligation to restructure

Sales refunds

May NOT accrue provisions for (example):

Future operating losses, no matter how probable

Possible future restructuring (plan but not yet a legal or constructive obligation)

Contingent liabilities:

These are not recognised as liabilities

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.

Disclose a description of the nature and the financial effect.

Section 22 Liabilities and Equity

Guidance on classifying an instrument as liability or equity

An instrument is a liability if the issuer could be required to pay cash

Puttable financial instruments are only recognised as equity if it has all of the following features:

The holder is entitled to a pro rata share of the entity's net assets in the event of liquidation.

The instrument is the most subordinate class.

All financial instruments in the most subordinate class have identical features.

Apart from the puttable features the instrument includes no other financial instrument features.

The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the change in the value of the entity.

Members' shares in co-operative entities and similar instruments are only classified as equity if the entity has an unconditional right to refuse redemption of the members' shares or the redemption is unconditionally prohibited by local law, regulation or the entity's governing charter. If the entity could not refuse redemption, the members' shares are classified as liabilities.

Covers some material not covered by full IFRSs, including:

original issuance of shares and other equity instruments. 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, net of transaction cost, unless the time value of money is significant in which case initial measurement is at the present value amount. When shares are issued before the cash or other resources are received, the amount receivable is presented as an offset to equity in the statement of financial position and not as an asset. Any shares subscribed for which no cash is received are not recognised as equity before the shares are issued.

sales of options, rights and warrants

stock dividends and stock splits – these do not result in changes to total equity but, rather, reclassification of amounts within equity.

'Split accounting' is required to account for issuance of convertible instruments

Proceeds on issue of convertible and other compound financial instruments are split between liability component and equity component. The liability is measured at its fair value, and the residual amount is the equity component. The liability is subsequently measured using the effective interest rate, with the original issue discount amortised as added interest expense.

A comprehensive example of split accounting is included

If a liability is fully or partially extinguished by issuing equity instruments to the creditor, the equity instruments issued are measuered at their fair value. If the fair value of the equity instruments issued cannot be measured reliably without undue cost or effort, the equity instruments is measured at the fair value of the financial liability extinguished.*

Treasury shares (an entity's own shares that are reacquired) are measured at the fair value of the consideration paid and are deducted from the equity. No gain or loss is recognised on subsequent resale of treasury shares.

Minority interest changes that do not affect control do not result in a gain or loss being recognised in profit and loss. They are equity transactions between the entity and its owners.

Dividends paid in the form of distribution of assets other than cash are recognised when the entity has an obligation to distribute the non-cash assets:

The dividend liability is measured at the fair value of the assets to be distributed.

If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed.*

*added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 23 Revenue

Revenue results from the sale of goods, services being rendered, construction contracts income by the contractor and the use by others of your assets

Some types of revenue are excluded from this section and dealt with elsewhere:

leases (section 20)

dividends from equity accounted entities (section 14 and 15)

changes in fair value of financial instruments (section 11 and 12)

initial recognition and subsequent re-measurement of biological assets (section 34) and initial recognition of agricultural produce (section 34)

Principle for measurement of revenue is the fair value of the consideration received or receivable, taking into account any possible trade discounts or rebates, including volume rebates and prompt settlement discounts

If payment is deferred beyond normal payment terms, there is a financing component to the transaction. In that case, revenue is measured at the present value of all future receipts. The difference is recognised as interest revenue.

Recognition – sale of goods: An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(c) the amount of revenue can be measured reliably.

(d) it is probable that the economic benefits associated with the transaction will flow to the entity.

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Recognition – sale of services: Use the percentage of completion method if the outcome of the transaction can be estimated reliably. Otherwise use the cost-recovery method.

Recognition – construction contracts: Use the percentage of completion method if the outcome of the contract can be estimated reliably. Otherwise use the cost-recovery method.

Recognition – interest: Interest shall be recognised using the effective interest method as described in Section 11

Recognition – royalties: Royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

Recognition – dividends: Dividends shall be recognised when the shareholder's right to receive payment is established.

Appendix of examples of revenue recognition under the principles in Section 23

Award credits or other customer loyalty plan awards need to be accounted for separately. The fair value of such awards reduces the amount of revenue initially recognised and, instead, is recognised when awards are redeemed.

Section 24 Government Grants

This section does not apply to any 'grants' in the form of income tax benefits

All grants are measured at the fair value of the asset received or receivable

Recognition as income:

Grants without future performance conditions are recognised in profit or loss when proceeds are receivable

If there are performance conditions, the grant is recognised in profit or loss only when the conditions are met

Section 25 Borrowing Costs

Borrowing costs are interest and other costs arising on an entity's financial liabilities and finance lease obligations

All borrowing costs are charged to expense when incurred – none are capitalised

Section 26 Share-based Payment

Basic principle: all share-based payment must be recognised

Equity-settled:

Transactions with other than employees are recorded at the fair value of the goods and services received, if these can be estimated reliably

Transactions with employees or where the fair value of goods and services received cannot be reliably measured are measured with reference to the fair value of the equity instruments granted

Cash-settled:

Liability is measured at fair value on grant date and at each reporting date and settlement date, with each adjustment through profit or loss.

For employees where shares only vest after a specific period of service has been completed, recognise the expense as the service is rendered.

Share-based payment with cash alternatives:

Account for all such transactions as cash settled, unless the entity has a past practice of settling by issuing equity instruments or the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument.

Fair value of equity instruments granted:

(a) Observable market price if available

(b) If no observable price, use entity-specific market data such as a recent share transaction or valuation of the entity

(c) If (a) and (b) are impracticable, directors must use their judgement to estimate fair value

Certain government-mandated plans provide for equity investors (such as employees) to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). These are equity-settled share-based payment transactions within the scope of this section.

Section 27 Impairment of Assets

Inventories – write down, in profit or loss, to lower of cost and selling price less costs to complete and sell, if below carrying amount. When the circumstances that led to the impairment no longer exist, the impairment is reversed through profit or loss.

Other assets – write down, in profit or loss, to recoverable amount, if below carrying amount. When the circumstances that led to the impairment no longer exist, the impairment is reversed through profit or loss.

Recoverable amount is the greater of fair value less costs to sell and value in use

If recoverable amount of an individual asset cannot be determined, measure recoverable amount of that asset's cash generating unit

If an impairment indicator exists, the entity should review the useful life and the depreciation methods even though an impairment may not be recognised

Simplified guidance on computing impairment of goodwill when goodwill cannot be allocated to cash generating units

Section 28 Employee Benefits

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 or due.

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.

The projected unit credit method is only used when it could be applied without undue cost or effort.

Otherwise, en entity can simplify its calculation:

Ignore estimated future salary increases

Ignore future service of current employees (assume closure of plan)

Ignore possible future in-service mortality

Plan introductions, changes, curtailments, settlements: Immediate recognition (no deferrals)

For group plans, consolidated amount may be allocated to parent and subsidiaries on a reasonable basis

Actuarial gains and losses may be recognised in profit or loss or as an item of other comprehensive income – but...

No deferral of actuarial gains or losses, including no corridor approach

All past service cost is recognised immediately in profit or loss

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 29 Income Tax*

Requires a temporary difference approach, similar to IAS 12

Current tax:

Recognise a current tax liability if the current tax payable exceeds the current tax paid at that point in time. Recognise a current tax asset 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 are 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. The measurement must include the effect of the possible outcomes of a review by the tax authorities.

Deferred tax:

If an asset or liability is expected to affect taxable profit if it recovered or settled for its carrying amount, then a deferred tax asset or liability is recognised

If the entity expects to recover an asset through sale, and capital gains tax is zero, then no deferred tax is recognised, because recovery is not expected to affect taxable profit

Temporary difference arises if the tax basis of such assets or liabilities is different from carrying amount

Tax basis assumes recovery by sale. Exception: No deferred tax on unremitted earnings of foreign subsidiaries and jointly controlled entities

Recognise deferred tax assets in full, with a valuation allowance

Criterion is that realisation is probable (more likely than not)

Take uncertainty into account in measuring all current and deferred taxes – assume tax authorities will examine reported amounts and have full knowledge of all relevant information

Deferred taxes are all presented as non-current

Recognition of changes in current or deferred tax must be allocated to the related components of profit or loss, other comprehensive income and equity.

*Section 29 was completely revised by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017, please see summary of revised section below.

Section 29 Income Tax (Revised)*

Requires a temporary difference approach, similar to IAS 12

Current tax:

Recognise a current tax liability for tax payable on taxable profit for the current and past period.

Recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

Measure the current tax liability (asset) at the amount expected to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Current tax assets and liabilities are not discounted.

Deferred tax:

Recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events.

The tax base of an asset is the amount that will be deductible for tax purposes against taxable economic benefits. The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future.

Temporary difference arises if the tax basis of such assets or liabilities is different from carrying amount. Recognise a deferred tax liability for most taxable temporary differences and recognise a deferred tax asset for most deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Measure deferred tax liabilities and assets using the tax rates and taxlaws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are not discounted.

At the end of each reporting period, reassess any unrecognised deferred tax assets and recognise previously unrecognised deferred tax assets to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred taxes are all presented as non-current.

Recognition of changes in current or deferred tax must be allocated to the related components of profit or loss, other comprehensive income and equity.

Offsetting current tax assets and current tax liabilities or offsetting deferred tax assets and deferred tax liabilities is only permissible if an entity has a legally enforceable right to set off the amounts and the entity plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

*Section 29 was completely revised by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015. This summary provides an overview of the requirements effective 1 January 2017.

Section 30 Foreign Currency Translation

Functional currency approach similar to that in IAS 21

An entity's functional currency, is the currency of the primary economic environment in which it operates

It is a matter of fact, not an accounting policy choice

A change in functional currency is applied prospectively from the date of the change

To record a foreign currency transaction in an entity's functional currency:

On initial recognition, 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, translate foreign currency monetary items using the closing rate. For non-monetary items measured at historical cost, use the exchange at the date of the transaction. For non-monetary items measured at fair value, use the exchange at the date when the fair value was determined.

For monetary and non-monetary item translations, gains or losses are recognised where they were initially recognised – either in profit or loss, comprehensive income, or equity

Exchange differences arising from a monetary item that forms part of the net investment in a foreign operation are recognised in equity and are not 'recycled' through profit or loss on 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

An entity may present its financial statements in a currency different from its functional currency (a 'presentation currency'). If the entity's functional currency is not hyperinflationary, translation of assets, liabilities, income, and expense from functional currency into presentation currency is done as follows:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position

Income and expenses are translated at exchange rates at the dates of the transactions

All resulting exchange differences are recognised in other comprehensive income.

Section 31 Hyperinflation

An entity must prepare general price-level adjusted financial statements when its functional currency is hyperinflationary

IFRS for SMEs provides indicators of hyperinflation but not an absolute rate. One indicator is where cumulative inflation approaches or exceeds 100% over a 3 year period.

In price-level adjusted financial statements, all amounts are stated in terms of the (hyperinflationary) presentation currency at the end of the reporting period. Comparative information and any information presented in respect of earlier periods must also be restated in the presentation currency.

All assets and liabilities not recorded at the presentation currency at the end of the reporting period must be restated by applying the general price index (generally an index published by the government).

All amounts in the statement of comprehensive income and statement of cash flows must also be recorded at the presentation currency at the end of the reporting period. These amounts are restated by applying the general price index from the dates when they were recorded.

The gain or loss on translating the net monetary position is included in profit or loss. However, that gain or loss is adjusted for those assets and liabilities linked by agreement to changes in prices.

Section 32 Events after the End of the Reporting Period

Adjust financial statements to reflect adjusting events – 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 non-adjusting events – events or conditions that arose after the end of the reporting period. For these, the entity must disclose the nature of event and an estimate of its financial effect.

If an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. That is a non-adjusting event.

Section 33 Related Party Disclosures

Disclose parent-subsidiary relationships, including the name of the parent and (if any) the ultimate controlling party.

Disclose key management personnel compensation in total for all key management. Compensation includes salaries, 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.

Disclose the following for transactions between related parties:

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

Any expense recognised during the period in respect of an amount owed by a related party

Government departments and agencies are not related parties simply by virtue of their normal dealings with an entity

Section 34 Specialised Activities

Agriculture:

If the fair value of a class of biological asset is readily determinable without undue cost or effort, use the fair value through profit or loss model.

If the fair value is not readily determinable, or is determinable only with undue cost or effort, measure the biological assets at cost less and accumulated depreciation and impairment.

At harvest, agricultural produce is be measured at fair value less estimated costs to sell. Thereafter it is accounted for an inventory.

Exploration for and evaluation of mineral resources:

Determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and apply the policy consistently.*

Exploration and evaluation assets shall be measured on initial recognition at cost.*

(Subsequently) Tangible or intangible assets used in extractive activities are accounted for under Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill.*

Assess exploration and evaluation assets sfor impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of Assets*.*

An obligation to dismantle or remove items or restore sites is accounted for using Section 17 and Section 21 *Provisions and Contingencies*.

Service concession arrangements:

Guidance is provided on how the operator accounts for a service concession arrangement. The operator either recognises a financial asset or an intangible asset depending on whether the grantor (government) has provided an unconditional guarantee of payment or not.

A financial asset is recognised to the extent that the operator has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

An intangible asset is recognised to the extent that the operator receives a right or license to charge users for the public service.

*added by *2015 Amendments to the IFRS for SMEs* issued on 21 May 2015 effective 1 January 2017

Section 35 Transition to the IFRS for SMEs

First-time adoption is the first set of financial statements in which the entity makes an explicit and unreserved statement of compliance with the IFRS for SMEs: '...in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities'.

Can be switching from:

- National GAAP
- Full IFRSs
- Or never published General Purpose Financial Statements in the past

Date of transition is beginning of earliest period presented

Select accounting policies based on IFRS for SMEs at end of reporting period of first-time adoption

- Many accounting policy decisions depend on circumstances – not 'free choice'
- But some are pure 'free choice'

Prepare current year and one prior year's financial statements using the IFRS for SMEs

But there are many exceptions from restating specific items

- Some exceptions are optional
- Some exceptions are mandatory

And a general exemption for impracticability

All of the special exemptions in IFRS 1 are included in the IFRS for SMEs