Special Edition on the IFRS for SMEs

Grant Thornton
An instinct for growth™

IFRS News

July 2015

IASB's first comprehensive review of the IFRS for SMEs is complete

The IASB has published '2015 Amendments to the International Financial Reporting Standard for Small and Medium Sized Entities' ('the Amendments').

The International Financial Reporting Standard for Small and Medium Sized Entities ('IFRS for SMEs' or 'the Standard') is a self-contained standard. It is based on full IFRS but simplified to meet the needs of the entities within its scope.

The Amendments issued are a result of the IASB's first comprehensive review of the Standard, which commenced in 2012, three years after the Standard's first publication in 2009. A full revised version of the IFRS for SMEs incorporating the Amendments will be issued by the IASB in the coming months.

This special edition of IFRS News tells you more about these Amendments and the Standard in general.

"More than six years after the IFRS for SMEs was first released in 2009, the IASB has now completed its first detailed review of the requirements. These Amendments are the outcome of that review.

We support the changes made, which we consider to be uncontroversial in the main. The most significant Amendments, as the Board itself has noted, are to the taxation section of the Standard. We agree with the Board's decision here to align the requirements of the IFRS for SMEs with those of IAS 12 'Income Taxes'.

The IASB has also added additional 'undue cost or effort' exemptions into the IFRS for SMEs. These reliefs will be welcomed by many businesses. Importantly, the IASB has also provided more guidance on when and how to use these exemptions and a requirement to disclose the reasons for their use."

Andrew Watchman
Global Head – IFRS

Introduction

Originally published by the IASB in 2009, the IFRS for SMEs is aimed at the needs of private companies. The IFRS for SMEs is an internationally-recognised framework for the preparation of financial statements by private companies. It is intended to ensure that lenders, investors and other stakeholders receive high quality financial information to help them make lending and other decisions. A cost-benefit approach was taken in developing the IFRS for SMEs, with the emphasis on easing the financial reporting burden on private companies.

Full IFRS is aimed primarily at public-traded entities, and over 110 jurisdictions require or permit the use of IFRS-based standards for such companies. However, there are far more privately owned companies than publicly-traded ones. The IFRS for SMEs was therefore developed for privately owned companies that need to choose to prepare financial statements. At the time of writing, the IFRS for SMEs is currently used in over 70 countries (see page 5).

In line with its initial intentions, the IASB have now completed a comprehensive review of the IFRS for SMEs. These Amendments follow from this review.

The three most significant Amendments are as follows:

Section	Chapter	Amendment	Further detail
17	**Property, plant and equipment**	Permitting the use of the revaluation method when accounting for property, plant and equipment	**Page 8**
29	**Income tax**	Aligning the basis of recognition and measurement for deferred income taxes with IAS 12 'Income Taxes'	**Page 8**
34	**Specialised activites**	Aligning how entities account for exploration and evaluation assets with the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'	**Page 9**

In addition to discussing these three major changes, this special edition of IFRS News summarises the other changes (refer to page 9) and:

Scope

The term 'Small and Medium-sized Entities' is slightly misleading. The applicability of the IFRS for SMEs is not in fact based on any explicit 'size' criteria. This Standard is intended to apply to entities that in many countries are referred to by a variety of terms, including SMEs, private entities, and non-publicly accountable entities.

Small and Medium-sized Entities are therefore defined as entities that publish general purpose financial statements for external users and do not have public accountability.

An entity is publicly accountable if it:

- files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (eg banks, insurance companies, and mutual funds).

Entities which hold assets in a fiduciary capacity for reasons incidental to their primary business (eg some travel agents, schools and utility companies) are not considered to be 'publicly accountable' and can use the IFRS for SMEs.

The IFRS for SMEs is separate from full IFRS and is therefore available for use in any jurisdiction whether or not it uses full IFRS.

It is up to individual jurisdictions to decide which entities will be required or permitted to use the IFRS for SMEs. However the IASB continues to support its objective that the Standard was specifically designed for entities without public accountability. Therefore if jurisdictions do allow publicly accountable entities to use it, these entities should state compliance with local GAAP, not with the IFRS for SMEs.

Practical insight – scope for groups

In many countries IFRS is required only for the consolidated financial statements of a parent company. Can the IFRS for SMEs then be used for the separate or individual financial statements of the companies in the group? This table summarises the position.

Entity	Can the IFRS for SMEs be used?
Subsidiary	A subsidiary whose parent (or group) uses full IFRS is not prohibited from using the IFRS for SMEs provided the subsidiary itself is not publicly accountable.
Parent	As long as the parent entity itself does not have public accountability it may produce its separate financial statements in accordance with the IFRS for SMEs even if its consolidated financial statements are in accordance with full IFRS.

About the IFRS for SMEs

What does the IFRS for SMEs look like?

The IFRS for SMEs is a self-contained standard built on the foundation of full IFRS. Even after the IASB's recent Amendments to the Standard, it is likely to be no more than 250 pages (a full revised version of the IFRS for SMEs will be released in the coming months). By way of contrast the text of full IFRS comes to thousands of pages.

Many of the principles for recognising and measuring assets, liabilities, income and expenses however are simplified. Furthermore, topics not relevant to SMEs are omitted, and the number of required disclosures is significantly reduced.

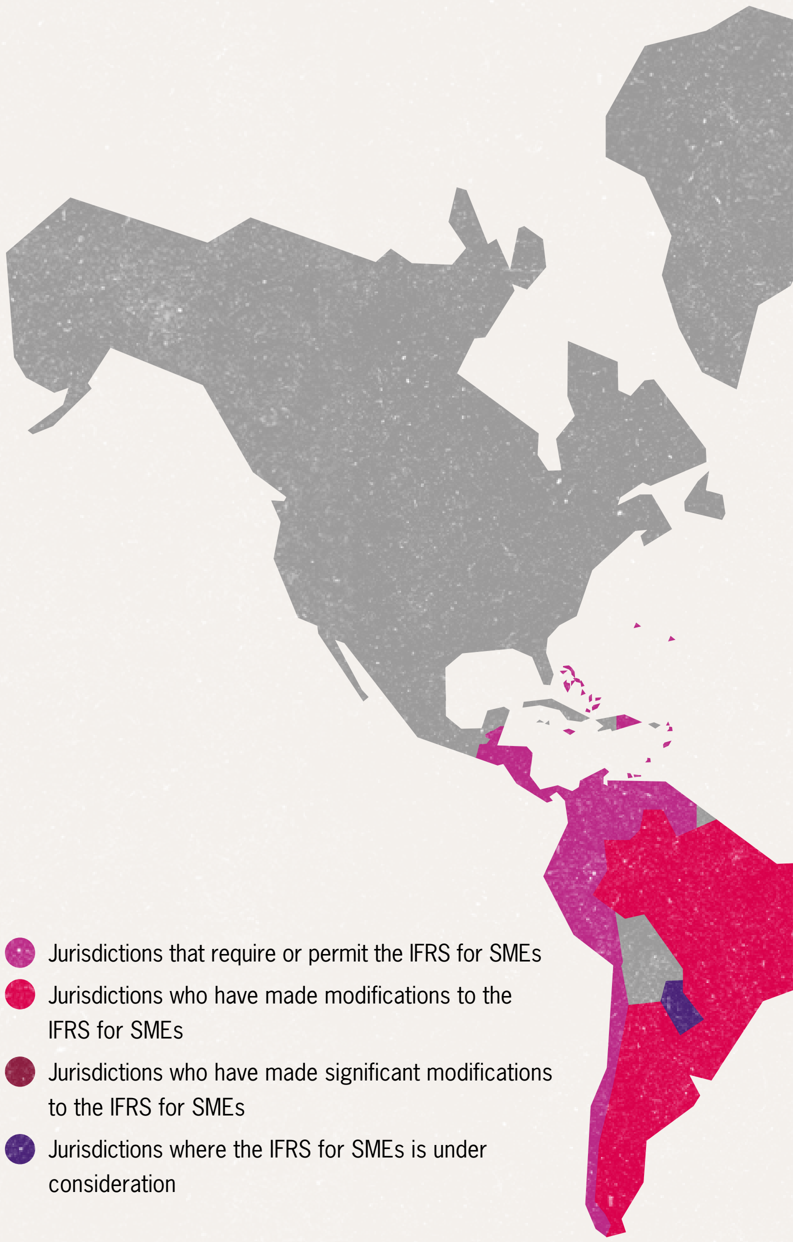
Components of financial statements

A complete set of financial statements prepared under the IFRS for SMEs includes

- a statement of financial position as at the reporting date
- either (i) a single statement of comprehensive income or (ii) a separate income statement and a separate statement of comprehensive income
- a statement of changes in equity for the reporting period
- a statement of cash flows for the reporting period (this can be presented using either the direct method or indirect method)
- notes, comprising a summary of significant accounting policies and other explanatory information.

Comparative information is generally required for the previous period for all amounts presented.

As a simplification in comparison to full IFRS, if the only changes to equity during the current and comparative periods arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of a separate statement of comprehensive income and a statement of changes in equity.



General recognition and measurement principles

The requirements contained in the IFRS for SMEs for recognising and measuring assets, liabilities, income and expenses are based on principles in the IASB's Conceptual Framework and in full IFRSs.

Where the IFRS for SMEs does address a specific transaction or other event or condition, management applies judgement in developing an accounting policy that results in information that is relevant and reliable.

In making such a judgement, a hierarchy is provided. Management is advised to refer to and consider the applicability of the following sources in descending order:

a) the requirements and guidance in the IFRS for SMEs dealing with similar and related issues, and

b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in the section in the IFRS for SMEs on 'Concepts and Pervasive Principles'.

In making the judgement, management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues, but this is not mandatory.

Practical insight – jurisdictions that have adopted the IFRS for SMEs

At the time of writing, over 70 jurisdictions now require or permit the IFRS for SMEs, or have issued their own Standard based on the IFRS for SMEs. In addition, other jurisdictions are considering adopting it. The Standard is also available in more than 25 languages.

Those jurisdictions that require or permit the IFRS for SMEs (or have their own Standard based on the IFRS for SMEs) include:

- Anguilla, Antigua and Barbuda, Argentina*, Armenia, Azerbaijan, Bahamas, Bahrain, Bangladesh*, Barbados, Belize, Bermuda, Bhutan, Bosnia and Herzegovina*, Botswana, Brazil*, Cambodia, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Fiji, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Hong Kong*, Iraq, Ireland#, Israel, Jamaica, Jordan, Kenya, Kosovo, Lesotho, Macedonia, Malaysia, Maldives, Mauritius, Montserrat, Myanmar, Nicaragua, Nigeria, Palestine, Panama, Peru, Philippines, Rwanda, Saint Lucia, Saudi Arabia, Serbia, Sierra Leone, Singapore, South Africa, Sri Lanka, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, Swaziland, Switzerland, Tanzania, Trinidad & Tobago, Turkey, Uganda, United Arab Emirates, United Kingdom#, Uruguay*, Venezuela, Yemen, Zambia, and Zimbabwe.

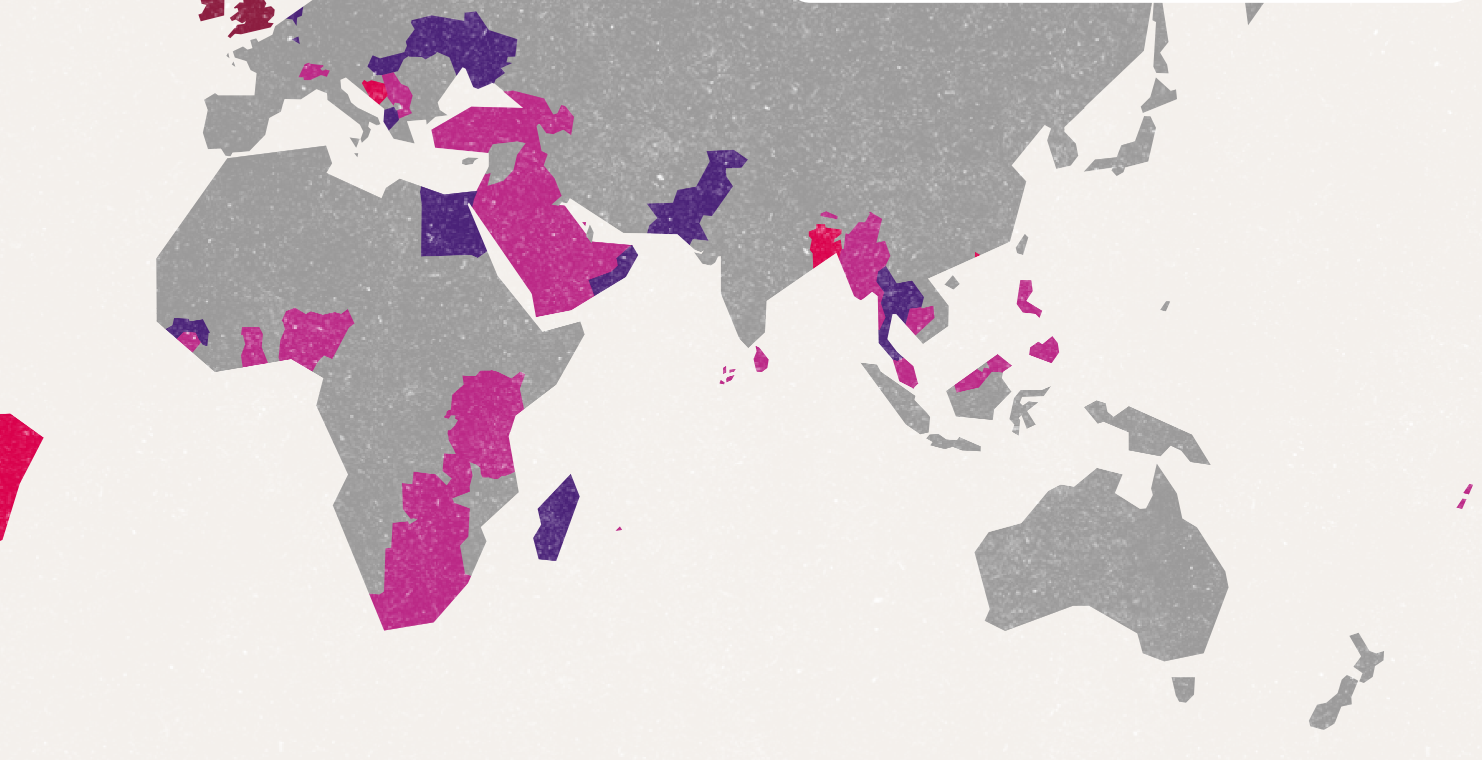
Jurisdictions where the IFRS for SMEs are under consideration are:

- Albania, Denmark, Egypt, Guinea, Hungary, Iceland, Liechtenstein, Madagascar, Netherlands, Norway, Oman, Pakistan, Paraguay, Thailand and Ukraine.

* These jurisdictions have made modifications to the IFRS for SMEs

\# These jurisdictions have their own Standard based on the IFRS for SMEs but with some significant modifications

The IFRS for SMEs is available to adopt by any jurisdiction, regardless of whether that jurisdiction has adopted full IFRS.



Comparisons to full IFRS

The following table provides some comparisons from full IFRS to the IFRS for SMEs:

Full IFRS	The IFRS for SMEs
Numbered by Standard	Organised by topic (eg inventories)
Excess of 3,500 potential disclosures	About 10% of full IFRS potential disclosures
Around 4,300 pages in length	Revised version estimated to be less than 250 pages when published
Updated several times a year	Anticipated to be updated on a 3-yearly basis

What are the simplifications compared to full IFRS?

Compared to full IFRS, the IFRS for SMEs contains a number of simplifications. Principal amongst these are the use of simplified drafting in writing the Standard, making the final document easier to understand and follow, and far fewer disclosures in the financial statements.

The IFRS for SMEs also omits a number of topics found in full IFRS that are not considered to be relevant to the needs of small and medium-sized entities.

Topics omitted from the IFRS for SMEs:

- segment reporting
- interim reporting
- earnings per share
- insurance
- assets held for sale.

The IFRS for SMEs is further simplified by including only the simpler option (or a modified version of the simpler option) in some of the areas where full IFRS has a choice of alternative accounting treatments.

The following table illustrates some examples of options available under full IFRS that are not included in the IFRS for SMEs:

Options in full IFRS not included in the IFRS for SMEs	
Investment property	• measurement at cost or fair value is driven by circumstances rather than by choice • must be accounted for at fair value if such a value is available without undue cost or effort. Otherwise the cost model should be used
Intangible assets	• no revaluation option
Government grants	• no option between the income approach and capital approach that is available in full IFRS (depending on the circumstances)

In addition, the IFRS for SMEs gives greater consideration to 'cost/benefit' criteria in relation to the application of fair value accounting and this has been further enhanced with the 2015 Amendments. A number of new 'undue cost or effort' exemptions have been introduced and additional guidance has been added on using these exemptions. An undue cost or effort exemption means an entity does not need to apply the requirement noted in the Standard because of the excessive cost or the effort needed to apply it. If the cost or effort significantly outweighs the benefit the users would receive by having the information, then the entity can apply an exemption to the Standard's requirement. For example, a new undue cost or effort exemption now exists for the measurement of investments in equity instruments at fair value and the separate recognition of intangible assets of the acquiree in a business combination. Refer to the Amendments section on page 9 for a more detailed discussion.

A snapshot guide to the IFRS for SMEs, using the same section headings as in the Standard, is set out at the end of the newsletter.

The IFRS for SMEs also contains important simplifications to the recognition and measurement principles in full IFRS. The following table sets out some of the main simplifications:

Examples of recognition and measurement simplifictions

Subject	Full IFRS	The IFRS for SMEs
Goodwill	• goodwill is not amortised but annual impairment testing is required	• goodwill is amortised (where a reliable estimate of useful life cannot be made, useful life is determined using management's best estimate to a maximum life of 10 years) • impairment testing only needed where indicator of impairment exists
Research and development	• development costs are capitalised where six specific criteria are met	• all research and development costs are expensed
Financial instruments	• four categories of financial instruments • hedge accounting only possible where strict documentation and effectiveness requirements are met • over 100 pages of detailed implementation guidance	• two categories (amortised cost or fair value through profit or loss) • much simplified (albeit restricted) rules on the use of hedge accounting
Borrowing costs	• borrowing costs directly attributable to acquisition, construction or production of a qualifying asset are capitalised • distinction is drawn between general borrowing costs and specific borrowing costs • for general borrowings, a capitalisation rate, based on the weighted average of borrowing rates applicable to the general outstanding borrowings during the period, is applied to determine the amount to be capitalised	• all borrowing costs are expensed, capitalisation is not permitted

Illustrative financial statements and disclosure checklist

Unlike full IFRS, the original IFRS for SMEs contains illustrative financial statements and a disclosure checklist. It is likely when the amended version of the Standard is published, it will contain an amended disclosure checklist and illustrative financial statements.

With around only 10% of the potential disclosure requirements of full IFRS, the advantages of the IFRS for SMEs in terms of the amount of time to be spent preparing the financial statements are already clear.

This is also highlighted by the Illustrative Financial Statements that accompany the Standard. These are just 17 pages in length, in sharp contrast to full IFRS financial statements which often run to over 100 pages.

2015 Amendments

The IASB commenced its initial comprehensive review of the IFRS for SMEs in 2012, three years after its release in 2009. The aim of the review was to consider whether the IFRS for SMEs needed amending for any implementation issues identified or for any changes made to full IFRS. The IASB issued the resulting Amendments in May 2015.

After consulting widely with constituents, the IASB found that the IFRS for SMEs was working well in practice. This, together with the fact that the IFRS for SMEs is still relatively new, led the IASB to conclude that only a few substantive changes were required. However, the review did identify specific areas where improvements could be made.

While a total of 56 Amendments have been made, the majority of these only clarify existing guidance or provide additional supporting material rather than change the underlying requirements of the Standard.

Significant Amendments

The Amendments to the Standard which we believe will have the most significant impact are as follows:

Measurement of property, plant and equipment

The Amendments allow entities reporting under the IFRS for SMEs to choose between measuring their property, plant and equipment at cost, or at fair value using the 'revaluation model'. Previously, the Standard had permitted only the 'cost model' (in Section 17).

With this change, entities using the IFRS for SMEs now have the same choice available to them that entities reporting under full IFRS have under IAS 16 'Property, Plant and Equipment'.

This Amendment should be applied prospectively from the beginning of the period the option is first implemented.

Recognition and measurement of deferred income tax assets and liabilities

The original Section 29 'Income Tax' of the IFRS for SMEs was based on a 2009 Exposure Draft that was expected to amend IAS 12 'Income Taxes', but was never finalised by the IASB. The Amendments align the accounting requirements of deferred tax with IAS 12. This means that entities applying the IFRS for SMEs and those reporting under full IFRS will now follow the same basic principles when determining when to recognise deferred tax assets and liabilities and the amount at which they must be measured.

An overview of the new requirements of Section 29 'Income Tax' are as follows:

- recognition of current tax
  - a current tax liability is recognised for tax payable on taxable profit for the current and past periods. If the amount paid for current and past periods exceeds the amount payable for those periods, the entity recognises the excess as a current tax asset
  - a current tax asset is recognised for the benefit of a tax loss that can be carried back to recover tax paid in a previous period
- recognition of deferred tax
  - a deferred tax asset or liability is recognised for tax recoverable or payable in future periods as a result of past transactions or events
  - such tax arises from the differences between the carrying amounts of the entity's assets and liabilities and the amounts attributed to those assets and liabilities by the tax authorities (the tax base). These differences are called temporary differences
  - deferred tax assets also arise from the carryforward of currently unused tax losses and tax credits
  - the tax base of an asset is the amount that will be deductible for tax purposes against any 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 periods
  - a deferred tax liability is recognised for all taxable temporary differences, with few exceptions
  - a deferred tax asset is recognised for 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

- both current and deferred tax liabilities are measured at the amount the entity expects to pay using the tax rates and laws that have been enacted or substantially enacted by the reporting date
- recognition of changes in current or deferred tax is allocated to the related components of profit or loss, other comprehensive income and equity
- offsetting of current or deferred tax balances is only allowed if there is a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans to either settle on a net basis or to realise the asset and settle the liability at the same time.

Grant Thornton International Limited comment

We believe this is the most significant amendment to the Standard. We agree with the Board's alignment of the requirements of the IFRS for SMEs with those in IAS 12 'Income Taxes'.

Exploration for and evaluation of mineral resources

These Amendments provide entities reporting under the IFRS for SMEs with additional flexibility that was previously available only to those reporting under full IFRS. The Amendments align the main recognition and measurement requirements in Section 34 for exploration and evaluation assets (E&E) with IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Entities will now be allowed to make a policy choice as to which expenditures will be included in E&E assets, and will use more favourable guidance when identifying whether an E&E asset might be impaired.

'Undue cost or effort' exemptions

As part of the Amendments the IASB have included additional 'undue cost or effort' exemptions. Where available, these provide relief from applying a particular 'benchmark' accounting approach if that form of accounting would require undue cost or effort for the company. The IASB has also added clarifying guidance on when these exemptions should be applied. The exemptions can be applied if the incremental cost (for example valuer's fees), or additional effort (for example by employees) is expected to substantially exceed the benefit provided to the users of the financial statements from having this information. They can be applicable both on initial recognition and subsequent measurement.

Entities must disclose they have used the exemptions and explain the reasons why applying the requirements would involve undue cost and effort.

Overview of the Amendments

The following table provides an overview of the Amendments made to the IFRS for SMEs:

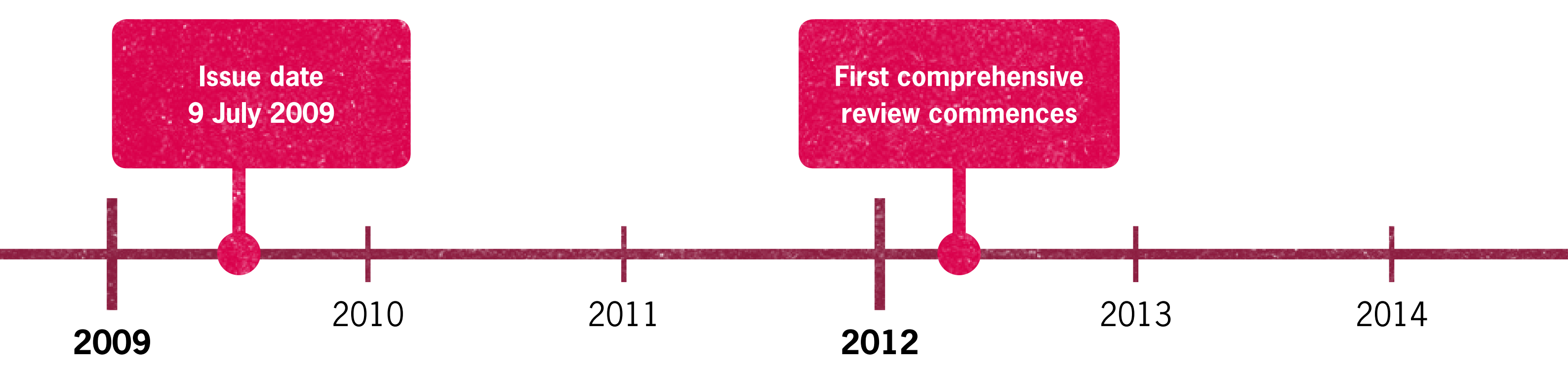
Overview of the Amendments made to the IFRS for SMEs

Type of change	Detail of Amendment	Section
Accounting policy options	• an additional option has been added for entities to use the revaluation model to measure its property, plant and equipment	**17**
	• there is also now an option for a parent, investor in an associate or a venturer, in its separate financial statements, to use the equity method when accounting for investments in subsidiaries, associates and jointly controlled entities. Therefore there is now a choice between measuring these investments at: – cost less impairment – fair value with changes in fair value recognised in profit or loss – using the equity method	**9**
Changes to accounting requirements	• the recognition and measurement of deferred income tax assets and liabilities have now been aligned with IAS 12 'Income Tax'	**29**
	• the recognition and measurement requirements of exploration and evaluation assets have now been aligned with IFRS 6 'Exploration for and Evaluation of Mineral Resources'	**34**
	• the criteria for basic debt instruments have been modified to ensure that most simple loans qualify for amortised cost measurement	**11**
	• the guidance has changed on what to do if the useful life of goodwill cannot be established reliably. Previously, its life was assumed to be ten years, now it is determined using management's best estimate, limited to a maximum of ten years	**18**
	• other changes to accounting requirements have been made which are anticipated to be uncommon for SMEs for	
	– liabilities extinguished by issuing the entity's own instruments, such as shares	**22**
	– leases with an interest rate variation clause linked to market interest rates	**20**
	– compound financial instruments with complex characteristics	**22**

Overview of the Amendments made to the IFRS for SMEs

Type of change	Detail of Amendment	Section
Additional undue cost or effort exemptions	These relate to: • the measurement of investments in equity instruments at fair value • recognising intangible assets separately in a business combination • offsetting income tax assets and liabilities • measuring the liability to pay a non-cash dividend at the fair value of the assets to be distributed.	 **11** **19** **29** **22**
Other additional exemptions	• the simplification of the accounting requirements when part of an item of property, plant and equipment is replaced • two exemptions for common control transactions – an exemption from the fair value measurement requirements for equity issued in a business combination of entities under common control – an exemption from the fair value measurement requirements for distributions of non-cash assets controlled by the same parties before and after the distribution.	**17** **19** **22**
Changes to presentation or disclosure requirements	• entities must now disclose reasons when using the 'undue cost or effort' exemption • investment property that is measured at cost less accumulated depreciation is now presented separately on the face of the statement of financial position • entities must disclose the factors that make up goodwill recognised in a business combination and the useful life of goodwill • disclose the carrying amount of subsidiaries acquired and held for sale or disposal • the definition of a related party is now aligned with IFRS, which could impact disclosures about related party transactions.	**2** **4** **19** **9** **33**
First-time application	The Amendments include three additional options for first-time adopters as follows: • permit this section to be used more than once • permit the use of an event-driven fair value measurement as 'deemed cost' • permit an entity to use the previous GAAP carrying amount of items of property, plant and equipment or intangible assets used in operations subject to rate regulation. The Amendments add one new exception: • an entity does not need to apply the requirements of the IFRS for SMEs retrospectively for government loans that exist at the date of transition to the IFRS for SMEs. Two new pieces of guidance: • firstly, for entities emerging from severe hyperinflation that are applying the IFRS for SMEs for the first time, which gives the option to use fair value on the date of transition as deemed cost • and secondly, the Amendments simplify the wording used in the exemption from the restatement of financial information on first time adoption.	**35**

Timeline for reviews of the IFRS for SMEs



Other Amendments

The remaining Amendments simply:

- incorporate Q&A guidance from the SME Implementation Group (refer to more details later in the publication)
- provide minor clarifications to definitions or scope, or
- make editorial changes.

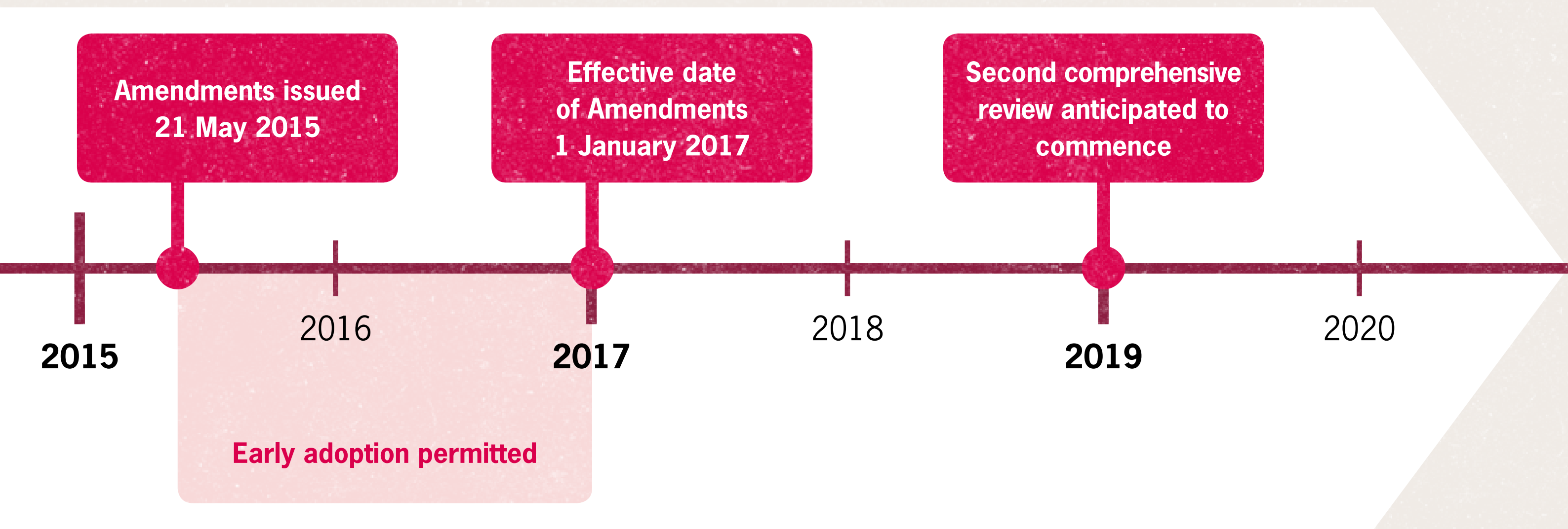
The majority of these changes affect only a few paragraphs, and in many cases only a few words, of the Standard. They are merely intended to clarify existing requirements and add more guidance rather than make major changes to the requirements. As a result, we expect that for most SMEs these remaining Amendments are unlikely to have a significant effect on their financial reporting practices or financial statements.

Transition and effective date

The new version of the Standard must be applied to annual periods beginning on or after 1 January 2017. Early adoption is allowed provided that all of the changes are applied at the same time.

The Amendments must be applied retrospectively, with the following exceptions:

- if an entity chooses to apply the revaluation model to any classes of property, plant and equipment, it must apply the related requirements prospectively from the beginning of the period
- an entity is permitted to apply the revised income tax requirements prospectively from the beginning of the period
- for business combinations, an entity must apply the clarified terminology relating to 'date of acquisition' prospectively from the beginning of the period.



Future reviews

The IASB has tentatively agreed that the next comprehensive review should start two years after the effective date of the Amendments. This will therefore be 1 January 2019, which will allow time for SMEs to apply the Amendments and for any implementation issues to be identified.

The intended timeframe of this comprehensive review should ensure that Amendments to the IFRS for SMEs occur no more frequently than once every three years.

If new or revised IFRSs are issued before this date, the IASB will decide whether there is a need for an interim review to incorporate these into the IFRS for SMEs. In addition it will assess if any urgent amendments have been identified. The IASB have established a group called the SME Implementation group ('SMEIG') which gives a way of addressing any problems that arise between the comprehensive reviews.

The following paragraphs provide an overview of the SMEIG.

SMEIG

The SMEIG has been established to assist the IASB with the IFRS for SMEs.

Grant Thornton is represented on the SMEIG by Eva Torning, the accounting technical partner of Grant Thornton Sweden. Eva commenced her three year term on 1 July 2014.

The mission of the SMEIG is to support the international adoption of the IFRS for SMEs and monitor its implementation. It has two main responsibilities:

- to consider implementation questions raised by users of the IFRS for SMEs, with a view to developing proposed guidance in the form of questions and answers (Q&As)
- to consider, and make recommendations to the IASB on the need to amend the IFRS for SMEs for implementation issues that cannot be addressed by Q&As, and for new and amended IFRSs that have been adopted since the IFRS for SMEs was issued or last amended.

Q&As are available to download on the IASB's website and are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SME Implementation Group. Draft Q&As are published for public comment, after which the SMEIG considers the comments received and sometimes a final Q&A is then issued. Any changes required as a result of the Q&As are incorporated into the relevant sections within the Standard when Amendments are issued after a comprehensive review.

Q&As issued to date:

- general:
  - application of the IFRS for SMEs for financial periods ending before the IFRS for SMEs was issued
  - interpretation of 'undue cost or effort' and 'impracticable'
- Section 1:
  - use of the IFRS for SMEs in a parent's separate financial statements
  - captive insurance subsidiaries
  - interpretation of 'traded in a public market'
  - investment funds with only a few participants
- Section 3:
  - jurisdiction requires fall back to full IFRS
  - departure from a principle in the IFRS for SMEs
  - prescription of the format of financial statements by local regulation
- Section 11:
  - fall back to IFRS 9 'Financial instruments'
- Section 30:
  - recycling of cumulative exchange differences on disposal of a subsidiary.

All of the above Q&As were issued prior to the 2015 Amendments for IFRS for SMEs and have therefore either been incorporated into the IFRS for SMEs (and therefore made mandatory) or into the IFRS Foundation's educational material (remains non-mandatory).

Snapshot of the IFRS for SMEs

Set out below is a highly summarised snapshot guide to the IFRS for SMEs, using the same section headings as the Standard. This Snapshot is intended to provide an 'at a glance' overview of the main requirements. It is not a substitute for studying the Standard itself and does not provide sufficient detail to apply the Standard's requirements.

A snapshot of the IFRS for SMEs

Section	Title	Summary of requirements
1	Small and Medium-sized Entities (SMEs)	• defined as entities that: a) do not have public accountability, and b) publish general purpose financial statements for external users • parent entities that do not have public accountability, may present their separate financial statements in accordance with the IFRS for SMEs, even if the consolidated financial statements are in accordance with full IFRS.
2	Concepts and Pervasive Principles	• major concepts and basic principles underlying the financial statements of SMEs, such as definitions of assets, liabilities, income and expenses. Provides guidance on the undue cost or effort exemption.
3	Financial Statement Presentation	• a complete set of financial statements comprises: a) a statement of financial position b) either a single statement of comprehensive income, or a separate income statement and a separate statement of comprehensive income c) a statement of changes in equity d) a statement of cash flows e) notes, comprising a summary of significant accounting policies, other explanatory information, and comparatives.
4	Statement of Financial Position	• a Statement of Financial Position consists of certain minimum line items. These items are classified as either current or non-current unless a presentation based on the liquidity of the items provides information that is more reliable and relevant. The Amendments to the IFRS for SMEs added investment property to the minimum line items.
5	Statement of Comprehensive Income and Income Statement	• total comprehensive income is presented in either a single statement of comprehensive income or in two statements (an income statement and a statement of comprehensive income).
6	Statement of Changes in Equity and Statement of Income and Retained Earnings	• changes in an entity's equity for a period are presented either in a statement of changes in equity or, if certain conditions are met and an entity chooses, in a statement of income and retained earnings • a statement of income and retained earnings can be used where the only changes to the entity's equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.
7	Statement of Cash Flows	• changes in cash and cash equivalents are reported, showing separately changes from operating activities, investing activities and financing activities.
8	Notes to the Financial Statements	• significant accounting policies are disclosed, together with details of judgements made and key sources of estimation uncertainty.
9	Consolidated and Separate Financial Statements	• a parent entity is required to present consolidated financial statements in which all its subsidiaries are included. There are some limited exceptions to this rule.

A snapshot of the IFRS for SMEs

Section	Title	Summary of requirements
10	Accounting Policies, Estimates and Errors	• prior period errors are accounted for on a retrospective basis • changes in accounting estimate are recognised prospectively • changes in accounting policy are accounted for on a retrospective basis unless specific transitional provisions apply.
11*	Basic Financial Instruments	• an amortised cost or cost less impairment model is used for basic financial instruments such as cash, loans and trade receivables and payables. Except for investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publically traded or whose fair value can be measured reliably without undue cost or effort.
12*	Other Financial Instruments Issues	• other financial instruments are generally measured at fair value through profit or loss. Examples of such instruments include asset-backed securities, options, futures contracts, forward contracts, and interest rate swaps • hedge accounting is permitted only for certain specific types of risk. Certain conditions must be met in order to use hedge accounting.
13	Inventories	• inventories are measured at the lower of cost and net realisable value.
14	Investments in Associates	• investments in associates are measured using either: – the cost model (cost less accumulated impairment); – the equity method (initial recognition at cost, with subsequent adjustments to reflect the investor's share of the profit or loss and other comprehensive income of the associate); or – the fair value model (compulsory where a published price exists for the investment).
15	Investments in Joint Ventures	• a similar accounting policy election to that for associates applies to investments in joint ventures; permitting them to be accounted for at cost, fair value or using the equity method.
16	Investment Property	• investment property whose fair value can be measured reliably without undue cost or effort is accounted for at fair value through profit or loss. Otherwise investment property is accounted for at cost less depreciation and impairment.
17	Property, Plant and Equipment	• property, plant and equipment is measured at either cost less depreciation and impairment or the revaluation model. The same method shall be used for an entire class of property, plant and equipment.
18	Intangible Assets other than Goodwill	• all internally developed intangibles, including all research and development activities, are expensed as incurred • acquired intangibles meeting the criteria for recognition are capitalised as assets and measured at cost less amortisation and impairment. All intangible assets are considered to have a finite useful life. If the useful life cannot be established reliably, the life is determined using management's best estimate but must not exceed ten years. Revaluation of intangible assets is not permitted.
19	Business Combinations and Goodwill	• goodwill is measured at cost less amortisation and impairment. Where an entity is unable to make a reliable estimate of the useful life of goodwill, its life is determined using management's best estimate (but not exceeding ten years) and amortised over that period.
20	Leases	• finance leases are recognised as an asset by the lessee. • lease payments under operating leases are recognised by the lessee as an expense. • classification of leases depends on the substance of the transaction rather than the form of the contract.
21	Provisions and Contingencies	• present obligations are recognised as provisions when there is a probable outflow of economic benefits and the amount of the obligation can be estimated reliably • contingent liabilities and contingent assets are not recognised but are disclosed in the notes.
22	Liabilities and Equity	• equity is the residual interest in the assets of an entity after deducting all its liabilities. A financial liability is a present obligation of the entity arising from past events, which is expected to result in an outflow of economic benefits • split accounting must be applied to compound financial instruments, such as convertible debt, which contain both a liability and an equity component.

* Entities can choose to either apply the provisions of both Section 11 and Section 12 of the IFRS for SMEs in full or the recognition and measurement provisions of IAS 39. If entities choose to apply IAS 39 they must apply the version of IAS 39 that is in effect at the entity's reporting date until IAS 39 is superseded by IFRS 9. When IAS 39 has been superseded, entities apply the version of IAS 39 that applied immediately prior to it being superseded.

A snapshot of the IFRS for SMEs

Section	Title	Summary of requirements
23	Revenue	• for the sale of goods, revenue is recognised on transfer of the significant risks and rewards of ownership. In most cases, this will coincide with the transfer of legal title or the passing of possession to the buyer • for services and construction contracts, revenue is recognised according to the stage of completion at the end of the reporting period • interest and royalties receivable are recognised on an accrual basis • dividends are recognised when the right to receive payment is established.
24	Government Grants	• government grants are recognised in income when any specified performance conditions have been met. Where there are no such conditions, the grant is recognised in income upon receipt.
25	Borrowing Costs	• all borrowing costs are expensed as incurred.
26	Share-based Payment	• employee share awards and share options are recognised as an expense in profit or loss over the vesting period. A corresponding credit is recognised in equity. These amounts are measured at the fair value of the instruments provided.
27	Impairment of Assets	• an impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount.
28	Employee Benefits	• contributions payable under defined contribution plans are recognised as expenses in the period in which they are due • for defined benefit pension plans, an entity recognises a liability for its obligations net of the plan's assets. The net change in the liability during the period is recognised as the cost of the plan during the period. Entities can choose to recognise all actuarial gains and losses in either profit or loss or in other comprehensive income.
29	Income Tax	• deferred tax is calculated using a temporary difference approach based on the difference between the carrying amount of an asset and its tax base. The tax basis of an asset or liability is determined based on the expected manner of recovery or settlement.
30	Foreign Currency Translation	• foreign currency transactions are translated into the functional currency of the reporting entity. All monetary items and those non-monetary items which are measured at fair value are subsequently retranslated at the end of each reporting period.
31	Hyperinflation	• entities subject to hyperinflation are required to state all amounts at the prices that are current at the end of the reporting period.
32	Events after the End of the Reporting Period	• adjustment is made for events that provide evidence of conditions that existed at the end of the reporting period • no adjustment is made for events that are indicative of conditions that arose after the end of the reporting period, although they are disclosed.
33	Related Party Disclosures	• disclosures draw attention to the existence of related parties and transactions and balances with such parties.
34	Specialised Activities	• guidance is provided for three types of specialised activities – agriculture, exploration for and evaluation of mineral resources, and service concessions.
35	Transition to the IFRS for SMEs	• mandatory exceptions to and optional exemptions from the full requirements of the IFRS for SMEs enable the Standard to be applied more easily by entities adopting it for the first time. Entities also have the option to use this guidance more than once.

Grant Thornton
An instinct for growth™

www.grantthornton.global