This official pronouncement incorporates 2015 Amendments to the IFRS for SMEs (effective 1 January 2017 with early application permitted).

PART B
the accompanying documents
International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

Basis for Conclusions

Illustrative Financial Statements
This Basis for Conclusions accompanies the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* and is issued by the International Accounting Standards Board (IASB).

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DISSENTING OPINIONS
Basis for Conclusions on
International Financial Reporting Standard
for Small and Medium-sized Entities

This Basis for Conclusions accompanies, but is not part of, the Standard.

Introduction

BC1A This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) when developing the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). Individual IASB members gave greater weight to some factors than to others.


Basis for Conclusions on 2009 Standard

Background

BC1C In its transition report of December 2000 to the newly formed IASB, the outgoing Board of the International Accounting Standards Committee said ‘A demand exists for a special version of International Accounting Standards for Small Enterprises’.

BC2 Shortly after its inception in 2001, the IASB began a project to develop accounting standards suitable for small and medium-sized entities (SMEs). The Board set up a working group of experts to provide advice on the issues and alternatives and potential solutions.

BC3 In their 2002 annual report, the Trustees of the IASC Foundation, under which the IASB operates, wrote ‘The Trustees also support efforts by the IASB to examine issues particular to emerging economies and to small and medium-sized entities.’ In July 2005 the Trustees formalised their support by restating the objectives of the Foundation and the IASB as set out in the Foundation’s Constitution. They added an objective that, in developing IFRSs, the IASB should take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies. Similarly, the Standards Advisory Council has consistently encouraged the IASB to pursue the project.

BC4 At public meetings during the second half of 2003 and early 2004, the Board developed some preliminary and tentative views about the basic approach that it would follow in developing accounting standards for SMEs. It tested that approach by applying it to several IFRSs.

Discussion paper (June 2004)

BC5 In June 2004 the Board published a discussion paper Preliminary Views on Accounting Standards for Small and Medium-sized Entities setting out and inviting
comments on the Board’s approach. This was the first discussion paper that the IASB published. The Board received 120 responses.

BC6 The major issues set out in the discussion paper were:

(a) Should the IASB develop special financial reporting standards for SMEs?
(b) What should be the objectives of a set of financial reporting standards for SMEs?
(c) For which entities would IASB standards for SMEs be intended?
(d) If IASB standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
(e) May an entity using IASB standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB standard for SMEs?
(f) How should the Board approach the development of IASB standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
(g) If IASB standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
(h) In what format should IASB standards for SMEs be published?

BC7 At its meetings later in 2004, the Board considered the issues raised by respondents to the discussion paper. In December 2004 and January 2005, the Board made some tentative decisions on the appropriate way forward for the project. The responses to the discussion paper showed a clear demand for an International Financial Reporting Standard for SMEs (IFRS for SMEs) and a preference, in many countries, to adopt the IFRS for SMEs rather than locally or regionally developed standards. The Board therefore decided to publish an exposure draft of an IFRS for SMEs as the next step.

Recognition and measurement questionnaire (April 2005) and public round tables (October 2005)

BC8 Most respondents to the discussion paper said that simplifications of the principles for recognising and measuring assets, liabilities, income and expenses were needed, but few specifics were proposed. And when some specifics were proposed, the commentators generally did not indicate the particular transactions or other events or conditions that create the recognition or measurement problem for SMEs under IFRSs or how that problem might be solved.

BC9 The IASB concluded that it needed further information to assess possible recognition and measurement simplifications. Consequently the Board decided to hold public round-table meetings with preparers and users of the financial statements of SMEs to discuss possible modifications of the recognition and measurement principles in IFRSs for use in an IFRS for SMEs. The Board
instructed the staff to develop and publish a questionnaire as a tool to identify issues that should be discussed at those round-table meetings.

BC10 The questionnaire, published April 2005, asked two questions:

1. What are the areas for possible simplification of recognition and measurement principles for SMEs?

2. From your experience, please indicate which topics addressed in IFRSs might be omitted from SME standards because they are unlikely to occur in an SME context. If they occur, the standards would require the SME to determine its appropriate accounting policy by looking to the applicable IFRSs.

BC11 The Board received 101 responses to the questionnaire. Those responses were discussed with the Standards Advisory Council (June 2005), with the SME Working Group (June 2005), World Standard-Setters (September 2005) and at the public round tables held by the Board in October 2005. A total of 43 groups participated in the round-table discussions with the Board over a two-day period.

Board deliberations leading to the exposure draft

BC12 The IASB’s working group met in June 2005 and made a comprehensive set of recommendations to the Board regarding the recognition, measurement, presentation and disclosure requirements that should be included in an exposure draft of an IFRS for SMEs. Later in 2005, the Board considered those recommendations and the views expressed in the responses to the discussion paper and the questionnaire, and at the round tables. During those deliberations, the Board made tentative decisions about the requirements to be included in the exposure draft.

BC13 On the basis of those tentative decisions, at the Board meeting in January 2006 the staff presented a preliminary draft of the exposure draft. The working group met in late January 2006 to review that draft and prepared a report of its recommendations for the Board’s consideration. The Board’s discussion of the draft began in February 2006 and continued throughout the remainder of 2006. Revised drafts of the exposure draft were prepared for each Board meeting from May onwards. From July 2003 until the exposure draft was published in February 2007, the issues were deliberated by the Board at 31 public Board meetings.

BC14 To keep constituents informed and help them begin planning their responses, a complete staff draft of the exposure draft was posted on the IASB’s website in August 2006. A revised staff draft was posted on the IASB’s website in November 2006.

Exposure draft (February 2007)

BC15 In February 2007 the IASB published for public comment an exposure draft of a proposed IFRS for SMEs. The aim of the proposed standard was to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed entities and are based on full IFRSs, which are developed to meet the needs of entities whose securities trade in public capital markets.
The proposed standard was based on full IFRSs with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations. The exposure draft proposed five types of simplifications of full IFRSs:

(a) some topics in IFRSs were not included because they are not relevant to typical SMEs. However, for some of those omitted topics, the exposure draft proposed that if SMEs encountered circumstances or a transaction that is addressed in full IFRSs but not in the IFRS for SMEs, then they would be required to follow the relevant full IFRS.

(b) where an IFRS allows an accounting policy choice, the exposure draft included only the simpler option but proposed that SMEs should be permitted to choose the more complex option by reverting to the relevant full IFRS.

(c) simplification of many of the principles for recognising and measuring assets, liabilities, income, and expenses that are in full IFRSs.

(d) substantially fewer disclosures.

(e) simplified redrafting.

Primarily because of (a) and (b) above, the proposed IFRS for SMEs would not be a stand-alone document.

Along with the exposure draft, the IASB published and invited comment on proposed implementation guidance consisting of a complete set of illustrative financial statements and a disclosure checklist. The exposure draft was accompanied by a basis for conclusions that explained the Board’s reasoning in reaching the conclusions in the exposure draft.

The exposure draft was translated into five languages (a first for the IASB), and the translations were posted on the IASB’s website. The IASB also published a staff summary of the exposure draft to help constituents get an initial understanding of the proposals, also posted on the IASB’s website.

Comments on the exposure draft were initially due on 30 September 2007, but the Board extended the deadline to 30 November 2007 primarily at the request of field test participants.

Field tests

With the help of national standard-setters and others, the IASB completed a field test programme that involved 116 small entities from 20 countries. About 35 per cent had ten or fewer full-time employees. About 35 per cent of the entities in the sample had between 11 and 50 full-time employees. Over half of the entities had bank loans or significant overdrafts. A third had foreign operations.

The goals of the field testing were:

(a) to assess understandability of the exposure draft by identifying any parts that field testers found hard to understand.
(b) to assess appropriateness of the scope of topics covered by identifying transactions, events or conditions that the field tester encountered but that were not covered in the draft IFRS for SMEs, and to find out how the field tester made its accounting policy decision, including whether it looked to full IFRSs as a reference.

(c) to assess the burden of applying the draft IFRS for SMEs, for instance, whether information required to apply it was not available or available only with undue cost or effort.

(d) to assess the impact of the proposals by identifying the nature and degree of changes from the field tester’s current GAAP or current reporting practices.

(e) to assess accounting policy choices made by the field testers, and why, where the exposure draft would allow choices.

(f) to assess any special problems in applying the draft IFRS for SMEs that arose for field testers that are so-called ‘micro entities’ (those with fewer than ten employees) and for field testers in developing economies.

(g) to assess the adequacy of implementation guidance by identifying where additional guidance would be helpful to the field tester.

BC22 To help the field testers and others in applying the exposure draft, the IASB published a compliance checklist for the exposure draft that was developed by one of the international accounting firms.

BC23 The field test questionnaire was posted on the IASB’s website in June 2007 in English, French and Spanish. Field test entities were asked:

(a) to provide background information about their business and reporting requirements.

(b) to submit their most recent annual financial statements under their existing accounting framework.

(c) to restate those financial statements in accordance with the exposure draft for the same financial year (without prior year information).

(d) to respond to a series of questions designed to identify specific problems encountered in applying the exposure draft.

BC24 A report of the field tests was provided to Board members and posted on the IASB’s website. The main factor influencing the type of problems identified by field testers was the nature and extent of differences between the IFRS for SMEs and an entity’s existing accounting framework.

BC25 About half of the field test entities identified no, or only one or two, issues or problems. The three main issues identified by field testers were the following:

(a) **Annual remeasurements.** Many field testers highlighted the need to perform annual remeasurements of fair values for financial assets and liabilities and residual values for property, plant and equipment as problematic because market prices or active markets were often not available.
Disclosures. A significant number of field test entities noted problems due to the nature, volume and complexity of disclosures. Many felt that some of the disclosures required them to provide sensitive information, for example key management personnel compensation when there are only one or two key management personnel.

Reference to full IFRSs. Around 20 per cent of the field testers chose to refer back to full IFRSs to apply an option available by cross-reference. Most of those entities already followed full IFRSs or a national GAAP similar to full IFRSs. A few field testers said that they would have wanted to use one of the options but did not do so because of the need to refer back to full IFRSs. Only a small number of entities specifically noted that they needed to refer back to full IFRSs to understand or clarify requirements in the exposure draft.

Responses to the exposure draft

The Board received 162 letters of comment on the exposure draft. All letters were made available to Board members and posted on the IASB’s website. Paragraphs BC36–BC158 discuss the Board’s reasoning on the chief technical issues in the project. Here is a brief summary of the main issues raised in the letters of comment on the exposure draft:

(a) **Stand-alone.** The single most pervasive comment was to make the IFRS for SMEs a fully stand-alone document, or nearly so. Over 60 per cent of the respondents would eliminate all cross-references to full IFRSs. Virtually all of the remaining respondents either (i) would keep the number of cross-references to an absolute minimum or (ii) were indifferent between having minimal cross-references and removing all of them. The exposure draft had included 23 cross-references to full IFRSs.

(b) **Accounting policy options.** Whether the IFRS for SMEs should allow SMEs to use all of the accounting policy options that are available in full IFRSs was discussed by many commentators. This issue is interrelated with making the IFRS for SMEs a stand-alone document without cross-references to full IFRSs.

(c) **Anticipating changes to IFRSs.** Many respondents were of the view that the IFRS for SMEs should be based on existing IFRSs and should not anticipate changes to IFRSs that the Board is considering in current agenda projects.

(d) **Disclosures.** Many comment letters encouraged the Board to make further simplifications to disclosure requirements, but many of those letters did not identify specific disclosures to be eliminated or why.

(e) **Scope.** Many comment letters discussed the suitability of the exposure draft for micro-sized entities (those with fewer than ten or so employees), small listed entities, and entities that act in a fiduciary capacity.

(f) **Fair value measurements.** Many respondents proposed that fair value measurements in the IFRS for SMEs should be restricted to (a) circumstances in which a market price is quoted or readily determinable without undue cost or effort and (b) all derivatives. Some
respondents also thought it was necessary that the measured item should be readily realisable or that there should be an intention to dispose or transfer.

(g) Implementation guidance. Many respondents cited the need for implementation guidance and encouraged the Board to consider how such guidance could be provided.

(h) Comments on specific sections of the exposure draft. In addition to general issues, most comment letters raised issues related to specific sections in the exposure draft. While respondents offered suggestions for each of the 38 sections of the exposure draft, staff noted that the topics that attracted the most comments (generally in favour of further simplifications) included:

(i) consolidation.

(ii) amortisation of goodwill and other indefinite life intangibles.

(iii) financial instruments.

(iv) requirements for statements of cash flows and changes in equity.

(v) measurements for impairments.

(vi) measurements for finance leases.

(vii) share-based payment.

(viii) employee benefits.

(ix) income taxes.

Board redeliberations of the proposals in the exposure draft

BC27 The Board began its redeliberations of the proposals in the exposure draft in March 2008. Those redeliberations continued until April 2009—a total of 13 public Board meetings—bringing to 44 the total number of public meetings at which the Board deliberated the IFRS for SMEs.

BC28 At the Board’s meeting in March 2008, staff presented an overview of the main issues (other than disclosure issues) raised in the comment letters on the exposure draft (see paragraph BC26). At the Board’s next meeting in April 2008, staff presented an overview of the main issues that were identified as a result of the programme for field testing the exposure draft (see paragraph BC25). Both of those meetings were educational in nature, and the staff did not raise any issues for decision.

BC29 The IASB’s working group met on 10 and 11 April 2008. The recommendations of working group members on each issue (other than disclosure) that was discussed at that meeting were presented to the Board at the Board’s meeting in May 2008. Recommendations of working group members relating to disclosure were presented to the Board in an agenda paper at the Board’s meeting in July 2008. The reports of the working group’s recommendations were posted on the IASB’s website.
In May 2008, the Board began to redeliberate the proposals in the exposure draft by addressing issues relating to scope, recognition, measurement and presentation that were raised in the letters of comment on the exposure draft, in the reports prepared by field test entities and in the recommendations of the working group. Those redeliberations continued until February 2009. A list of the main changes made as a result of those redeliberations is presented in paragraph BC34.

In March 2009 the Board considered the changes made during its redeliberations of the exposure draft in the light of the guidelines for re-exposure in the Due Process Handbook for the IASB. The Board concluded that the changes made did not warrant re-exposure.

**Additional input to the Board**

The project was discussed with the Standards Advisory Council at seven of its meetings. The issues in the project were also discussed at five of the annual meetings of the World Accounting Standard-Setters hosted by the IASB from 2003 to 2008. The working group met four times to discuss the issues and provide advice to the Board. A joint working party of the European Financial Reporting Advisory Group (EFRAG) and the European Federation of Accountants (FEE) was particularly helpful in providing guidance to the staff.

**Special outreach**

The Board recognised that, typically, SMEs and their auditors and bankers have not participated in the IASB’s due process. With the objectives of encouraging such parties to become familiar with the IASB and to consider and respond to the exposure draft, the staff undertook a comprehensive outreach programme on this project. That programme entailed presentations at 104 conferences and round tables in 40 countries, including 55 presentations after the exposure draft was published. The IASB also explained the exposure draft and responded to questions in two public webcasts for which nearly 1,000 participants registered. In April 2007 a staff overview of the exposure draft, in question-and-answer format, was posted on the IASB’s website. The purpose of the overview was to provide an introduction to the proposals in non-technical language.

**Final IFRS for SMEs: main changes from the exposure draft**

The main changes from the recognition, measurement and presentation principles proposed in the exposure draft that resulted from the Board’s redeliberations were:

(a) making the final IFRS a stand-alone document (eliminating all but one of the 23 cross-references to full IFRSs that had been proposed in the exposure draft, with the one remaining cross-reference providing an option, but not a requirement, to follow IAS 39 Financial Instruments: Recognition and Measurement instead of the two financial instruments sections of the IFRS for SMEs).
(b) eliminating most of the complex options and adding guidance on the remaining ones (thereby removing the cross-references to full IFRSs proposed in the exposure draft).

(c) omitting topics that typical SMEs are not likely to encounter (thereby removing the cross-references to full IFRSs proposed in the exposure draft).

(d) not anticipating possible future changes to IFRSs.

(e) eliminating reference to the pronouncements of other standard-setting bodies as a source of guidance when the IFRS for SMEs does not address an accounting issue directly.

(f) conforming to the presentation requirements of IAS 1 *Presentation of Financial Statements*, except for its requirement to present a statement of financial position at the beginning of the earliest comparative period.

(g) allowing different accounting policies to be used to account for different types of investments in separate financial statements, rather than one policy for all types of investment.

(h) restructuring of Section 11 *Financial Assets and Financial Liabilities* of the exposure draft into two sections (Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*) and clarifying that amortised cost is applied to nearly all the basic financial instruments held or issued by SMEs.

(i) amending the requirements for assessing impairment of an equity instrument carried at cost when fair value cannot be measured reliably.

(j) eliminating proportionate consolidation as an option for investments in jointly controlled entities.

(k) removing the distinction between distributions from pre-acquisition and post-acquisition profits for investments accounted for by the cost method and, instead, recognising all dividends received in profit or loss.

(l) eliminating the requirement, when applying the equity method, of a maximum three-month difference between the reporting date of the associate or jointly controlled entity and that of the investor.

(m) requiring an entity to choose its accounting policy for investment property on the basis of circumstances, rather than as a free choice option. Investment property whose fair value can be measured reliably without undue cost or effort will be measured at fair value through profit or loss. All other investment property will be accounted for as property, plant and equipment using a cost-depreciation-impairment model.

(n) not requiring an annual review of residual value, useful life and depreciation method of property, plant and equipment and intangible assets.

(o) not permitting a revaluation option for property, plant and equipment.

(p) not permitting a revaluation option for intangibles.
amortising all indefinite life intangibles, including goodwill.

recognising as expenses all research and development costs.

incorporating ‘present value of minimum lease payments’ into the measurement of a finance lease.

allowing other than the straight-line method by lessees for operating leases when the minimum lease payments are structured to compensate the lessor for expected general inflation.

incorporating into the IFRS for SMEs the February 2008 ‘puttables’ amendments to IAS 32 Financial Instruments: Presentation and IAS 1.

requiring all government grants to be accounted for using a single, simplified model: recognition in income when the performance conditions are met (or earlier if there are no performance conditions) and measurement at the fair value of the asset received or receivable.

recognising as expenses all borrowing costs.

adding further simplifications for share-based payments, including directors’ valuations, rather than the intrinsic value method.

allowing subsidiaries to measure employee benefit and share-based payment expense on the basis of a reasonable allocation of the group charge.

adding value-in-use measurement for asset impairments.

introducing the notion of cash-generating unit for testing asset impairments.

simplifying the guidance for calculating impairment of goodwill.

simplifying the measurement of a defined benefit pension obligation if a ‘projected unit credit’ measurement is not available and would require undue cost or effort.

permitting recognition of actuarial gains and losses in other comprehensive income as an alternative to recognition in profit or loss (while retaining the proposal in the exposure draft to prohibit deferral of actuarial gains and losses).

on disposal of a foreign operation, not ‘recycling’ through profit or loss any cumulative exchange differences that were recognised previously in other comprehensive income.

eliminating the held-for-sale classification and related special measurement requirements.

incorporating all the IFRS 1 First-time Adoption of International Financial Reporting Standards exemptions into Section 35 Transition to the IFRS for SMEs.

incorporating the conclusions of the following Interpretations, which address transactions and circumstances that SMEs often encounter:

IFRIC 2 Members’ Shares in Co-operative Entities and Similar Instruments.
This Basis for Conclusions

BC35 This Basis for Conclusions sets out the main issues addressed by the Board, the alternatives considered, and the Board’s reasons for accepting some alternatives and rejecting others.

Why global financial reporting standards for SMEs?

BC36 Global financial reporting standards, applied consistently, enhance the comparability of financial information. Accounting differences can obscure the comparisons that investors, lenders and others make. By resulting in the presentation of high quality comparable financial information, high quality global financial reporting standards improve the efficiency of allocation and the pricing of capital. This benefits not only those who provide debt or equity capital but also those entities that seek capital because it reduces their compliance costs and removes uncertainties that affect their cost of capital. Global standards also improve consistency in audit quality and facilitate education and training.

BC37 The benefits of global financial reporting standards are not limited to entities whose securities are traded in public capital markets. In the Board’s judgement, SMEs—and those who use their financial statements—can benefit from a common set of accounting standards. SMEs’ financial statements that are comparable from one country to the next are needed for the following reasons:

(a) Financial institutions make loans across borders and operate multinationally. In most jurisdictions, over half of all SMEs, including the very small ones, have bank loans. Bankers rely on financial statements in making lending decisions and in establishing terms and interest rates.

(b) Vendors want to evaluate the financial health of buyers in other countries before they sell goods or services on credit.

(c) Credit rating agencies try to develop ratings uniformly across borders. Similarly, banks and other institutions that operate across borders often develop ratings in a manner similar to credit rating agencies. Reported financial information is crucial to the rating process.

(d) Many SMEs have overseas suppliers and use a supplier’s financial statements to assess the prospects of a viable long-term business relationship.
Venture capital firms provide funding to SMEs across borders.

Many SMEs have outside investors who are not involved in the day-to-day management of the entity. Global accounting standards for general purpose financial statements and the resulting comparability are especially important when those outside investors are located in a different jurisdiction from the entity and when they have interests in other SMEs.

Should the IASB develop standards for SMEs?

In deciding to develop an IFRS for SMEs, the IASB was mindful of the following issues:

(a) Should financial reporting standards for SMEs be developed by others?

(b) Do national standard-setters support the IASB developing an IFRS for SMEs?

(c) Is developing an IFRS for SMEs consistent with the Board’s mission?

(d) Existing IFRSs make some distinctions for SMEs.

Should others do it?

The Board considered whether financial reporting standards for SMEs would best be developed by others—either globally, country by country, or perhaps at a regional level—while the IASB focused its efforts primarily on standards for entities that participate in public capital markets. However, the Board noted that its mission, as set out in the IASC Foundation’s Constitution (see paragraph BC42), is not restricted to standards for entities that participate in public capital markets. Focusing only on those entities is likely to result in standards or practices for other entities (which are over 99 per cent of all entities in virtually all jurisdictions) that may not address the needs of external users of financial statements, are not consistent with the IASB’s Framework for the Preparation and Presentation of Financial Statements or standards, may lack comparability across national boundaries or within a country, and may not allow for an easy transition to full IFRSs for entities that wish to enter the public capital markets. For those reasons, the Board decided to undertake the project.

Do national standard-setters support an IASB initiative?

National accounting standard-setters throughout the world support the IASB’s initiative. In September 2003 the IASB hosted a meeting of the world’s national accounting standard-setters. In preparation for that meeting the Board surveyed them about standards for SMEs. With near unanimity, the standard-setters that responded said that the IASB should develop global standards for SMEs.

The Board discussed the progress on its project on standards for SMEs at subsequent annual meetings of the world’s national accounting standard-setters in 2005–2008. Standard-setters continued to support the Board’s project.

An IFRS for SMEs is consistent with the IASB’s mission

Developing a set of standards for SMEs is consistent with the IASB’s mission. The principal objective of the IASB, as set out in the Constitution and in the Preface to...
International Financial Reporting Standards, is ‘to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions’. ‘Single set’ means that all entities in similar circumstances globally should follow the same standards. The circumstances of SMEs can be different from those of larger, publicly accountable entities in several ways, including:

(a) the users of the entity’s financial statements and their information needs;
(b) how the financial statements are used by those users;
(c) the depth and breadth of accounting expertise available to the entity; and
(d) SMEs’ ability to bear the costs of following the same standards as the larger, publicly accountable entities.

Existing IFRSs include some differences for non-public entities

BC43 IFRSs include several differences for entities whose securities are not publicly traded. For example:

(a) IFRS 8 Operating Segments requires disclosure of segment information only by entities whose debt or equity instruments are traded or registered for trading in a public market.

(b) IAS 27 Consolidated and Separate Financial Statements exempts some parent entities from preparing consolidated financial statements if (i) the parent itself is a subsidiary of an IFRS parent and (ii) its debt or equity instruments are not traded in a public market. Similar exemptions are in IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

(c) IAS 33 Earnings per Share requires presentation of earnings per share data only by entities whose ordinary shares or potential ordinary shares are publicly traded.

Different users’ needs and cost-benefit considerations

BC44 The Framework (paragraph 12) states:

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

In establishing standards for the form and content of general purpose financial statements, the needs of users of financial statements are paramount.

BC45 Users of financial statements of SMEs may have less interest in some information in general purpose financial statements prepared in accordance with full IFRSs than users of financial statements of entities whose securities are registered for trading in public securities markets or that otherwise have public accountability. For example, users of financial statements of SMEs may have
greater interest in short-term cash flows, liquidity, balance sheet strength and interest coverage, and in the historical trends of profit or loss and interest coverage, than they do in information that is intended to assist in making forecasts of an entity’s long-term cash flows, profit or loss, and value. However, users of financial statements of SMEs may need some information that is not ordinarily presented in the financial statements of listed entities. For example, as an alternative to the public capital markets, SMEs often obtain capital from shareholders, directors and suppliers, and shareholders and directors often pledge personal assets so that the SMEs can obtain bank financing.

BC46 In the Board’s judgement, the nature and degree of the differences between full IFRSs and an IFRS for SMEs must be determined on the basis of users’ needs and cost-benefit analyses. In practice, the benefits of applying accounting standards differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements. The related costs may not differ significantly. Therefore, consistently with the Framework, the Board concluded that the cost-benefit trade-off should be assessed in relation to the information needs of the users of an entity’s financial statements.

BC47 The Board faced a dilemma in deciding whether to develop an IFRS for SMEs. On the one hand, it believed that the same concepts of financial reporting are appropriate for all entities regardless of public accountability—particularly the concepts for recognising and measuring assets, liabilities, income and expenses. This suggested that a single set of accounting standards should be suitable for all entities, although it would not rule out disclosure differences based on users’ needs and cost-benefit considerations. On the other hand, the Board acknowledged that differences in the types and needs of users of SMEs’ financial statements, as well as limitations in, and the cost of, the accounting expertise available to SMEs, suggested that a separate standard for SMEs is appropriate. That separate standard could include constraints such as consistent definitions of elements of financial statements and focus on the needs of users of financial statements of SMEs. On balance, the Board concluded that the latter approach (separate standard) was appropriate.

Adoption of an IFRS for SMEs does not imply that full IFRSs are not appropriate for SMEs

BC48 The Board believes that the objective of financial statements as set out in the Framework is appropriate for SMEs as well as for entities required to apply full IFRSs. The objective of providing information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions is applicable without regard to the size of the reporting entity. Therefore, standards for general purpose financial statements of entities with public accountability would result in financial statements that meet the needs of users of financial statements of all entities, including those without public accountability. The Board is aware of research that shows that over 80 jurisdictions currently require or permit SMEs to use full IFRSs.
The objective of the *IFRS for SMEs*

**Why determination of taxable income and determination of distributable income are not specific objectives of the *IFRS for SMEs***

BC49 IFRSs are designed to apply to the 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. General purpose financial statements are intended to meet the needs of users that are not in a position to demand reports tailored to their particular information needs. General purpose financial statements provide information about an entity’s financial position, performance and cash flows.

BC50 Determining taxable income requires special purpose financial statements—ones designed to comply with the tax laws and regulations in a particular jurisdiction. Similarly, an entity’s distributable income is defined by the laws and regulations of the country or other jurisdiction in which it is domiciled.

BC51 Tax authorities are also often important external users of the financial statements of SMEs. Almost invariably, tax authorities have the power to demand whatever information they need to meet their statutory tax assessment and collection obligations. Tax authorities often look to financial statements as the starting point for determining taxable profit, and some have policies to minimise the adjustments to accounting profit or loss for the purpose of determining taxable profit. Nonetheless, global accounting standards for SMEs cannot deal with tax reporting in individual jurisdictions. But profit or loss determined in conformity with the *IFRS for SMEs* can serve as the starting point for determining taxable profit in a given jurisdiction by means of a reconciliation that is easily developed at a national level.

BC52 A similar reconciliation can be developed to adjust profit or loss as measured by the *IFRS for SMEs* to distributable income under national laws or regulations.

**Why it is not the purpose of the *IFRS for SMEs* to provide information to owner-managers to help them make management decisions***

BC53 Owner-managers use SMEs’ financial statements for many purposes. However, it is not the purpose of the *IFRS for SMEs* to provide information to owner-managers to help them make management decisions. Managers can obtain whatever information they need to run their business. (The same is true for full IFRSs.) Nonetheless, general purpose financial statements will often also serve managers’ needs by providing insights into the business’s financial position, performance and cash flows.

BC54 SMEs often produce financial statements only for the use of owner-managers, or for tax reporting or other non-securities regulatory filing purposes. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.
‘Public accountability’ as the principle for identifying the entities for which the IFRS for SMEs is intended and those for which it is not intended

BC55 One of the first issues confronting the Board was to describe the class of entities for which the IFRS for SMEs would be intended. The Board recognised that, ultimately, decisions on which entities should use the IFRS for SMEs will rest with national regulatory authorities and standard-setters. However, a clear definition of the class of entity for which the IFRS for SMEs is intended is essential so that:

(a) the Board can decide on the standard that is appropriate for that class of entity, and

(b) national regulatory authorities, standard-setters, reporting entities and their auditors will be informed of the intended scope of applicability of the IFRS for SMEs.

In that way, jurisdictions will understand that there are some types of entities for which the IFRS for SMEs is not intended.

BC56 In the Board’s judgement, the IFRS for SMEs is appropriate for an entity that does not have public accountability. An entity has public accountability (and therefore should use full IFRSs) 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.

BC57 While the two criteria for entities with public accountability stated in the preceding paragraph did not change significantly from those proposed in the exposure draft, the Board did make several small changes in response to comments received:

(a) The exposure draft referred to, but did not define, public markets. The IFRS for SMEs includes a definition consistent with the definition in IFRS 8.

(b) The exposure draft had proposed that any entity that holds assets in a fiduciary capacity for a broad group of outsiders should not be eligible to use the IFRS for SMEs. Respondents noted that entities often hold assets in a fiduciary capacity for reasons incidental to their primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises and utility companies). The IFRS for SMEs clarifies that those circumstances do not result in an entity having public accountability.
Entities whose securities are traded in a public market have public accountability

Public securities markets, by their nature, bring together entities that seek capital and investors who are not involved in managing the entity and who are considering whether to provide capital, and at what price. Although those public investors often provide longer-term risk capital, they do not have the power to demand the financial information they might find useful for investment decision-making. They must rely on general purpose financial statements. An entity’s decision to enter a public capital market makes it publicly accountable—and it must provide the outside debt and equity investors with a broader range of financial information than may be needed by users of financial statements of entities that obtain capital only from private sources. Governments recognise this public accountability by establishing laws, regulations and regulatory agencies that deal with market regulation and disclosures to investors in public securities markets. The Board concluded that, regardless of size, entities whose securities are traded in a public market should follow full IFRSs.

Financial institutions have public accountability

Similarly, a primary business of banks, insurance companies, securities brokers/dealers, pension funds, mutual funds and investment banks is to hold and manage financial resources entrusted to them by a broad group of clients, customers or members who are not involved in the management of the entities. Because such an entity acts in a public fiduciary capacity, it is publicly accountable. In most cases, these institutions are regulated by laws and government agencies.

SMEs that provide an essential public service

In the discussion paper, the Board’s tentative view was that, in addition to the two conditions cited in paragraph BC56, an entity also has public accountability if it is a public utility or similar entity that provides an essential public service. Respondents argued that the nature of the users of the financial statements, rather than the nature of the business activity, should determine whether full IFRSs should be required. The Board concurred.

SMEs that are economically significant in their home jurisdiction

In the discussion paper, the Board’s tentative view was that, in addition to the two conditions cited in paragraph BC36, an entity also has public accountability if it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance and nature and extent of external borrowings.
Most respondents, and the working group, argued that economic significance does not automatically result in public accountability. Public accountability, as that term is used in paragraphs 1.2 and 1.3, refers to accountability to those present and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. The Board concluded that economic significance may be more relevant to matters of political and societal accountability. Whether such accountability requires general purpose financial statements using full IFRSs is a matter best left to local jurisdictions to decide.

**Approval by owners to use the IFRS for SMEs**

In the discussion paper, the Board’s tentative view was that 100 per cent of the owners of a small or medium-sized entity must agree before the entity could use the IFRS for SMEs. The objection of even one owner of an entity to the use of the IFRS for SMEs would be sufficient evidence of the need for that entity to prepare its financial statements on the basis of full IFRSs. Most respondents did not agree. In their view, an objection, or even a non-response, by one or a few shareholders does not make an entity publicly accountable. They thought that the two criteria of (a) publicly traded and (b) financial institution appropriately identify entities with public accountability. The Board found those arguments persuasive.

**SMEs that are a subsidiary, associate or joint venture of an IFRS investor**

In the discussion paper, the Board’s tentative view was that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of the parent, venturer or investor, it should be required to comply with full IFRSs, not the IFRS for SMEs, in its separate financial statements. In the Board’s view, because the information in accordance with full IFRSs had been produced for other purposes, it would be more costly to prepare a second set of financial statements that comply with the IFRS for SMEs. Most respondents to the discussion paper did not agree. Many said that the IFRS data produced for consolidation or equity accounting purposes have a different materiality threshold from that necessary for the investee’s own financial statements. Moreover, they said that the circumstances of the entity, rather than the circumstances of its parent or investor, should determine whether it has public accountability. Consequently, they argued, it would be costly and burdensome for the investee to have to apply full IFRSs in its own financial statements. The Board found those arguments persuasive. Therefore, SMEs should assess their eligibility to use the IFRS for SMEs on the basis of their own circumstances, even if they also submit financial information in accordance with full IFRSs to a parent, venturer or investor.

Some respondents to the exposure draft proposed that a subsidiary whose parent uses full IFRSs, or is part of a consolidated group that uses full IFRSs, should be permitted to make the simplified disclosures required by the IFRS for SMEs but should be required to follow the accounting recognition and measurement principles in full IFRSs that are used by its parent if they are...
different from the accounting recognition and measurement principles in the 
*IFRS for SMEs*. Those holding this view thought that allowing the subsidiary to 
use the same recognition and measurement principles as its parent or its group 
would make consolidation easier.

BC67 The Board concluded, however, that the result would be, in effect, optional 
 fallbacks to full IFRSs for a relatively small subset of entities eligible to use the 
*IFRS for SMEs*. The result would also be a hybrid set of accounting standards that 
is neither full IFRSs nor the *IFRS for SMEs*. That set of standards would differ for 
each such small or medium-sized entity depending on the accounting policies 
chosen by its parent or its group. The *IFRS for SMEs* is a standard appropriate for 
non-publicly accountable entities, not a ‘pick and choose’ set of options. A 
subsidiary of a full IFRS entity can always choose to follow full IFRSs in its 
separate statements. The Board concluded that if an entity’s financial 
statements are described as conforming to the *IFRS for SMEs*, it must comply with 
all of the provisions of that IFRS.

BC68 Because the *IFRS for SMEs* allows accounting policy choices for some recognition 
and measurement principles, differences from full IFRSs can be minimised by an 
extrinsic’s accounting policy choices. The circumstances in which the *IFRS for SMEs* 
would mandate a recognition or measurement principle that is different from 
measurement under full IFRSs are limited. The following are the principal 
examples:

(a) Non-current assets (or groups of assets and liabilities) held for sale
   - *IFRS for SMEs*: Holding assets for sale triggers an assessment for 
     impairment, but otherwise no special ‘held-for-sale’ classification 
     or special accounting requirements.
   - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: 
     Measured at lower of carrying amount and fair value less costs to 
     sell. Depreciation stops when classified as held for sale.

(b) Unvested past service cost of defined benefit pension plans
   - *IFRS for SMEs*: Recognised in profit or loss immediately.
   - IAS 19 *Employee Benefits*: Recognised as an expense on a 
     straight-line basis over the average period until the benefits 
     become vested.

(c) Exchange differences on a monetary item that forms part of the net 
    investment in a foreign operation, in consolidated financial statements
   - *IFRS for SMEs*: Recognise in other comprehensive income and do 
     not reclassify in profit or loss on disposal of the investment.
   - IAS 21 *The Effects of Changes in Foreign Exchange Rates*: Reclassify in 
     profit or loss on disposal of the investment.

(d) Borrowing costs
   - *IFRS for SMEs*: Must be charged to expense.
IAS 23 Borrowing Costs: Costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised.

(e) Investment in an associate for which there is a published price quotation
- IFRS for SMEs: Must be measured at fair value through profit or loss.
- IAS 28 Investments in Associates: Must be measured using the equity method.

(f) Investment in a jointly controlled entity for which there is a published price quotation
- IFRS for SMEs: Must be measured at fair value through profit or loss.
- IAS 31 Interests in Joint Ventures: Must be measured using the equity method or proportionate consolidation.

(g) Investment property whose fair value can be measured reliably without undue cost or effort
- IFRS for SMEs: Must be measured at fair value through profit or loss.
- IAS 40 Investment Property: Accounting policy choice of fair value through profit or loss or cost-depreciation-impairment model.

(h) Biological assets
- IFRS for SMEs: Measure at fair value through profit or loss only if fair value is readily determinable without undue cost or effort.
- IAS 41 Agriculture: Presumption that fair value can be reliably measured.

(i) Income tax
- IFRS for SMEs: Where a different tax rate applies to distributed income, initially measure current and deferred taxes at the rate applicable to undistributed profits.
- Exposure draft Income Tax: In such a case, initially measure current and deferred taxes at the tax rate expected to apply when the profits are distributed.

(j) Share-based payments with cash alternatives in which the terms of the arrangement provide the counterparty with a choice of settlement
- IFRS for SMEs: Account for the transaction as a cash-settled share-based payment transaction unless either the entity has a past practice of settling by issuing equity instruments or the option to settle in cash has no commercial substance.
- IFRS 2 Share-based Payment: Accounting akin to a compound instrument.
Quantified size criteria

BC69 The definition of SMEs does not include quantified size criteria for determining what is a small or medium-sized entity. The Board noted that its standards are used in over 100 countries. The Board concluded that it is not feasible to develop quantified size tests that would be applicable and long-lasting in all of those countries. This is consistent with the Board’s general principle-based approach to standard-setting.

BC70 In deciding which entities should be required or permitted to use the IFRS for SMEs, jurisdictions may choose to prescribe quantified size criteria. Similarly, a jurisdiction may decide that entities that are economically significant in that country should be required to use full IFRSs rather than the IFRS for SMEs.

Suitability of the IFRS for SMEs for very small entities—the ‘micros’

BC71 Some contend that it is unrealistic to design a single standard that could be used by all entities that do not have public accountability, because the size range of this group of entities is simply too broad—from very large unlisted entities with hundreds or even several thousand employees down to ‘micro-sized’ entities with fewer than ten employees. The Board did not agree. The IFRS for SMEs is designed for entities, regardless of size, that are required, or elect, to publish general purpose financial statements for external users. External users such as lenders, vendors, customers, rating agencies and employees need specific types of information but are not in a position to demand reports tailored to meet their particular information needs. They must rely on general purpose financial statements. This is as true for ‘micros’ as it is for larger SMEs. Financial statements prepared using the IFRS for SMEs are intended to meet those needs.

BC72 Some who question whether the IFRS for SMEs will be suitable for micros argue that many micro entities prepare financial statements solely to submit to income tax authorities for the purpose of determining taxable income. As explained more fully in paragraphs BC50–BC52, determining taxable income (and also determining legally distributable income) requires special purpose financial statements—ones designed to comply with tax and other laws and regulations in a particular jurisdiction.

BC73 Moreover, the Board noted that, in many countries, full IFRSs are required for all or most limited liability companies, including the micros. The Board also noted that many other countries permit the micros to use full IFRSs. As mentioned in paragraph BC48, over 80 jurisdictions have decided that full IFRSs should be required or permitted for all or most entities, including micros. If full IFRSs have been judged suitable for all entities, then the IFRS for SMEs will surely not be burdensome. The guidance in the IFRS for SMEs is clear and concise. That guidance may cover some transactions or circumstances that micro SMEs do not typically encounter, but the Board did not believe that this imposes a burden on micro SMEs. The topical organisation of the IFRS for SMEs will make it easy for micro SMEs to identify those aspects of the standard that are relevant to their circumstances.
Some favour a very simple and brief set of accounting requirements for micro SMEs—with broad principles of accrual basis accounting (some even suggest a cash basis or modified cash basis), specific recognition and measurement principles for only the most basic transactions, and requiring perhaps only a balance sheet and an income statement with limited note disclosures. The Board acknowledged that this approach might result in relatively low costs to SMEs in preparing financial statements. However, the Board concluded that the resulting statements would not meet the objective of decision-usefulness because they would omit information about the entity’s financial position, performance and changes in financial position that is useful to a wide range of users in making economic decisions. Moreover, the Board believed that financial statements prepared using such a simple and brief set of accounting requirements might not serve SMEs by improving their ability to obtain capital. Therefore, the Board concluded that it should not develop this type of IFRS for SMEs.

The IASB does not have the power to require any entity to use its standards. That is the responsibility of legislators and regulators. In some countries, the government has delegated that power to a separately established independent standard-setter or to the professional accountancy body. They will have to decide which entities should be required or permitted to use, or perhaps prohibited from using, the IFRS for SMEs. The Board believes that the IFRS for SMEs will be suitable for all entities that do not have public accountability, including micros.

The IFRS for SMEs is not intended for small publicly traded entities

Entities, large or small, whose debt or equity instruments are traded in public capital markets have chosen to seek capital from outside investors who are not involved in managing the business and who do not have the power to demand information that they might find useful. Full IFRSs have been designed to serve public capital markets by providing financial information especially intended for investors and creditors in such markets. Some of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expense have been simplified in the IFRS for SMEs. Some of the disclosures required by full IFRSs are not required by the IFRS for SMEs. The Board concluded, therefore, that full IFRSs are appropriate for an entity with public accountability.

A jurisdiction that believes that the IFRS for SMEs is appropriate for small publicly traded entities in that jurisdiction could incorporate the requirements of the IFRS for SMEs into its national standards for small publicly traded entities. In that case, however, the financial statements would be described as conforming to national GAAP. The IFRS for SMEs prohibits them from being described as conforming to the IFRS for SMEs.

‘Small and medium-sized entities’

‘Small and medium-sized entities’ (SMEs) as used by the IASB is defined in Section 1 Scope of the IFRS for SMEs. The term is widely recognised and used around the world, although many jurisdictions have developed their own
definitions of the term for a broad range of purposes including prescribing financial reporting obligations. Often those national or regional definitions include quantitative criteria based on revenue, assets, employees or other factors. Frequently, the term is used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.

The IASB considered whether to use another term. Even before publishing the exposure draft in February 2007, the Board had used the term ‘non-publicly accountable entity’ (NPAE) for several months during 2005. During its redeliberations of the proposals in the exposure draft during 2008, the Board also used both NPAE and ‘private entities’ for several months.

(a) **Non-publicly accountable entities**. Because the Board concluded that full IFRSs are necessary for entities with public accountability, the terms ‘publicly accountable entity’ and ‘non-publicly accountable entity’ had some appeal. However, constituents argued that this term is not widely recognised, whereas ‘small and medium-sized entities’ and the acronym ‘SMEs’ are universally recognised. Also, some said that ‘non-publicly accountable entities’ seemed to imply, incorrectly, that the smaller entities were not publicly accountable for anything. Furthermore, the objectives of the IASC Foundation and the IASB as set out in the Foundation’s Constitution use the term ‘small and medium-sized entities’:

The objectives of the IASC Foundation are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

(b) **Private entities**. The term ‘private entities’ is commonly used in some jurisdictions—most particularly in North America—to refer to the kinds of entities that meet the IASB’s definition of SMEs (entities without public accountability). In other jurisdictions, however—most particularly those in which government ownership of equity interests in business entities is common—the term ‘private entities’ is used much more restrictively to refer only to those entities in which there is no government ownership. In such jurisdictions, the term ‘private entities’ would be likely to be misunderstood.
For these reasons, the Board decided to use ‘small and medium-sized entities’.

The users of SMEs’ financial statements prepared using the *IFRS for SMEs*

BC80 The *IFRS for SMEs* is intended for non-publicly accountable entities that publish general purpose financial statements for external users. The main groups of external users include:

(a) banks that make loans to SMEs.  
(b) vendors that sell to SMEs and use SMEs’ financial statements to make credit and pricing decisions.  
(c) credit rating agencies and others that use SMEs’ financial statements to rate SMEs.  
(d) customers of SMEs that use SMEs’ financial statements to decide whether to do business.  
(e) SMEs’ shareholders that are not also managers of their SMEs.

The extent to which the *IFRS for SMEs* should be a stand-alone document

BC81 In developing the exposure draft of the proposed *IFRS for SMEs*, the Board intended it to be a stand-alone document for many typical small entities. However, it was not proposed to be fully stand-alone. The exposure draft proposed that there should be two types of occasions when the *IFRS for SMEs* would require entities to look to full IFRSs:

(a) The exposure draft proposed that when IFRSs provide an accounting policy option, SMEs should have the same option. The simpler option would be included in the *IFRS for SMEs* while the other option or options would be permitted by cross-reference to IFRSs.  
(b) The exposure draft proposed that the *IFRS for SMEs* should omit some accounting topics that are addressed in full IFRSs, because the Board believed that typical SMEs are not likely to encounter such transactions or circumstances. However, the exposure draft proposed cross-references requiring SMEs that encounter such a transaction or circumstances to look to a particular IFRS or to a part of one.

BC82 Over 60 per cent of the comment letters that addressed the ‘stand-alone’ issue would eliminate all cross-references to full IFRSs. Another 35 per cent either (a) would keep the number of cross-references to an absolute minimum or (b) were indifferent between having minimal cross-references and removing all cross-references. Also, the working group members recommended that the *IFRS for SMEs* should be a completely stand-alone document. The principal reasons put forward by those recommending a stand-alone IFRS were:

(a) A stand-alone document would be more understandable and easier to use. It would also be perceived as a more user-friendly document and hence improve acceptance by jurisdictions considering adoption and by
entities within the scope. Cross-references require SMEs to be familiar with both the IFRS for SMEs and full IFRSs—a requirement some viewed as even more burdensome than for an entity following full IFRSs.

(b) The exposure draft had proposed that if an entity is required or permitted to follow an IFRS by cross-reference, the entity must apply that IFRS (or part of that IFRS) in full. The twin criteria of user needs and cost-benefits on which the Board based its decisions in the IFRS for SMEs were not applied to the cross-referenced material. However, if such cross-referenced topics were incorporated within the IFRS for SMEs, it would be possible to make appropriate simplifications of recognition and measurement principles and/or reduce disclosures based on the user needs and cost-benefit criteria adopted by the Board.

(c) Cross-references cause ‘version control’ issues. For example, if a cross-referenced IAS or IFRS or Interpretation is amended or replaced, should that result in an ‘automatic’ change to the cross-reference? Or does the cross-reference to the earlier version of the IAS or IFRS or Interpretation remain? If there is an automatic change then this will cause more frequent updates to the IFRS for SMEs than the periodic review planned by the Board. Also it would require SMEs applying cross-references to be aware of all changes to full IFRSs. If the cross-reference to the earlier version of the pronouncement remains, there may be confusion about which version of the Standard should be applied, especially because some cross-referenced paragraphs themselves, either directly or indirectly, refer to paragraphs of other full IFRSs (see (d) below). Also, the accounting chosen or required by cross-reference will not be comparable with that applied by full IFRS entities. Additionally, if changes to full IFRSs are de facto amendments to the IFRS for SMEs, SMEs would need to participate in the due process that led to the changes in each IFRS—a burden SMEs generally told the Board they cannot handle (in responses to both the June 2004 discussion paper and the exposure draft).

(d) There is a question of where the cross-references end. Some cross-referenced paragraphs, either directly or indirectly, refer to other paragraphs within full IFRSs. This is problematic because updates are made to full IFRSs, so SMEs would need to continuously monitor full IFRSs in case any changes might affect them via the cross-reference.

BC83 After considering the points raised by respondents to the exposure draft, the Board changed its view. The IFRS for SMEs does not have any mandatory requirement to look to full IFRSs.

Accounting policy options

BC84 The accounting policy options mentioned in paragraph BC81(a) for which the exposure draft had included cross-references to full IFRSs have been dealt with in the IFRS for SMEs as follows:

(a) **Associates.** The options proposed in the exposure draft (cost method, equity method and fair value through profit or loss) are all allowed and incorporated into the IFRS for SMEs.
(b) **Borrowing costs.** The capitalisation model is not an option. Therefore, no cross-reference to full IFRSs. Guidance on applying the expense method had been proposed in the exposure draft and has been retained.

(c) **Development costs.** Capitalisation of development costs is not an option. Therefore, no cross-reference to full IFRSs.

(d) **Intangible assets.** The revaluation model is not an option. Therefore, no cross-reference to full IFRSs. Guidance on applying the cost-depreciation-impairment model had been proposed in the exposure draft and has been retained.

(e) **Investment property.** Measurement is driven by circumstances rather than an accounting policy choice between the cost and fair value models. If an entity can measure the fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model. Guidance on applying the fair value model has been incorporated into the IFRS for SMEs.

(f) **Jointly controlled entities.** The options in the exposure draft are all allowed (with the exception of proportionate consolidation) and incorporated into the IFRS for SMEs.

(g) **Presenting operating cash flows.** The option to use either the direct or the indirect method has been retained. Guidance on applying direct method has been incorporated into the IFRS for SMEs. Guidance on applying the indirect method had been proposed in the exposure draft and has been retained.

(h) **Property, plant and equipment.** The revaluation model is not an option. Therefore, no cross-reference to full IFRSs. Guidance on applying the cost-depreciation-impairment model had been proposed in the exposure draft and has been retained.

(i) **Government grants.** The proposed option to apply IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to some government grants has been removed.

BC85 The IFRS for SMEs does include one option for an entity to choose to follow a full IFRS, and that is the option to use IAS 39 *Financial Instruments: Recognition and Measurement* instead of Section 11 and Section 12. Otherwise, the final IFRS for SMEs is completely stand-alone—an entity applying it is not required to look to full IFRSs in addition to the IFRS for SMEs.

BC86 The exposure draft also proposed that if the standard does not address a transaction or other event or condition or provide a cross-reference back to another IFRS, an entity should select an accounting policy that results in relevant and reliable information. In making that judgement, an entity should consider, first, the requirements and guidance in the IFRS for SMEs dealing with similar and related issues and, second, the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles* of the draft standard. If that does not provide guidance, the entity may look to the
requirements and guidance in IFRSs, including Interpretations of IFRSs, dealing
with similar and related issues. This guidance remains in the *IFRS for SMEs*.

**Omitted topics**

BC87 In addition to the complex options, the second type of mandatory
cross-reference to full IFRSs proposed in the exposure draft related to topics
addressed in full IFRSs but omitted from the *IFRS for SMEs* because they were not
expected to be relevant for the majority of SMEs. To make the final *IFRS for SMEs*
a stand-alone document, the Board decided to incorporate into the final *IFRS for
SMEs* the following topics for which the exposure draft had proposed a
cross-reference to full IFRSs:

(a) **Equity-settled share-based payment.** Addressed in Section 26
*Share-based Payment*.

(b) **Share-based payment transactions with cash alternatives.**
Addressed in Section 26.

(c) **Fair value measurement of biological assets.** Addressed in Section 34
*Specialised Activities*.

(d) **Hyperinflation.** Addressed in Section 31 *Hyperinflation*.

(e) **Lessor accounting for finance leases.** Addressed in Section 20 *Leases*.

(f) **The direct method of presenting operating cash flows.** Addressed in
Section 7 *Statement of Cash Flows*.

BC88 Furthermore, the Board decided that the *IFRS for SMEs* should not address the
following topics for which the exposure draft had proposed a cross-reference to
full IFRSs:

(a) **Earnings per share.**

(b) **Interim financial reporting.**

(c) **Segment reporting.**

(d) **Special accounting for assets held for sale.**

**Whether all accounting policy options in full IFRSs should be
allowed in the *IFRS for SMEs***

BC89 Full IFRSs include some accounting policy options (choices). Generally, for a
given transaction, event or condition, one of the options is simpler to
implement than the other(s). Some believe that the *IFRS for SMEs* should
eliminate all accounting policy options and, therefore, require all SMEs to follow
a single accounting policy for a given transaction, event or condition. Those
who hold this view argue that the benefits would be simplification of the *IFRS for
SMEs* and greater comparability of the resulting financial information among
SMEs using the *IFRS for SMEs*. Others argue that prohibiting SMEs from using an
accounting policy option that is available to entities using full IFRSs could
hinder comparability between SMEs and entities applying full IFRSs.

BC90 In developing the exposure draft, the Board considered both points of view and,
on balance, had concluded that all options in full IFRSs should be available to
SMEs. At the same time, the Board recognised that most SMEs are likely to prefer the simpler option in full IFRSs. Therefore, the exposure draft proposed that when full IFRSs allow accounting policy options, the IFRS for SMEs should include only the simpler option, and the other (more complex) option(s) should be available to SMEs by cross-reference to the full IFRS.

Respondents to the exposure draft were divided on whether the more complex options should be available to SMEs. Their comments reflected both of the points of view described in paragraph BC89. Many respondents argued that allowing the complex accounting policy options is not consistent with the Board’s objective of a simplified standard for smaller entities and would hinder comparability. For example, while supporting the Board’s tentative decision to make the IFRS for SMEs a stand-alone standard, the European Financial Reporting Advisory Group (EFRAG) and the European Federation of Accountants (FEE) and some national professional accountancy bodies and standard-setters wrote to the Board disagreeing with the tentative decision during redeliberations to retain all or most of the complex options. This issue was discussed at the Standards Advisory Council (SAC) meeting in November 2008, and all SAC members supported allowing in the IFRS for SMEs only the simpler options. They noted that most SMEs will choose to follow the simpler options as they will generally be less costly, require less expertise and achieve greater comparability with their peers. They also pointed out that if a private entity feels strongly about using one or more of the complex options, it could elect to follow full IFRSs rather than the IFRS for SMEs.

Many who supported not permitting the complex accounting policy options felt that this would benefit users of financial statements who need to make comparisons between smaller entities. Users of SMEs’ financial statements are often less sophisticated than users of financial statements of publicly accountable entities and so would benefit from less variation in accounting requirements between entities. Moreover, reducing options does not hinder comparability with entities using full IFRSs since, in many cases under full IFRSs, entities may apply different accounting policies from each other for the same transactions.

Virtually all who favoured keeping at least some of the options also favoured making the IFRS for SMEs a stand-alone document, which would mean that the options would be addressed directly in the IFRS for SMEs rather than by cross-reference to full IFRSs. They acknowledged that this could cause a significant increase in the size of the IFRS for SMEs.

After considering the alternatives, the Board concluded that some of the options should not be available to SMEs while others should be available to SMEs. Furthermore, to make the IFRS for SMEs a stand-alone document, the Board concluded that those options available to SMEs should be addressed directly, appropriately simplified from full IFRSs. Paragraph BC84 explains the Board’s decisions on individual options.
Why the Framework and principles and mandatory guidance in existing IFRSs are the appropriate starting point for developing the IFRS for SMEs

BC95 The IFRS for SMEs was developed by:

(a) extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and

(b) considering the modifications that are appropriate in the light of users’ needs and cost-benefit considerations.

BC96 The Board judged that this approach is appropriate because the needs of users of financial statements of SMEs are similar in many ways to the needs of users of financial statements of publicly accountable entities. Therefore, full IFRSs are the logical starting point for developing an IFRS for SMEs.

BC97 The Board rejected the alternative ‘fresh start’ approach because that approach could have resulted in different objectives of financial reports, different qualitative characteristics of financial information, different definitions of the elements of financial statements, and different concepts of recognition and measurement. The Board concluded that a ‘fresh start’ approach would be costly and time-consuming and ultimately futile. This is because, in the Board’s view, there is sufficient convergence of users’ needs relative to the general purpose financial statements of entities with and without public accountability.

Recognition and measurement simplifications

BC98 Paragraphs BC99–BC136 explain the significant simplifications to the recognition and measurement principles in full IFRSs that are reflected in the IFRS for SMEs, and the reasons for them. The Board also deliberated other recognition and measurement simplifications but decided not to adopt them (see paragraphs BC137–BC150).

Financial instruments

BC99 Many commentators said that the requirements of IAS 39 are burdensome for SMEs. They cited as especially burdensome for SMEs the complexities of classifying financial instruments into four categories, the ‘pass-through’ and ‘continuing involvement’ tests for derecognition, and the detailed calculations required to qualify for hedge accounting. The Board agreed that simplifications of IAS 39 are appropriate for SMEs.

BC100 Much of the complexity in IAS 39 results from permitting entities to choose from a range of classification alternatives and measurement attributes for financial instruments. Those choices reduce comparability and impose measurement complexity. The IFRS for SMEs enhances comparability and reduces complexity by limiting the classification categories, specifying a measurement attribute and limiting the use of other optional measurement attributes.

BC101 Principal among the simplifications proposed in the IFRS for SMEs are the following:
(a) **Classification of financial instruments.** Financial instruments that meet specified criteria are measured at cost or amortised cost, and all others are measured at fair value through profit or loss. The available-for-sale and held-to-maturity classifications in IAS 39 are not available, thereby reducing the complexities associated with the two additional categories, including assessment of intentions and accounting ‘penalties’ in some cases.

(b) **Derecognition.** The *IFRS for SMEs* establishes a simple principle for derecognition. That principle does not rely on the ‘pass-through’ and ‘continuing involvement’ provisions that apply to derecognition under IAS 39. Those provisions are complex and relate to derecognition transactions in which SMEs are typically not engaged.

(c) **Hedge accounting.** The *IFRS for SMEs* focuses on the types of hedging that SMEs are likely to do, specifically hedges of:

   (i) interest rate risk of a debt instrument measured at amortised cost.

   (ii) foreign exchange risk or interest rate risk in a firm commitment or a highly probable forecast transaction.

   (iii) price risk of a commodity that it holds or in a firm commitment or a highly probable forecast transaction to purchase or sell a commodity.

   (iv) foreign exchange risk in a net investment in a foreign operation.

(d) **Derivative financial instruments.** The *IFRS for SMEs* does not require separate accounting for ‘embedded derivatives’. However, non-financial contracts that include an embedded derivative with economic characteristics not closely related to the host contract are accounted for in their entirety at fair value (see paragraph BC105).

BC102 With regard to hedge accounting, Section 12 requires periodic recognition and measurement of hedge ineffectiveness, but under less strict conditions than those in IAS 39. In particular, ineffectiveness is recognised and measured at the end of the financial reporting period, and hedge accounting is discontinued prospectively starting from that point, for hedges that no longer meet the conditions for hedge accounting. IAS 39 would require discontinuation of hedge accounting prospectively starting at the date the conditions were no longer met—a requirement that SMEs often say they find burdensome.

BC103 As an alternative to simplified effectiveness testing, the Board considered an approach that is in the US standard SFAS 133 *Accounting for Derivative Instruments and Hedging Activities* (Sections 815-20-25-102 to 815-20-25-117 of the FASB Codification) and is called the ‘shortcut method’. Under such a method, the *IFRS for SMEs* would impose strict conditions on the designation of a hedging relationship with subsequent hedge effectiveness assumed without need for measuring ineffectiveness. The Board concluded that simplified effectiveness testing is preferable to the shortcut method for two principal reasons:
Recognition of all hedge ineffectiveness in profit or loss is a basic principle of IAS 39. The shortcut method is inconsistent with that principle.

To be able to assume that the possibility of hedge ineffectiveness is nil or insignificant, the key features of the hedging instrument and the hedged item, including the term, would have to match, and there could be no conditional terms. Consequently, hedge accounting would be prohibited if the hedging instrument is prepayable or puttable or has other early termination or extension features. Such a requirement would, in effect, make hedge accounting a practical impossibility for many, and perhaps most, SMEs.

Section 12 also differs from IAS 39 with respect to hedge accounting in the following ways:

(a) Hedge accounting cannot be achieved by using debt instruments ('cash instruments') as hedging instruments. IAS 39 permits this for a hedge of a foreign currency risk.

(b) Hedge accounting is not permitted with an option-based hedging strategy. Because hedging with options involves incurring a cost, SMEs are more likely to use forward contracts as hedging instruments than options.

(c) Hedge accounting for portfolios is not permitted. Hedging portfolios adds considerable accounting complexity because of the need to remeasure all of the hedged items individually at fair value to ensure that the appropriate amounts are derecognised when the instrument is sold and to ensure that the amortisation is appropriate when an instrument is no longer being hedged.

The simplification in (a) is appropriate since hedge accounting would not have a significant effect on the financial statements because of the offsetting effects of the accounting for a foreign currency debt instrument under Section 11 and the recognition of exchange differences on most monetary items in profit or loss under Section 30 Foreign Currency Translation. In addition, the Board does not believe that the simplifications in (b) and (c) will affect SMEs adversely because these are not hedging strategies that are typical of SMEs.

Contracts to buy, sell, lease or insure a non-financial item such as a commodity, inventory, property, plant or equipment are accounted for as financial instruments within the scope of Section 12 if they could result in a loss to the buyer, seller, lessor, lessee or insured party as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties. Such contracts are accounted for as financial instruments because their terms include a financial risk component that alters the settlement amount of the contract that is unrelated to the purchase or sale of, or leasing or insuring, the non-financial item.
BC106  The *IFRS for SMEs* gives SMEs a choice of following Sections 11 and 12 or IAS 39 in accounting for all of their financial instruments. The Board’s reasons for proposing that choice in this case are as follows:

(a) Although Sections 11 and 12 are a simpler approach to accounting for financial instruments than IAS 39, some of the simplifications involve eliminating options that are available to companies with public accountability under IAS 39, for instance:

(i) the fair value option.
(ii) available-for-sale classification and the available-for-sale option.
(iii) held-to-maturity classification.
(iv) a continuing involvement approach to derecognition (ie partial derecognition).
(v) the use of hedge accounting for hedges other than the four specific types identified in paragraph BC101(c).

The Board is currently reconsidering IAS 39 in its entirety and concluded that SMEs should be permitted to have the same accounting policy options as in IAS 39 pending completion of the comprehensive IAS 39 project.

(b) Because the default category for financial instruments in the scope of Section 12 is fair value through profit and loss under the *IFRS for SMEs*, and cost or amortised cost is permitted only when specified conditions are met, some items measured at cost or amortised cost under IAS 39 because of their nature would be measured at fair value through profit or loss under the *IFRS for SMEs*. Some SMEs might find this added fair valuation burdensome.

(c) Sometimes, an entity makes what it views as a ‘strategic investment’ in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. Those entities generally believe that the available-for-sale classification of IAS 39 is appropriate to account for strategic investments. Under the *IFRS for SMEs*, however, these strategic investments would be accounted for either at fair value through profit or loss or at amortised cost.

(d) The derecognition provisions of the *IFRS for SMEs* would not result in derecognition for many securitisations and factoring transactions that SMEs may enter into, whereas IAS 39 would result in derecognition.

BC107  The exposure draft had proposed that an entity electing to follow IAS 39 instead of the financial instruments sections of the *IFRS for SMEs* would also have to comply in full with the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*. Many respondents to the exposure draft argued that many of the IFRS 7 disclosures are designed for financial institutions (which are ineligible to use the *IFRS for SMEs*) or for entities whose securities are traded in public capital markets. In their view, the financial instruments disclosures in the *IFRS for SMEs* are appropriate for all SMEs including those that choose to look to IAS 39 for
recognition and measurement. The Board found this argument persuasive, and the IFRS for SMEs does not require the IFRS 7 disclosures.

**Amortisation and impairment of goodwill and other indefinite-lived intangible assets**

In their responses to the recognition and measurement questionnaire and at the round-table meetings, many preparers and auditors of SMEs’ financial statements said that the requirement in IAS 36 *Impairment of Assets* for an annual calculation of the recoverable amount of goodwill and other indefinite-lived intangible assets is onerous for SMEs because of the expertise and cost involved. They proposed, as an alternative, that SMEs should be required to calculate the recoverable amount of goodwill and other indefinite-lived intangible assets only if impairment is indicated. They proposed, further, that the IFRS for SMEs should include a list of indicators of impairment as guidance for SMEs. The Board agreed with those proposals. Respondents to the exposure draft supported the Board’s decision on an indicator approach to impairment. Consequently, the IFRS for SMEs establishes an indicator approach and includes a list of indicators based on both internal and external sources of information. In addition if goodwill cannot be allocated to individual cash-generating units (or groups of cash-generating units) on a non-arbitrary basis, then the IFRS for SMEs provides relief by letting the entity test goodwill for impairment by determining the recoverable amount of the acquired entity in its entirety if the goodwill relates to an acquired entity that has not been integrated. If the goodwill relates to an entity that has been integrated into the group, the recoverable amount of the entire group of entities is tested.

Many respondents to the recognition and measurement questionnaire and participants in the round-table discussions favoured requiring amortisation of goodwill and other indefinite-lived intangible assets over a specified maximum period. Proposals generally ranged from 10 to 20 years. They argued that amortisation is simpler than an impairment approach, even an impairment approach that is triggered by indicators. In developing the exposure draft, the Board did not agree with that proposal for three main reasons:

(a) An amortisation approach still requires assessment of impairment, so it is actually a more complex approach than an indicator-triggered assessment of impairment.

(b) Amortisation is the systematic allocation of the cost of an asset, less any residual value, to reflect the consumption over time of the future economic benefits embodied in that asset over its useful life. By its nature, goodwill often has an indefinite life. Thus, if there is no foreseeable limit on the period during which an entity expects to consume the future economic benefits embodied in an asset, amortisation of that asset over, for example, an arbitrarily determined maximum period would not faithfully represent economic reality.

(c) When the IASB was developing IFRS 3 *Business Combinations* (as revised in 2008) and related amendments to IAS 38 *Intangible Assets*, most users of financial statements said they found little, if any, information content in the amortisation of goodwill over an arbitrary period of years.
Consequently, the exposure draft proposed an impairment-only approach to goodwill and other indefinite-lived intangible assets, combined with an indicator trigger for detailed impairment calculations.

BC110 Many respondents to the exposure draft disagreed with the proposal not to require amortisation of goodwill. In fact, the single accounting recognition and measurement proposal in the exposure draft that was most frequently recommended for reconsideration was non-amortisation of goodwill. The great majority of the respondents addressing this issue recommended that amortisation of goodwill should either be permitted or be required over a limited number of years. Many of those respondents acknowledged the need for impairment testing in addition to, but not as a substitute for, amortisation. Moreover, respondents who held this view also felt that SMEs should not be required to distinguish between intangible assets with finite and indefinite useful lives. At their meeting in April 2008, working group members unanimously supported requiring amortisation of all intangibles, including goodwill, subject to an impairment test.

BC111 Some respondents holding this view acknowledged that amortisation of goodwill and other indefinite-lived intangible assets may not be the most conceptually correct approach. However, from a practical standpoint, they pointed out that many smaller entities will find it difficult to assess impairment as accurately or as promptly as larger or listed entities, meaning the information could be less reliable. Amortisation, particularly if coupled with a relatively short maximum amortisation period, would reduce the circumstances in which an impairment calculation would be triggered. They also pointed out that in the context of SMEs, users of financial statements say they find little, if any, information content in goodwill at all; for example, lenders generally do not lend against goodwill as an asset.

BC112 After considering the various views expressed, the Board concluded—for cost-benefit reasons, rather than conceptual reasons—that goodwill and other indefinite-lived intangible assets should be considered to have finite lives. Therefore, such assets should be amortised over their estimated useful lives, with a maximum amortisation period of ten years. The assets must also be assessed for impairment using the ‘indicator approach’ in the IFRS for SMEs.

**Charge all development costs to expense**

BC113 IAS 38 requires all research costs to be charged to expense when incurred, but development costs incurred after the project is deemed to be commercially viable are to be capitalised. Many preparers and auditors of SMEs’ financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis and, furthermore, capitalisation of only a portion of the development costs does not provide useful information. Bank lending officers told the Board that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.

BC114 The Board accepted those views, and the IFRS for SMEs requires all research and development costs to be recognised as expenses when incurred.
Cost method for associates and jointly controlled entities

IAS 28 requires an entity to account for its investments in associates by the equity method. IAS 31 allows an entity to account for its investments in jointly controlled entities by either the equity method or proportionate consolidation. Many preparers of SMEs’ financial statements questioned the usefulness of both of those accounting methods and told the Board that SMEs have particular difficulty in applying those methods because of inability to obtain the required information and the need to conform accounting policies and reporting dates. In their view, the cost method—which is permitted under IAS 28 and IAS 31 in accounting for investments in associates and joint ventures in the investor’s separate financial statements—should also be permitted under the IFRS for SMEs in the investor’s consolidated financial statements. Lenders generally indicated that information reported using the equity method and proportionate consolidation is of limited use to them because it is not useful in assessing either future cash flows or loan security. Fair values are more relevant for those purposes. Recognising the special problems of SMEs in applying the equity and proportionate consolidation methods, and also the relevance of fair values for lenders, the Board concluded that SMEs should be permitted to use either the cost method or fair value through profit or loss.

Fair value through profit or loss for associates and jointly controlled entities with published price quotations

IAS 28 requires investments in associates to be measured using the equity method. IAS 31 requires investments in jointly controlled entities to be measured using either the equity method or proportionate consolidation. Neither of those standards makes an accounting measurement distinction if such investments happen to have a published price quotation.

The IFRS for SMEs requires that any investment in an associate or jointly controlled entity for which there is a published price quotation must be measured at fair value through profit or loss. The Board’s reasons for reaching this decision were (a) concerns about measurement reliability are substantially eliminated, (b) the cost of obtaining a fair valuation is substantially eliminated and (c) such fair values are more relevant than cost-based measurements to lenders and other users of SMEs’ financial statements.

Non-current assets held for sale

IFRS 5 defines when non-current assets or groups of assets (and associated liabilities) are ‘held for sale’ and establishes accounting requirements for such assets. The accounting requirements are, in essence, (a) stop depreciating the asset (or assets in the group) and (b) measure the asset (or group) at the lower of carrying amount and fair value less costs to sell. There is also a requirement to disclose information about all non-current assets (groups) held for sale. The exposure draft of the IFRS for SMEs had proposed nearly identical requirements.

Many respondents to the exposure draft recommended that the IFRS for SMEs should not have a separate held-for-sale classification for cost-benefit reasons, and working group members concurred. They felt that an accounting result similar to that of IFRS 5 could be achieved more simply by including intention to
sell as an indicator of impairment. Many who held this view also recommended that the IFRS for SMEs require disclosure when an entity has a binding sale agreement for a major disposal of assets, or a group of assets or liabilities. The Board agreed with those recommendations because (a) the impairment requirements in the IFRS would ensure that assets are not overstated in the financial statements and (b) the disclosure requirements will provide relevant information to users of SMEs’ financial statements.

**Borrowing costs**

BC120 IAS 23 requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of the asset. For cost-benefit reasons, the IFRS for SMEs requires such costs to be charged to expense.

**Income tax**

BC121 In their responses to the questionnaire and at the round-table meetings, many preparers and auditors of SMEs’ financial statements said that the temporary difference approach to accounting for income taxes in IAS 12 *Income Taxes* is difficult for SMEs to implement. They said that SMEs do not routinely prepare ‘tax balance sheets’ and generally do not track the tax bases of many assets. Some advocated a ‘current taxes payable’ method of accounting for income taxes, under which SMEs would not recognise deferred taxes.

BC122 The Board did not support the ‘current taxes payable’ approach for the reasons explained in paragraph BC145. However, while believing that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, the Board also concluded that implementation of that principle could be simplified for SMEs. Section 29 *Income Tax* of the IFRS for SMEs uses the approach set out in the Board’s exposure draft *Income Tax*, published in March 2009, which proposes a simplified replacement for IAS 12. The only significant measurement difference in the IFRS for SMEs as compared with the exposure draft *Income Tax* is where a different tax rate applies to distributed and undistributed income. The IFRS for SMEs requires current and deferred taxes to be measured initially at the rate applicable to undistributed profits, with adjustment in subsequent periods if the profits are distributed. The *Income Tax* exposure draft would initially measure current and deferred taxes at the tax rate expected to apply when the profits are distributed.

**Exchange differences on monetary items**

BC123 IAS 21 requires exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation to be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary), IAS 21 recognises such exchange differences initially in other comprehensive income and reclassifies them from equity to profit or loss on disposal of the net investment. The IFRS for SMEs provides for one difference: an exchange difference that is recognised initially in other comprehensive income.
is not reclassified in profit or loss on disposal of the investment. The reason for the difference is that not requiring reclassification is less burdensome for SMEs because it eliminates the need for tracking the exchange differences after initial recognition.

**Less fair value for agriculture**

**BC124** Some preparers and auditors of the financial statements of SMEs engaged in agricultural activities said that the ‘fair value through profit or loss’ model is burdensome for SMEs, particularly when applied to biological assets of those SMEs operating in inactive markets or developing countries. They said that the presumption in IAS 41 that fair value can be estimated for biological assets and agricultural produce is unrealistic with respect to biological assets of some SMEs. Some proposed that SMEs should be permitted or required to use a ‘cost-depreciation-impairment’ model for all such assets. The Board did not support this approach for the reasons explained in paragraph BC146. However, the Board concluded, both because of the measurement problems in inactive markets and developing countries and for cost-benefit reasons, that SMEs should be required to use the fair value through profit or loss model only when fair value is readily determinable without undue cost or effort. When that is not the case, the Board concluded that SMEs should follow the cost-depreciation-impairment model.

**Employee benefits—measurement of the defined benefit obligation**

**BC125** IAS 19 requires that a defined benefit obligation should always be measured using the projected unit credit actuarial method. For cost-benefit reasons, the IFRS for SMEs provides for some measurement simplifications that retain the basic IAS 19 principles but reduce the need for SMEs to engage external specialists. Therefore, the Board decided:

(a) If information based on the projected unit credit calculations of IAS 19 is already available or can be obtained without undue cost or effort, SMEs must use that method.

(b) If information based on the projected unit credit method is not available and cannot be obtained without undue cost or effort, SMEs must apply an approach that is based on IAS 19 but does not consider future salary progression, future service or possible mortality during an employee’s period of service. This approach still takes into account life expectancy of employees after retirement age. The resulting defined benefit pension obligation reflects both vested and unvested benefits.

(c) The IFRS for SMEs clarifies that comprehensive valuations would not normally be necessary annually. In the interim periods, the valuations would be rolled forward for aggregate adjustments for employee composition and salaries, but without changing the turnover or mortality assumptions.
Employee benefits—actuarial gains and losses of defined benefit plans

One of the principal complexities of IAS 19 is recognition of actuarial gains and losses. Under IAS 19, an entity can choose any of the following options:

(a) recognise actuarial gains and losses in full in profit or loss when they occur.

(b) recognise actuarial gains and losses in full directly in other comprehensive income when they occur.

(c) amortise the excess of actuarial gains and losses over the greater of
   (i) 10 per cent of the present value of the defined benefit obligation at that date (before deducting plan assets) and
   (ii) 10 per cent of the fair value of any plan assets at that date (with those limits calculated and applied separately for each defined benefit plan) divided by the average remaining working life of the employees.

(d) recognise actuarial gains and losses in profit or loss using any systematic method that results in faster recognition than (c) above.

The IFRS for SMEs does not permit either of the deferral and amortisation methods described in (c) or (d). Instead, it requires immediate recognition with an option to present the amount either in profit or loss (method (a)) or in other comprehensive income (method (b)). Methods (a) and (b) are far simpler than either of the deferral and amortisation methods. Methods (c) and (d) require tracking of data over many years and annual calculations. Moreover, financial statement users generally have told the Board that they find immediate recognition (methods (a) and (b)) provides the most understandable and useful information.

Employee benefits—unvested past service cost of defined benefit plans

Past service cost relating to employee service in prior periods arises when a new defined benefit plan is introduced or an existing plan is changed. IAS 19 requires past service cost to be deferred and amortised as an expense (or, in the case of benefit reductions, as income) on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately when a plan is introduced or changed, the past service cost is recognised in profit or loss immediately. The IFRS for SMEs requires immediate recognition of all past service cost (including that related to unvested benefits), without any deferral. The Board believes that the method in the IFRS for SMEs is simpler because it does not require tracking of data over many years or annual calculations. A deferred recognition model relegates important information about the funding status of post-retirement plans to the notes to the financial statements. Further, deferred recognition treats changes to an entity’s pension assets and liabilities differently from changes to the entity’s other assets and liabilities.
Share-based payment

BC129 The exposure draft had proposed that SMEs should apply IFRS 2 in measuring equity-settled share-based payment transactions, and that the entity should make the disclosures required by IFRS 2. The Board’s reasoning was that IFRS 2 already provided a simplification for SMEs because, if an entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, the entity is permitted to measure the equity instruments at intrinsic value. Most respondents to the exposure draft said that the intrinsic value method is not much of a simplification as this method requires knowing the fair value of the underlying shares when the share option (or other share-based payment) is granted and at each subsequent reporting date. The working group shared this concern about IFRS 2.

BC130 The Board considered the views of these respondents and the working group and concluded that further simplifications are appropriate for cost-benefit reasons. As a matter of principle, the Board concluded that SMEs should always recognise an expense for equity-settled share-based payments and that the expense should be measured on the basis of observable market prices, if available. If observable market prices are not available, SMEs should measure the expense using the directors’ best estimate of the fair value of the equity-settled share-based payment. The Board also decided that disclosure only, without expense recognition, is not appropriate.

BC131 The Board also decided that for SMEs’ share-based payment transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments, the entity should account for the transaction as a cash-settled share-based payment transaction unless either

(a) the entity has a past practice of issuing equity instruments under similar arrangements or

(b) the option to settle in cash has no commercial substance.

In circumstances (a) and (b), the transaction is accounted for as equity-settled.

Transition to the IFRS for SMEs

BC132 IFRS 1 requires an entity’s first IFRS financial statements to include at least one year of comparative information under IFRSs. Some preparers and auditors of SMEs’ financial statements explained to the Board that a requirement to prepare restated prior period data in all cases would be burdensome for SMEs adopting the IFRS for SMEs for the first time. Thus, the IFRS for SMEs includes an ‘impracticability’ exemption. Similarly, it provides an impracticability exemption with respect to some requirements for restating the opening statement of financial position.

Investment property

BC133 IAS 40 allows an accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-impairment model is required to provide supplemental disclosure of the fair value of its investment property. The IFRS for SMEs does not have an accounting policy choice but, rather, the
accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model for other investment property. Unlike IAS 40, the IFRS for SMEs does not require disclosure of the fair values of investment property measured on a cost basis.

**Government grants**

BC134 The IFRS for SMEs requires a single, simplified method of accounting for all government grants. All grants are recognised in income when the performance conditions are met or earlier if there are no performance conditions. All grants are measured at the fair value of the asset received or receivable. IAS 20 permits a range of other methods that are not allowed by the IFRS for SMEs.

**Exception from straight-line method by lessees for operating leases when payments compensate the lessor for inflation**

BC135 The IFRS for SMEs does not require a lessee to recognise lease payments under operating leases on a straight-line basis if the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor’s expected inflationary cost increases. That exception to the straight-line basis is not in IAS 17 Leases.

**No annual review of useful life, residual value and depreciation/amortisation method**

BC136 The IFRS for SMEs does not require an annual review of the useful life, residual value, and depreciation or amortisation method for property, plant and equipment and intangible assets. Instead, a review is required only if there is an indication that there has been a significant change since the last annual reporting date. IAS 16 and IAS 38 require reviews at least at each financial year-end.

**Simplifications considered but not adopted**

BC137 In developing the IFRS for SMEs, the Board considered some recognition and measurement simplifications that it decided not to adopt. Some of those potential simplifications were identified in existing national accounting standards for SMEs. Some were proposed by the Board’s constituents in their responses to the 2004 discussion paper or the recognition and measurement questionnaire in 2005. Those proposals, and the Board’s reasons for rejecting them, are described in paragraphs BC138–BC150.

**Not to require a cash flow statement**

BC138 Some suggested that the Board should not require SMEs to prepare a cash flow statement. Some who held this view believed that preparing a cash flow statement is burdensome. Some contended that users of SMEs’ financial statements do not find the cash flow statement useful.
The Board noted that if a comparative statement of financial position (with amounts for the beginning and the end of the reporting period) and an income statement are available, preparing a cash flow statement is not a difficult, time-consuming or costly task. The accounting frameworks of most jurisdictions require broad groups of entities, including SMEs, to prepare a cash flow statement. Moreover, the great majority of users of SMEs’ financial statements who have communicated with the Board—including particularly lenders and short-term creditors—indicated that the cash flow statement is very useful to them.

**Treat all leases as operating leases**

BC140  IAS 17 does not recognise a lessee’s rights and obligations under a lease in the statement of financial position if the lease is classified as an operating lease. Although lessees obtain rights and incur obligations under all leases, finance leases create obligations substantially equivalent to those arising when an asset is purchased on credit. Information about such assets and obligations is important for lending and other credit decisions. Treating all leases as operating leases would remove useful information from the statement of financial position.

**Treat all employee benefit plans as defined contribution plans**

BC141  As with leases, users of financial statements are concerned about ‘off balance sheet obligations’. Many jurisdictions require SMEs by law to provide benefits that are the equivalent of a defined benefit pension plan—for example, long-service benefits. Users of SMEs’ financial statements consistently say that information about the funding status of such obligations is useful and important to them.

**Completed contract method for construction contracts**

BC142  The completed contract method can produce a potentially misleading accounting result for a construction contractor, with initial years of no profit at all followed by full recognition of profit when the construction is completed. Many construction contractors are SMEs. The fluctuation between years of large profit and years of large losses may be magnified for SMEs because they tend to have fewer contracts than larger entities. Users of financial statements have told the Board that, for a contractor, the percentage of completion method provides information that they find more useful than the completed contract method.

**Fewer provisions**

BC143  Provisions are liabilities of uncertain timing or amount. Despite the uncertainties, they are obligations that have met the liability recognition criteria. Users of SMEs’ financial statements consistently say they want these obligations recognised in the statement of financial position, with the measurement uncertainties explained.
Non-recognition of share-based payment

BC144 Non-recognition is inconsistent with the definitions of the elements of financial statements, especially an expense. Moreover, users of financial statements generally hold the view that share-based payments to employees should be recognised as remuneration expense because (a) they are intended as remuneration, (b) they involve giving something of value in exchange for services and (c) the consumption of the employee services received is an expense. Although Section 26 requires recognition of the expense, it also provides for simplified measurement as compared with IFRS 2.

Non-recognition of deferred taxes

BC145 Some support the ‘taxes payable method’ of accounting for income taxes. Under that method, only income taxes currently payable or refundable are recognised; deferred taxes are not recognised. Many users of SMEs’ financial statements disagree with the taxes payable method. They point out that deferred taxes are liabilities (or sometimes assets) that can result in large outflows (inflows) of cash in the near future and, therefore, should be recognised. Even those users of financial statements who do not agree that deferred tax liabilities or deferred tax assets should be recognised generally want the amounts, causes and other information disclosed in the notes. Note disclosure would entail the same tracking and computation effort for SMEs as would recognition, but would be inconsistent with the principles for recognising assets and liabilities in the Framework. The Board concluded that making a fundamental departure from the recognition principles in IAS 12 while requiring disclosure of the information that users of SMEs’ financial statements find useful is not justified on a cost-benefit basis. Moreover, the Board believes that deferred taxes satisfy the requirements for recognition as assets and liabilities and can be measured reliably.

Cost model for all agriculture

BC146 Not only is fair value generally regarded as a more relevant measure in this industry, quoted prices are often readily available, markets are active, and measuring cost is actually more burdensome and arbitrary because of the extensive allocations required. Moreover, managers of most SMEs that undertake agricultural activities say that they manage on the basis of market prices or other measures of current value rather than historical costs. Users also question the meaningfulness of allocated costs in this industry.

No consolidated financial statements

BC147 In many countries, SMEs are organised into two or more legal entities for tax or other legal reasons, even though they operate as one economic entity. Investors, lenders and other users of SMEs’ financial statements say that they find information about the financial position, operating results and cash flows of the economic entity useful for their decisions. They say they cannot use the separate financial statements of the legal entities because those entities often enter into transactions with each other that are not necessarily structured or priced on an arm’s length basis. In such circumstances, the amounts reported in the separate statements reflect internal transactions (eg sales between the legal entities) that
are not transactions of the economic entity with other economic entities. Also, the entities are often jointly managed, and loans are cross-collateralised. In the Board’s judgement, consolidated statements are essential for users when two entities operate as a single economic entity.

**Recognition of all items of income and expense in profit or loss**

BC148 The IFRS for SMEs requires SMEs to recognise items of income or expense in other comprehensive income, rather than in profit or loss, in three circumstances:

(a) Paragraph 12.23 requires SMEs to recognise changes in the fair value of some hedging instruments in other comprehensive income.

(b) Paragraph 28.24 gives SMEs the option to recognise actuarial gains and losses either in profit or loss or in other comprehensive income.

(c) Paragraph 30.13 provides that, in consolidated financial statements, SMEs must recognise in other comprehensive income a foreign exchange difference (gain or loss) arising on a monetary item that forms part of the reporting entity’s net investment in a foreign operation (subsidiary, associate or joint venture).

BC149 In developing the IFRS for SMEs, the Board considered whether to require SMEs to recognise the foreign exchange gains or losses and actuarial gains and losses only in profit or loss, rather than as part of other comprehensive income. Because the IFRS for SMEs requires SMEs to present a statement of comprehensive income, the Board concluded not to require presentation of those gains and losses in profit or loss.

BC150 Because the Board has begun a comprehensive project on financial instruments as part of its convergence programme with the US Financial Accounting Standards Board, the Board did not consider requiring SMEs to recognise changes in the fair value of all hedging instruments in profit or loss at this time.

**Issues addressed in the IFRS for SMEs that are not covered in full IFRSs**

BC151 The IFRS for SMEs covers several issues that, in the Board’s judgement, are relevant to SMEs but are not addressed in full IFRSs:

(a) combined financial statements (paragraphs 9.28–9.30).

(b) original issue of shares or other equity instruments (paragraphs 22.7–22.10).

(c) sale of options, rights and warrants (paragraph 22.11).

(d) capitalisation or bonus issues of shares and share splits (paragraph 22.12).
Optional reversion to full IFRSs by an entity using the *IFRS for SMEs*

**BC152** The Board considered whether an entity using the *IFRS for SMEs* should be allowed to choose to apply a recognition or measurement principle permitted in a full IFRS that differs from the principle required by the related section of the *IFRS for SMEs*.

**BC153** Some proposed that the *IFRS for SMEs* should, in effect, contain 'optional simplifications of IFRSs'. Within this group, there were two schools of thought:

   (a) One school would permit SMEs to revert to full IFRSs principle by principle, while otherwise continuing to use the *IFRS for SMEs*.

   (b) The second school would permit SMEs to revert to a full IFRS in its entirety, but not principle by principle within an IFRS, while otherwise continuing to use the *IFRS for SMEs*. Those who hold this view believe that the recognition and measurement principles in a full IFRS are so interrelated that they should be regarded as an integrated package.

**BC154** The alternative view is that an entity should be required to choose only either the complete set of full IFRSs or the complete *IFRS for SMEs*. The Board is of that view (with the sole exception of the option to apply IAS 39 for the reasons set out in paragraph BC106). Allowing SMEs optionally to revert to full IFRSs either principle by principle or standard by standard, while continuing to follow the *IFRS for SMEs* for other transactions and circumstances, would result in significant non-comparability. Undesirably, SMEs would have almost an infinite array of combinations of accounting policies from which to choose.

**Presentation simplifications**

**BC155** On the basis of the needs of users of SMEs’ financial statements and costs to smaller entities, the Board concluded that the *IFRS for SMEs* should reflect the following simplifications of financial statement presentation:

   (a) An entity should not be required to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. IAS 1 would require such a presentation.

   (b) All deferred tax assets and liabilities should be classified as non-current assets or liabilities. The Board’s exposure draft *Income Tax* proposes that deferred taxes and liabilities should be classified as either current or non-current according to the classification of the related non-tax asset or liability in the statement of financial position.

   (c) An entity is permitted to present a single statement of income and retained earnings in place of separate statements of comprehensive income and changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or
loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. This option does not exist in full IFRSs.

Disclosure simplifications

BC156 The disclosure requirements in the IFRS for SMEs are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:

(a) Some disclosures are not included because they relate to topics covered in IFRSs that are omitted from the IFRS for SMEs (see paragraph BC88).

(b) Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that have been replaced by simplifications in the IFRS for SMEs (see paragraphs BC98–BC136).

(c) Some disclosures are not included because they relate to options in full IFRSs that are not included in the IFRS for SMEs (see paragraphs BC84–BC86).

(d) Some disclosures are not included on the basis of users’ needs or cost-benefit considerations (see paragraphs BC44–BC47, BC157 and BC158).

BC157 Assessing disclosures on the basis of users’ needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

(a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(c) Information on measurement uncertainties is important for SMEs.

(d) Information about an entity’s accounting policy choices is important for SMEs.

(e) Disaggregations of amounts presented in SMEs’ financial statements are important for an understanding of those statements.

(f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

BC158 The Board also relied on the recommendations of the working group, which undertook a comprehensive review of the disclosure proposals in the exposure draft, and the comments on those proposals in responses to the exposure draft. The working group sent its comprehensive recommendations to the Board in July 2008. In addition, the staff of the German Accounting Standards Committee
met representatives of six German banks that lend extensively to small private entities and provided the IASB with a comprehensive report on disclosure needs from a bank lender’s perspective.

**Why a separate volume rather than added sections in each IFRS**

BC159 The Board saw merit in two approaches—publishing the *IFRS for SMEs* in a separate volume and publishing a separate section in each individual IFRS (including Interpretations). The principal advantages of the separate volume are:

(a) ease of use for those seeking to apply the *IFRS for SMEs*. If the *IFRS for SMEs* addresses the transactions, events and conditions typically encountered by SMEs, much of the material in full IFRSs would not normally have application for SMEs.

(b) the *IFRS for SMEs* can be drafted in a simplified language without the details that are needed in full IFRSs.

BC160 The advantages of including the requirements for SMEs as a separate section of each IFRS (including Interpretations) include:

(a) the modifications or exemptions are highlighted.

(b) to the extent that SMEs may choose to look to full IFRSs, putting both the requirements for SMEs and the related full standards in one place is more user-friendly.

(c) it would reduce the likelihood that, in drafting the *IFRS for SMEs*, an unintended difference will arise between an IFRS and the related requirements in the *IFRS for SMEs*.

BC161 Respondents to the discussion paper generally favoured the separate volume approach. On balance the Board agreed for the reasons outlined in paragraph BC159.

**Why organisation by topic**

BC162 The Board saw merit both in sequentially organising the requirements for SMEs similarly to full IFRSs and in topical organisation. Using the same organisation and numbering system as full IFRSs would enable a user to link back to the full IFRS to seek further guidance on an accounting question. Topical organisation, on the other hand, would make the *IFRS for SMEs* more like a reference manual, which is likely to be the way that people would use it, and thus it would be more user-friendly. Indexing could minimise the benefits of one of those approaches over the other. Providing the *IFRS for SMEs* in electronic form could also minimise the benefits of one approach over the other. Most respondents to the discussion paper and the exposure draft favoured organisation by topic. On balance the Board found the benefits of a topically organised reference manual persuasive.
The Board’s plan for maintaining (updating) the *IFRS for SMEs*

BC163 In the discussion paper, the Board expressed a tentative view that, ‘once the initial *IFRS for SMEs* is in place, concurrently with each exposure draft of an IFRS and each draft Interpretation, and most likely as part of those documents, the Board will propose the related requirements for SMEs. The effective dates of the new or revised requirements for SMEs would probably be the same as the effective date of the new or revised IFRSs (including Interpretations).’ In general, respondents to the discussion paper did not agree with this approach. They explained that because SMEs do not have internal accounting resources or the ability to hire accounting advisers on an ongoing basis, the *IFRS for SMEs* should be updated only periodically, perhaps only once in two or three years. They also noted that not every new IFRS or Interpretation or amendment to an IFRS or Interpretation will affect the *IFRS for SMEs*. On the basis of users’ needs or cost-benefit considerations, some of those changes may be relevant only for full IFRSs. Furthermore, there may be some changes to the *IFRS for SMEs* that are appropriate even if full IFRSs are not changed.

BC164 The principal benefits of considering changes to the *IFRS for SMEs* at the same time as each new IFRS is proposed or each amendment to an existing IFRS is proposed are consistency of consideration both by the Board and respondents, avoiding a time lag between when changes affect full IFRSs and when similar changes affect the *IFRS for SMEs*, and avoiding potentially differing standards in full IFRSs and the *IFRS for SMEs*.

BC165 On balance, the Board found the arguments set out in paragraph BC163 for periodic, rather than contemporaneous, updating of the *IFRS for SMEs* generally persuasive. Paragraphs P16–P18 of the Preface to the *IFRS for SMEs* explain the Board’s plan for maintaining the *IFRS for SMEs*.

**Basis for Conclusions on 2015 Amendments to the Standard**

**Initial comprehensive review (2015)**

**Background**

**Reasons for undertaking the initial review**

BC166 At the time of issuing the *IFRS for SMEs*, the IASB stated its plan to undertake an initial comprehensive review of the *IFRS for SMEs* that would enable it to assess the experience that entities had had in implementing this Standard and to consider whether there was a need for any amendments. Jurisdictions did not start using the *IFRS for SMEs* on a consistent date. However, by 2010, entities in several jurisdictions had adopted this Standard. Consequently, the IASB decided to commence its initial comprehensive review in 2012. The IASB also stated that, after the initial review, it expected to consider amendments to the *IFRS for SMEs* approximately once every three years. Paragraph BC264 covers the IASB’s discussion about the procedure for future reviews of the *IFRS for SMEs*. 

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BC167 In June 2012 the IASB issued a Request for Information (the ‘RFI’) as the first step in its initial comprehensive review. The RFI was developed together with the SME Implementation Group (SMEIG). The SMEIG is an advisory body to the IASB that was set up by the IFRS Foundation in 2010. The objective of the SMEIG is to support the international adoption of the IFRS for SMEs and monitor its implementation.

BC168 The objective of the RFI was to seek the views of those who had been applying the IFRS for SMEs, those who had been using financial information prepared in accordance with the IFRS for SMEs and all other interested parties on whether there is a need to make any amendments to it and, if so, what amendments should be made. The RFI did not contain any preliminary views of the IASB or the SMEIG. The IASB received 89 comment letters on the RFI. A detailed summary of the comment letter analysis was provided to SMEIG members at their February 2013 meeting and to IASB members in the agenda papers for its March–May 2013 meetings. These agenda papers are available on the IASB website (www.ifrs.org).

BC169 In October 2013 the IASB issued an Exposure Draft of proposed amendments to the IFRS for SMEs (the ‘2013 ED’). After considering the feedback it had received on the RFI, and taking into consideration the fact that the IFRS for SMEs is still a new Standard, the IASB proposed to only make relatively limited amendments to the IFRS for SMEs.

BC170 In total, the IASB proposed 57 amendments in the 2013 ED. With the exception of the proposed amendments to Section 29, each individual amendment only affected a few sentences or words in the IFRS for SMEs. Furthermore, most of the proposed amendments were intended to clarify existing requirements or add supporting guidance, instead of proposing changes to the underlying requirements in the IFRS for SMEs. Consequently, for most SMEs, the proposals were expected to improve understanding of the existing requirements, without necessarily resulting in changes in practice or changes that would affect the financial statements.

BC171 The IASB received 57 comment letters on the 2013 ED. A detailed summary of the comment letter analysis was provided to the IASB at its May 2014 meeting and to the SMEIG in July 2014. During March–May 2014, the staff also performed additional user outreach with providers of finance to SMEs to supplement the views it had received from other interested parties on the RFI and the 2013 ED. A summary of this outreach was provided to the IASB in October 2014. These summaries are available in the agenda papers on the IASB website.

BC172 In February 2013 the SMEIG met to discuss the comments received on the RFI and to develop a report of recommendations for the IASB on possible amendments to the IFRS for SMEs. The report was published on the IASB website in March 2013. In July 2014 the SMEIG also considered the public comments.
received on the 2013 ED and developed a second report of recommendations for
the IASB on the proposals in the 2013 ED. The second report was published on
the IASB website in October 2014. All but one of the recommendations that were
supported by a majority of SMEIG members in the second report are consistent
with the IASB’s decisions during its redeliberations on the 2013 ED. The
exception is regarding permitting the revaluation model for property, plant and
equipment for which the views of SMEIG members were almost evenly split.

**Changes to the proposals in the 2013 ED**

BC173 Most respondents to the 2013 ED supported the majority of the changes
proposed in the 2013 ED. The following is a summary of the main issues raised
by respondents:

(a) the most common concern was the decision of the IASB not to propose
an accounting policy option for the revaluation of property, plant and
equipment. Some respondents also expressed concern that the IASB had
not proposed options to capitalise development and borrowing costs (see
paragraphs BC208–BC214).

(b) many respondents commented on the IASB’s proposed approach for
dealing with new and revised full IFRS Standards (see paragraphs
BC185–BC207). The following were the most common issues raised:

(i) the criteria used for assessing changes to full IFRS should be
clarified.

(ii) some respondents said changes to the IFRS for SMEs should not be
introduced until sufficient implementation experience exists
under full IFRS. In contrast, others said that the IFRS for SMEs
should be closely aligned with full IFRS without a long time lag.

(iii) to better identify the needs of users of SME financial statements.

(iv) the simplifications under IAS 19, issued in June 2011, should be
incorporated during this review.

(c) many respondents commented on the scope of the IFRS for SMEs (see
paragraph BC178–BC184 and BC191–BC193). The following were the
most common issues raised:

(i) the scope should not be restricted to non-publicly accountable
entities;

(ii) there is a disparity between the scope (all non-publicly
accountable entities) and the primary aim of the IASB in
developing the IFRS for SMEs in the 2013 ED (repeated in
paragraph BC187), which is seen to be a focus on smaller/less
complex non-publicly accountable entities; and

(iii) the IFRS for SMEs is too complex for small owner-manager entities.

(d) most respondents supported aligning Section 29 with IAS 12. However,
about half of these respondents also suggested simplifications or
modifications to the proposals (see paragraphs BC219–BC223).
(e) relatively few respondents commented on many of the other proposed amendments in the 2013 ED or had other comments on specific requirements in the IFRS for SMEs. However, the IASB redeliberated the following issues, which were the main ones upon which respondents had comments:

(i) application of ‘undue cost or effort’ (proposed amendment (PA) 3 in the 2013 ED)—see paragraph BC233;

(ii) definition of basic financial instruments (PA 14)—see paragraph BC246;

(iii) requirements for estimating the useful life of goodwill/other intangible assets (PA 21/26)—see paragraph BC247;

(iv) exemption from requirements for offsetting income tax assets and liabilities (PA 45)—see paragraph BC222;

(v) consolidation of group entities with different reporting dates (PA 9)—see paragraph BC255(f);

(vi) use of undue cost or effort exemption in a business combination (PA 25)—see paragraph BC241;

(vii) accounting for extractive activities (PA 49)—see paragraphs BC224–BC226;

(viii) grouping items in other comprehensive income (PA 6)—see paragraph BC203;

(ix) cumulative exchange differences on the disposal of a subsidiary (PA 10)—see paragraph BC234;

(x) disclosure of accounting policy for termination benefits (PA 43)—see paragraph BC253;

(xi) subsidiaries acquired and held for sale (PA 8)—see paragraph BC255(e);

(xii) distribution of non-cash assets (PA 34)—see paragraph BC239;

(xiii) best evidence of fair value (PA 15)—see paragraph BC255(k); and

(xiv) classification of spare parts (PA 20)—see paragraph BC205.

(f) most respondents supported the proposals in the 2013 ED for the transition requirements and the effective date. However, a significant minority thought that there should be relief from full retrospective application for some or all the proposed amendments, in particular for proposed changes to Section 29 (see paragraph BC256–BC263).

BC174 The result of the IASB’s redeliberations of the issues raised is that three significant changes and ten other changes, excluding minor drafting changes, have been made to the proposals in the 2013 ED.

BC175 The three significant changes are:

(a) permitting a revaluation model for property, plant and equipment (see paragraphs BC208–BC212);
(b) simplified transition requirements (see paragraphs BC256–BC260); and
(c) aligning the main recognition and measurement requirements for
exploration and evaluation assets with IFRS 6 Exploration for and Evaluation
of Mineral Resources (see paragraphs BC224–BC226).

The other changes are:

(a) requiring that for each undue cost or effort exemption in the IFRS for
SMEs, an SME should disclose when it has used the exemption and its
rationale for doing so;
(b) requiring investment property measured at cost less accumulated
depreciation and impairment to be presented separately on the face of
the statement of financial position;
(c) adding clarifying guidance on the accounting for a subsidiary acquired
with the intention of sale or disposal within one year if the subsidiary is
not sold or disposed of during that time frame;
(d) permitting an SME to account for investments in subsidiaries, associates
and jointly controlled entities in its separate financial statements using
the equity method, based on similar changes in Equity Method in Separate
Financial Statements (Amendments to IAS 27), issued in August 2014;
(e) clarifying the criterion for basic financial instruments in paragraph 11.9
of the IFRS for SMEs and adding examples of simple loan arrangements
meeting that criterion;
(f) the addition of the exemption in paragraph 70 of IAS 16, which allows
an entity to use the cost of the replacement part as an indication of what
the cost of the replaced part was at the time that it was acquired or
constructed, if it is not practicable to determine the carrying amount of
a part of an item of property, plant and equipment that has been
replaced;
(g) adding an undue cost or effort exemption from the requirement to
measure the liability to pay a non-cash dividend at the fair value of the
non-cash assets to be distributed;
(h) a few further modifications to Section 29, including clarifying the
wording in the exemption from the requirements for offsetting income
tax assets and liabilities;
(i) amending the definition of a related party to include a management
entity providing key management personnel services, based on similar
changes in Annual Improvements to IFRSs 2010–2012 Cycle, issued in
December 2013; and
(j) not modifying the definition of a financial liability as proposed in the
2013 ED to incorporate Classification of Rights Issues (Amendments to
IAS 32), issued in October 2009.

Paragraphs BC178–BC234 and BC264 cover the IASB’s discussion about the main
issues identified during the comprehensive review and how they were resolved.
Paragraphs BC235–BC255 list all the changes made to the IFRS for SMEs and
provide the IASB’s rationale for making those changes to the extent the explanation is not already covered in BC178–BC234. Paragraphs BC256–BC263 explain the IASB’s considerations in setting the transition requirements and the effective date. Paragraphs BC265–BC272 provide an analysis of the likely effects of the amendments.

**Main issues identified during the initial comprehensive review**

**Scope of the **IFRS for SMEs**

**BC178** The IASB first addressed the issues relating to the scope. The IASB noted that it was important to clarify the entities for which the **IFRS for SMEs** is intended before deciding what kind of amendments to the **IFRS for SMEs** should be made.

**Use of the **IFRS for SMEs** by publicly accountable entities**

**BC179** Some respondents to the RFI and the 2013 ED said that the scope should not be restricted to non-publicly accountable entities. Consequently, the IASB considered whether paragraph 1.5 of the **IFRS for SMEs** is too restrictive and whether jurisdictions should have the authority to decide whether publicly accountable entities should be able to use and state compliance with the **IFRS for SMEs**.

**BC180** The IASB observed that the **IFRS for SMEs** was specifically designed for SMEs and users of SME financial statements and so it may not be appropriate for a wider group of entities. Furthermore, the IASB noted that if the scope was widened to include some publicly accountable entities, it may lead to pressure to make changes to the **IFRS for SMEs** to address issues that may arise from that wider group, which would increase the complexity of the **IFRS for SMEs**. The IASB also had concerns about the risks associated with the inappropriate use of the **IFRS for SMEs** if the restriction on publicly accountable entities using the **IFRS for SMEs** was removed from paragraph 1.5 of the **IFRS for SMEs**. A majority of IFRS Advisory Council and SMEIG members shared the IASB’s concerns and recommended keeping the requirement in paragraph 1.5 that prevents publicly accountable entities from stating compliance with the **IFRS for SMEs**.

**Meaning of fiduciary capacity**

**BC181** After considering the responses to the 2013 ED, the IASB decided that there was no new information that would lead the IASB to reconsider its previous decision. Consequently, it decided to keep paragraph 1.5 of the **IFRS for SMEs**. The IASB noted that jurisdictions can already incorporate the **IFRS for SMEs** into their local GAAP if they wish to allow certain publicly accountable entities to use it. However, those entities would state compliance with local GAAP, not with the **IFRS for SMEs**.

**BC182** Some respondents to the RFI said that the meaning of ‘fiduciary capacity’ in the definition of public accountability is unclear, because it is a term that has different implications in different jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate
what guidance would help to clarify the meaning of fiduciary capacity. Consequently, the IASB asked a question in the 2013 ED to find out more information about the concerns raised.

BC183 Most respondents to the 2013 ED said that there is no need to clarify or replace the term fiduciary capacity. However, a few respondents noted that the term had created uncertainty on the implementation of the IFRS for SMEs in their jurisdictions. The IASB observed that it would be difficult to provide a definition of the term fiduciary capacity and/or provide guidance that would be applicable in all jurisdictions applying the IFRS for SMEs because of the different legal requirements and types of entities in different jurisdictions. Furthermore, the IASB noted that local legislative and regulatory authorities, and standard-setters in individual jurisdictions, may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. By this, the IASB does not mean that those authorities and standard-setters are best placed to choose which entities in their jurisdiction meet the criterion in paragraph 1.3(b) of the IFRS for SMEs. Instead, the IASB’s intention was to ensure that the definition in paragraph 1.3 is applied consistently in accordance with the intended scope of the IFRS for SMEs in their jurisdiction. Furthermore, the IASB noted that those local authorities and standard-setters are also best placed to decide whether other factors may mean that, in their jurisdiction, full IFRS may be more suitable for certain SMEs than the IFRS for SMEs. Consequently, the IASB decided not to provide guidance on applying the term fiduciary capacity.

Use of the IFRS for SMEs by not-for-profit entities

BC184 Some interested parties have asked whether soliciting and accepting contributions would automatically make a not-for-profit (NFP) entity publicly accountable, because such an activity involves the entity holding financial resources entrusted to it by clients. The IASB noted that an entity only has public accountability if it meets the criteria in paragraph 1.3 of the IFRS for SMEs. The IASB further noted that paragraph 1.4 lists charitable organisations as an example of an entity that is not automatically publicly accountable if it only holds financial resources entrusted to it by others for reasons incidental to a primary business. The IASB therefore decided that the IFRS for SMEs is sufficiently clear that soliciting and accepting contributions does not automatically make NFP entities publicly accountable.

New and revised IFRS Standards

Introduction

BC185 The IFRS for SMEs was developed using full IFRS as a starting point and then considering what modifications are appropriate in the light of the needs of users of SME financial statements and cost-benefit considerations (see paragraphs BC95–BC97). Consequently, one of the most significant issues confronting the IASB was how the IFRS for SMEs should be updated in the light of the new and revised full IFRS Standards issued after the IFRS for SMEs was issued in 2009—
In particular, how to balance the importance of maintaining alignment with full IFRS with having a stable, independent and stand-alone Standard that focuses on the needs of SMEs.

Respondents to the RFI and the 2013 ED were divided on how the IFRS for SMEs should be updated during this comprehensive review for new and revised full IFRS Standards. The views expressed by respondents were generally influenced by the respondent’s understanding of the purpose of the IFRS for SMEs and which entities it should cater for, for example:

(a) some respondents noted that the IFRS for SMEs should cater for subsidiaries that are eligible to use the IFRS for SMEs but that need to provide full IFRS information for consolidation purposes. Other respondents thought that the IFRS for SMEs should act as an intermediate Standard for a company that expects to transition to full IFRS in the future. Both groups of respondents would prefer the IFRS for SMEs to be fully aligned with full IFRS, ideally without any time lag, with simplifications from full IFRS being restricted to disclosure requirements.

(b) other respondents noted that the primary aim of the IFRS for SMEs is an independent Standard tailored for smaller businesses. Those respondents said that maintaining alignment with full IFRS is less important and also that it is more important to have the implementation experience of new and revised full IFRS Standards first before introducing those requirements for SMEs.

The IASB’s principles for dealing with new and revised full IFRS Standards

The IASB observed that the primary aim when developing the IFRS for SMEs was to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRS and that operate in circumstances in which comparability with their listed peers is not an important consideration. The IASB also noted its decision not to extend the scope of the IFRS for SMEs to permit publicly accountable entities to use it.

With this primary aim in mind the IASB considered a framework for how to deal with new and revised full IFRS Standards during this comprehensive review and future reviews of the IFRS for SMEs. The IASB developed the following principles:

(a) each new and revised full IFRS Standard should be considered individually on a case-by-case basis to decide if, and how, its requirements should be incorporated into the IFRS for SMEs.

(b) new and revised full IFRS Standards should not be considered until they have been issued. However, it would generally not be necessary to wait until their Post-implementation Reviews (PIRs) have been completed.

(c) minor changes/annual improvements to full IFRS should also be considered on a case-by-case basis.
changes to the IFRS for SMEs could be considered at the same time that new and revised full IFRS Standards are issued. However, the IFRS for SMEs would only be updated for those changes at the next periodic review of the IFRS for SMEs, in order to provide a stable platform for SMEs.

The IASB further observed that, when applying the principles in paragraph BC188, decisions both on which changes to incorporate into the IFRS for SMEs and the appropriate timing for incorporating those changes should be weighed against the need to provide SMEs with a stable platform and the suitability of such changes for SMEs and users of their financial statements. The IASB noted that it may decide only to incorporate changes from a complex new or revised full IFRS Standard after implementation experience has been assessed. However, the IASB will make this assessment at the periodic review following the issue of a new or revised full IFRS Standard instead of automatically waiting until there is substantial experience from entities who have applied it or until a PIR of that full IFRS Standard has taken place.

The IASB decided that new and revised full IFRS Standards should not be considered until they have been issued. This is because, until a final full IFRS Standard is issued, the IASB’s views are always tentative and subject to change.

Some respondents to the 2013 ED expressed concern that the IASB’s primary aim in developing the IFRS for SMEs, as set out in paragraph BC187, means that the reporting needs of ‘large’, complex non-publicly accountable entities are not effectively addressed. The IASB agreed that the IFRS for SMEs is intended for all SMEs, which are defined to be those entities that do not have public accountability that are required, or elect, to publish general purpose financial statements for external users. The IASB noted that its reasons for developing a Standard intended for all SMEs are explained in paragraphs BC55–BC77. Nevertheless, the IASB observed that when deciding on the content of the IFRS for SMEs, the primary aim of the IASB was to focus on the kinds of transactions, events and conditions encountered by typical SMEs that are likely to apply the IFRS for SMEs. If the IASB had tried to cater for all possible transactions that SMEs may enter into, the IFRS for SMEs would have had to retain most of the content of full IFRS. In particular, the IASB bore in mind that many SMEs have limited resources and that the IFRS for SMEs should accommodate that limitation. Conversely, entities with more complex transactions and activities, including SMEs, are likely to have more sophisticated systems and greater resources to manage those transactions.

If an SME has very complex transactions or determines that comparability with its publicly accountable peers is of key importance to its business, the IASB observed that it would expect that the entity would want to, and have sufficient expertise to, either refer to the more detailed guidance on complex transactions in full IFRS if specific guidance is not provided in the IFRS for SMEs (see paragraph 10.6) or apply full IFRS instead of the IFRS for SMEs. Paragraphs BC69–BC70 explain why it is not possible for the IASB to set additional criteria that would be appropriate across all jurisdictions for entities that may find full IFRS more appropriate to their needs. However, jurisdictions may choose to establish size criteria or decide that entities that are economically significant in that country should be required to use full IFRS instead of the IFRS for SMEs.
Some respondents to the 2013 ED said that the IFRS for SMEs was too complex for owner-managed entities. The IASB noted that the IFRS for SMEs is intended for entities that choose, or are required, to publish general purpose financial statements. General purpose financial statements are those directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. The Preface to the IFRS for SMEs explains that SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities, and that financial statements produced solely for those purposes are not necessarily general purpose financial statements. The IASB noted that the IFRS for SMEs is not intended for small owner-managed entities preparing financial statements solely for tax reasons or to comply with local laws. However, small owner-managed entities may still find the IFRS for SMEs helpful in preparing such financial statements.

Some respondents to the 2013 ED said that the IASB should establish a formal framework or clearer principles to determine whether and when changes to full IFRS should be incorporated in the IFRS for SMEs. These respondents noted that the principles developed by the IASB in paragraph BC188 are not robust enough and/or do not help interested parties to predict when changes to full IFRS will be considered. Some respondents provided suggestions that they thought would improve the criteria. The IASB noted that there are special considerations applicable to this initial review of the IFRS for SMEs, which led the IASB to place greater emphasis on the need for limiting changes. However, the IASB will discuss to what extent a more developed framework for future reviews of the IFRS for SMEs should be established before the next periodic review of the IFRS for SMEs.

Some respondents to the 2013 ED said that they found it difficult to understand the conceptual basis for differences between the IFRS for SMEs and full IFRS and that the IASB should clearly identify the needs of users of SME financial statements. The IASB noted that this Basis for Conclusions is clear on both of these points. In particular:

(a) paragraph BC95 notes that the IFRS for SMEs was developed by considering the modifications that are appropriate to full IFRS in the light of users’ needs and cost-benefit considerations; and

(b) paragraphs BC44–BC47 and BC157 describe the needs of users of SME financial statements and explain how they differ from the needs of users of financial statements of publicly accountable entities.

Some respondents to the 2013 ED said that if cost-benefit considerations are a major driver of the differences between the IFRS for SMEs and full IFRS, public accountability is not an appropriate criterion. The IASB agrees that the related costs of publicly and non-publicly accountable entities may not differ significantly. However, it noted that the ‘benefits’ side of the cost-benefit trade-off considers the different information needs of different financial statement users as explained in paragraphs BC44–BC47.
Individual new and revised full IFRS Standards during the current review

BC197 The IASB considered how to deal with individual new and revised full IFRS Standards during this comprehensive review in the light of the principles in paragraph BC188. The IASB observed that this comprehensive review is subject to additional considerations compared to future reviews, because it is the first review since the initial publication of the IFRS for SMEs. Although the IFRS for SMEs was issued in 2009, in many of the jurisdictions that have adopted it, it has been effective for a shorter period of time. In addition, in jurisdictions that permit, instead of require, the IFRS for SMEs, many SMEs have only started the transition to it. As a result, for the majority of SMEs using, or about to use, the IFRS for SMEs, it is still a new Standard. For these reasons, the IASB decided that there is a greater need for stability during this initial review than there may be in future reviews. A majority of IFRS Advisory Council members also recommended prioritising the need to provide SMEs with a stable, independent and stand-alone Standard over maximising alignment with full IFRS.

IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

BC198 The IASB first considered how to propose to address the five new or revised full IFRS Standards in the 2013 ED that the IASB believed had the potential to result in the most significant changes to the IFRS for SMEs, namely IFRS 3 (2008), IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 13 Fair Value Measurement and IAS 19 (2011). During development of the 2013 ED, the IASB made the following observations:

(a) IFRS 10, IFRS 11 and IFRS 13 only recently became effective and they introduce complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, they would be expected to have a limited practical impact on the majority of SMEs, because the new requirements are unlikely to affect many common fair value measurements and the accounting for groups of entities with a simple group structure.

(b) the main change in IAS 19 (2011), if incorporated for SMEs, would be a requirement to present actuarial gains and losses in other comprehensive income. As part of its Conceptual Framework project, the IASB is currently considering its treatment of other comprehensive income and this may result in changes to the requirements relating to other comprehensive income under full IFRS. Given these possible changes, the IASB decided that it may be better to continue to permit SMEs the choice of recognising actuarial gains and losses in profit or loss or other comprehensive income until this subject has been discussed further.

(c) the changes in IFRS 3 (2008) would result in significant complexity for SMEs, particularly because of the additional fair value measurements required. Based on feedback from the RFI, SMEIG members and other interested parties, the current approach in the IFRS for SMEs (based on IFRS 3 (2004)) is working well in practice and is well understood and
accepted by preparers and users of SME financial statements. Furthermore, it has the same basic underlying approach as IFRS 3 (2008) but simplified.

For the reasons outlined in this paragraph and in paragraph BC197, the IASB decided not to amend the IFRS for SMEs during this initial review to incorporate IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011).

BC199 Apart from those that support full alignment with full IFRS (see paragraph BC186), very few respondents to the 2013 ED had specific comments on the IASB's decision not to incorporate IFRS 3 (2008), IFRS 10, IFRS 11 and IFRS 13. In contrast, several respondents said that the IASB should reconsider its decision not to incorporate some of the changes introduced by IAS 19 (2011) during this comprehensive review. Those respondents asserted that some of the changes introduced by IAS 19 (2011) would simplify the requirements in the IFRS for SMEs while at the same time increasing consistency with full IFRS.

BC200 The IASB observed that the new and revised full IFRS Standards that are being incorporated during this review would only make minimal changes to the IFRS for SMEs for the majority of SMEs (see paragraphs BC201–BC207). This would not be the case for IAS 19 (2011). Furthermore, the IASB did not think that it would be appropriate to incorporate only one or two of the changes made by IAS 19 (2011), for example, those that may provide a simplification for SMEs such as the basis of the calculation of net interest, without considering the other changes. Section 28 Employee Benefits is currently based on IAS 19 before it was amended in 2011. Incorporating only one or two of the changes introduced by IAS 19 (2011) risks developing a mixed model of the old and new IAS 19 for employee benefits. The IASB noted that this could lead to confusion and result in inconsistencies in the IFRS for SMEs.

Other new and revised full IFRS Standards issued before the 2013 ED was published

BC201 The IASB then considered how to propose to address other changes introduced by other new and revised full IFRS Standards in the 2013 ED. Based on an individual assessment of each new and revised full IFRS Standard, the IASB decided that the main changes in the following new and revised full IFRS Standards should be incorporated:

(a) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1), issued in June 2011;
(b) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, issued in November 2009; and
(c) two amendments to IFRS 1:
   (i) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, issued in December 2010; and
   (ii) Government Loans, issued in March 2012.

BC202 The IASB selected the new and revised full IFRS Standards specified in paragraph BC201 based on selecting changes that are relevant to SMEs; provide additional clarity or a simplification; and/or fix known or expected problems or diversity in
practice. Furthermore, the IASB noted that each of the new or revised full IFRS Standards listed in paragraph BC201 is likely to only modify one or two paragraphs in the IFRS for SMEs and so the resulting changes will be minimal and are consistent with maintaining stability during the early years of implementing the IFRS for SMEs. When incorporating the main changes in these new and revised full IFRS Standards the IASB also decided to make two further changes:

(a) to complement the changes made regarding the presentation of items of other comprehensive income, the IASB decided to clarify that the IFRS for SMEs does not prescribe how, when or if amounts can be transferred between components of equity (see paragraph 2.22 of the IFRS for SMEs).

(b) the IASB noted that the measurement of unquoted equity instruments is often very difficult for SMEs because it involves substantial judgement and complex calculations. The IASB also observed that it would usually expect that the benefits to users of an SME’s financial statements of having fair value information about the SME’s equity instruments would not justify the SME spending undue cost or effort to provide the information. Consequently, the IASB decided to include an undue cost or effort exemption from the requirement to measure own equity instruments at fair value in IFRIC 19, but to otherwise align the requirements with IFRIC 19.

Some respondents to the 2013 ED noted that they did not think the change in paragraph BC201(a) was useful for users of SME financial statements, because of the limited circumstances in which items are recognised in other comprehensive income under the IFRS for SMEs. These respondents also asserted that incorporating this amendment was inconsistent with the IASB’s decision during development of the 2013 ED not to reconsider the use of other comprehensive income during this comprehensive review, because it is considering the treatment of other comprehensive income as part of its Conceptual Framework project. However, the IASB observed that the grouping of items of other comprehensive income would be easy for SMEs to apply and the resulting information would have useful predictive value. Consequently, it decided that the change is appropriate for cost-benefit reasons. The IASB also noted that its decision to include an option for SMEs to apply a revaluation model for property, plant and equipment (see paragraph BC210–BC212) will mean that more SMEs may have one or more items recognised in other comprehensive income.

The IASB also decided that the main changes in the following annual improvements should be incorporated in the IFRS for SMEs because they are relevant to SMEs and they provide clarity and, in most cases, simplification:

(a) Improvements to IFRSs, issued in May 2010:

(i) revaluation basis as deemed cost (IFRS 1);

(ii) use of deemed cost for operations subject to rate regulation (IFRS 1); and

(iii) clarification of statement of changes in equity (IAS 1).

(b) Annual Improvements to IFRSs 2009–2011 Cycle, issued in May 2012:
(i) repeated application of IFRS 1 (IFRS 1);
(ii) classification of servicing equipment (IAS 16); and
(iii) tax effect of distributions to holders of equity instruments (IAS 32).

BC205 Some respondents to the 2013 ED said that the cost and effort of monitoring and tracking the individual spare parts, stand-by equipment and servicing equipment as either property, plant and equipment or inventory (in paragraph BC204(b)(ii)) would not justify the benefits to users of SME financial statements. The IASB observed that the change only clarifies what has always been required by Section 17 Property, Plant and Equipment. The IASB also thinks that the changes to the wording in paragraph 17.5 of the IFRS for SMEs make the requirements easier to understand.

New and revised full IFRS Standards issued since the 2013 ED was published

BC206 The IASB observed that during reviews of the IFRS for SMEs, it would generally consider only new and revised full IFRS Standards published after the related Exposure Draft of proposed amendments to the IFRS for SMEs has been issued if they address an urgent need for SMEs or users of their financial statements. This is because if the IASB makes fundamental changes to the proposals in an Exposure Draft, on which respondents have not had the opportunity to comment, this would probably result in the need to re-expose the proposals. By the end of the re-exposure period there would be another list of new and revised full IFRS Standards to consider. On this basis, the IASB noted that it would make only two changes as a result of new and revised full IFRS Standards issued since the 2013 ED was published:

(a) the amendment to the definition of a related party for a management entity providing key management personnel services in Annual Improvements to IFRSs 2010–2012 Cycle. The IASB noted that the 2013 ED proposed to align the definition of a related party with IAS 24 Related Party Disclosures during this comprehensive review and this minor change would allow full alignment.

(b) the main change under Equity Method in Separate Financial Statements (Amendments to IAS 27), i.e. permitting entities to use the equity method to account for subsidiaries, associates and jointly controlled entities in the separate financial statements. The IASB noted that this change would not affect an SME’s primary financial statements and that the IFRS for SMEs does not require the preparation of separate financial statements. Consequently, the IASB decided to permit SMEs this flexibility if they prepare such additional financial statements.

BC207 Some respondents to the 2013 ED said that it was important for the IASB to consider Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41), issued in June 2014, that permits a cost model for bearer plants, a subset of biological assets, during this comprehensive review. However, the IASB noted that the IFRS for SMEs only requires an entity to account for a biological asset using the fair value model if its fair value is readily determinable without undue cost or
effort. The amendments to IAS 16 and IAS 41 responded to concerns raised by some plantation companies that, under certain circumstances, the fair value measurements of bearer plants are complex and costly in the absence of active markets for those assets. In the circumstances in which this is the case, the IASB noted that the undue cost or effort exemption should be considered by SMEs. Consequently, the IASB does not think that there is an urgent need to make an exemption to incorporate the changes under Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) during this comprehensive review.

Accounting policy options

BC208 The IASB noted that users of SME financial statements that need to understand the accounting policies used, and that make comparisons between different SMEs, have said that they prefer SMEs to have no, or only limited, accounting policy options. Furthermore, the IASB noted that while SMEs could still choose to apply the simpler option, adding complex options to the IFRS for SMEs would add complexity throughout the Standard. Consequently, the IASB continues to support its original reasons for restricting accounting policy options in the IFRS for SMEs as set out in paragraphs BC89–BC94.

BC209 The staff’s outreach to providers of finance, who are considered to be the primary external user group of SMEs, confirmed the importance to that user group of restricting accounting policy options for SMEs. The participants in the outreach noted that they generally input the information from the audited financial statements of an SME directly into their models when making lending decisions. Consequently, it is important to these parties that SMEs should provide comparable information and that they do not need to make adjustments to that information.

Revaluation model for property, plant and equipment

BC210 The most common concern raised by respondents to the 2013 ED was the decision of the IASB not to propose an accounting policy option for the revaluation of property, plant and equipment. The IASB has received feedback from preparers, standard-setters, accounting firms and other interested parties that not having a revaluation option is a barrier to the adoption of the IFRS for SMEs in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. Those interested parties note that, for entities that are currently applying the revaluation model under local GAAP, a change to the cost model may have implications for current borrowing arrangements and affect their ability to raise finance in the future. Furthermore, some respondents have noted that a revaluation option is important in jurisdictions that are experiencing high inflation. Approximately half of the members of the SMEIG also recommended that the IASB should reconsider its proposal not to permit a revaluation model for property, plant and equipment.

BC211 During its redeliberations on the 2013 ED, and in the light of the ongoing and widespread concerns raised by respondents, the IASB decided to permit an option for SMEs to revalue property, plant and equipment. Although the IASB thinks that limiting options is important for the reasons given in paragraphs BC208–BC209, it acknowledges that, based on the responses to the
RFI and the 2013 ED, not allowing a revaluation model for property, plant and equipment appears to be the single biggest impediment to adoption of the IFRS for SMEs in some jurisdictions. The IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. The IASB therefore decided that the benefits of a wider use of the IFRS for SMEs, and hence the potential for global improvements in reporting and consistency, together with the usefulness of the information provided, outweigh the perceived costs to users and preparers of financial statements of adding this option. Furthermore, the IASB noted that the change introduces only an option, not a requirement. Consequently, it does not necessitate a change or additional costs for preparers. The IASB also noted that there was nothing to prevent authorities and standard-setters in individual jurisdictions from requiring all SMEs in their jurisdiction to use only the cost model or only the revaluation model for property, plant and equipment. Such action would not prevent SMEs from stating compliance with the IFRS for SMEs.

**BC212** Consistently with full IFRS, the IFRS for SMEs does not generally prescribe how, when or if amounts can be transferred between components of equity (see paragraph BC202(a)). Instead, these decisions are left to the discretion of preparers, subject to the constraints imposed by Section 2. Section 2 requires that the information presented must be understandable, relevant and reliable. The IASB noted that, in certain circumstances, it may be appropriate to transfer all or some of the accumulated other comprehensive income from the revaluation surplus for property, plant and equipment directly to retained income or another component of equity. The IASB also noted that in other circumstances, such transfers may be mandated or prohibited by local legislation. Consequently, consistently with the requirements for other elements of accumulated other comprehensive income, when adding an option to use the revaluation model for property, plant and equipment, the IASB decided not to prescribe how, when or if items of accumulated other comprehensive income should be transferred to other components of equity.

**Capitalisation of development or borrowing costs**

**BC213** Only a small number of respondents to the RFI and the 2013 ED supported a requirement for SMEs to capitalise development and/or borrowing costs based on similar criteria to full IFRS. However, several respondents supported giving SMEs an option to capitalise development and borrowing costs based on similar criteria to full IFRS. They supported introducing this option for reasons similar to those expressed by respondents in paragraph BC210, ie the effect on current and future borrowing arrangements and high-inflation environments. However, many respondents did not support changing the current requirements and would continue to require SMEs to expense all development and borrowing costs.

**BC214** The IFRS for SMEs requires all borrowing and development costs to be recognised as expenses. Full IFRS requires the capitalisation of borrowing and development costs meeting certain criteria; otherwise they are recognised as expenses. Consequently, the IFRS for SMEs simplifies the requirements in full IFRS, instead of removing an option permitted in full IFRS. The IASB therefore noted that allowing options to capitalise certain development and borrowing costs would...
involve different considerations than allowing a revaluation option for property, plant and equipment. In particular the IASB observed that permitting accounting policy options to capitalise development and borrowing costs that meet the criteria for capitalisation in IAS 38/IAS 23, in addition to the current approach, would result in more accounting policy options than full IFRS. The IASB noted that it continues to support its rationale for requiring the recognition of all development and borrowing costs as expenses, for cost-benefit reasons as set out in paragraphs BC113–BC114 and BC120, and for not providing the additional, more complex, accounting policy options for SMEs as set out in paragraphs BC208–BC209. The IASB noted that an SME should disclose additional information about its borrowing or development costs if it is considered relevant to users of its financial statements.

Optional fallback to full IFRS for financial instruments

BC215 The IFRS for SMEs permits entities to choose to apply either (see paragraph 11.2 of the IFRS for SMEs):

(a) the provisions of both Sections 11 and 12 in full; or

(b) the recognition and measurement provisions of IAS 39 and the disclosure requirements of Sections 11 and 12.

The IFRS for SMEs refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9 Financial Instruments.

BC216 Paragraphs BC187–BC196 explain the IASB’s principles for dealing with new and revised full IFRS Standards. In line with those principles, the IASB decided that IFRS 9 should not be considered when developing the 2013 ED because, at that time, it had not yet been completed. In addition, the IASB’s reasoning for not considering changes to full IFRS after the 2013 ED had been issued is set out in paragraphs BC206–BC207. The IASB noted that its reasoning for not considering IFRS 10, IFRS 11, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 during this review (see paragraph BC198) is equally applicable to IFRS 9.

BC217 Consistently with the primary aim of developing a stand-alone, simplified set of accounting principles for SMEs, the IASB would prefer the fallback to full IFRS to be ultimately removed. However, the IASB decided that the fallback to IAS 39 should be retained until IFRS 9 is considered at a future review for the following reasons:

(a) when the IFRS for SMEs was issued, the IASB decided that SMEs should be permitted to have the same accounting policy options as in IAS 39 pending completion of the IASB’s Financial Instruments project and this reasoning remains valid until IFRS 9 is considered (see paragraph BC106),

(b) if entities are currently applying IAS 39, the IASB does not think that it is appropriate to require them to change to Sections 11 and 12 when it is expected that IFRS 9 will be considered at the next review of the IFRS for SMEs.

(c) the IASB notes that, based on its outreach, most SMEs, except subsidiaries of full IFRS groups, appear to have found the fallback to full IFRS onerous and have chosen to follow Sections 11 and 12 in full.
However, without sufficient evidence, the IASB does not think that the fallback to full IFRS should be removed during this comprehensive review.

The IASB discussed introducing a fallback to IFRS 9 as a further (third) option. This was rejected because the IASB considered that the potential confusion created by having three alternative models outweighed any potential benefits.

BC218 The IASB noted that an SME that elects to follow the recognition and measurement principles of IAS 39, instead of those in Sections 11 and 12, would currently apply the version of IAS 39 in the full IFRS publication titled International Financial Reporting Standards IFRS® Consolidated without early application (Blue Book) that is in effect at the entity’s reporting date (ie without early application of parts of IFRS 9). The IASB also observed that when IAS 39 is superseded by IFRS 9, a copy of the version of IAS 39 that applied immediately prior to IFRS 9 will need to be retained for reference on the SME webpages of the IASB’s website while the fallback to IAS 39 remains.

Accounting for income tax

BC219 When the IFRS for SMEs was issued in 2009, Section 29 was based on the IASB’s Exposure Draft Income Tax (the ‘2009 IAS 12 ED’), which was published in March 2009. However, the changes proposed in the 2009 IAS 12 ED were never finalised by the IASB. Consequently, the IASB decided to align the main requirements for recognising and measuring deferred tax in Section 29 with the approach in IAS 12, modified to be consistent with the other requirements of the IFRS for SMEs. The IASB noted that most of the respondents to the RFI supported this approach. The IASB also observed that in many jurisdictions IAS 12 has been applied by entities, including SMEs, for years. Aligning the requirements with IAS 12 would have the advantage of enabling SMEs to draw on this experience, as well as the education material available on IAS 12, to understand the requirements. The IASB continues to support its reasoning as set out in paragraph BC145 for not permitting the taxes payable approach. However, while believing that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, the IASB asked a question in the 2013 ED seeking feedback on whether Section 29 (revised) in the 2013 ED would be operational for SMEs or whether further simplifications or guidance should be considered.

BC220 Some of the respondents to the 2013 ED supported having an undue cost or effort exemption for some or all of the requirements of Section 29 (revised). However, those respondents who suggested having an undue cost or effort exemption for some requirements of Section 29 (revised) did not identify which requirements should qualify for exemption. Furthermore, the only simplified fallback solution suggested that could be applied if an undue cost or effort exemption was used was the taxes payable approach with disclosures. The IASB decided not to consider such an exemption because it thinks that most SMEs will have similar types of transactions year on year. The IASB noted that once those SMEs understand the deferred tax computations for those transactions, the accounting treatment should be relatively straightforward from then on.
Some respondents supported including additional material from IAS 12. In response to some of the concerns raised, the IASB decided to add paragraph 29.21(c) to the IFRS for SMEs and modify paragraphs 29.30 and 29.40(c).

The IASB decided to keep the simplified presentation requirements in the existing Section 29 with one further simplification. The IASB noted that IAS 12 has separate requirements for offsetting deferred tax assets and liabilities to avoid the need for detailed scheduling, whereas under Section 29 the requirements for offsetting deferred tax assets and liabilities are the same as for offsetting current tax assets and liabilities. The IASB therefore decided to add an undue cost or effort exemption so that offsetting income tax assets and liabilities would not be required if significant, detailed scheduling is required. The exemption is intended to provide similar relief to IAS 12 without including the more complex wording used in IAS 12. In response to concerns that the exemption proposed in the 2013 ED was unclear, the IASB clarified the wording in the final amendments.

The IASB also decided to keep the same level of disclosures as in the existing Section 29. The existing disclosures were reduced and simplified from the 2009 IAS 12 ED on the basis of user needs and cost-benefits. However, because of the amendments to align the recognition and measurement requirements with IAS 12, the IASB has made a number of consequential amendments to the disclosures.

**Exploration for and evaluation of mineral resources**

The 2013 ED proposed to describe more clearly the accounting requirements for entities involved in the exploration for, or evaluation of, mineral resources in response to requests by respondents to the RFI. However, some respondents to the 2013 ED asserted that the proposed requirements were more onerous than the related requirements in full IFRS. These respondents noted that paragraph 7 of IFRS 6 exempts an entity under full IFRS from paragraphs 11–12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when developing accounting policies for the recognition and measurement of exploration and evaluation assets. These respondents observed that paragraph 34.11 of the 2013 ED would require an entity to determine an accounting policy in accordance with the accounting policy hierarchy in paragraphs 10.4–10.6 of the IFRS for SMEs, which would require an entity to consider the concepts and principles in Section 2. Respondents suggested providing a similar exemption to that in full IFRS in paragraph 34.11. In addition, a few respondents also said that specific guidance should be provided for the accounting for impairment of exploration and evaluation assets, instead of requiring entities to follow the general requirements in Section 27 Impairment of Assets. Those respondents asserted that developing specific guidance for the impairment of exploration and evaluation assets was an important issue in IFRS 6.

Some respondents said that permitting a fallback to IFRS 6 would be a good solution to address those concerns. However, the IASB noted that the IFRS for SMEs is intended to be a stand-alone IFRS and so it did not support introducing another fallback to full IFRS (see paragraph BC217). Consequently, the IASB decided to add requirements in Section 34 that align the main
recognition and measurement requirements for exploration and evaluation assets with IFRS 6. The IASB noted that this would ensure that the IFRS for SMEs provides the same relief as full IFRS for these activities. The IASB thinks that this is important for the reasons set out in paragraphs BC2–BC5 of IFRS 6. The IASB noted that these changes are consistent with maintaining stability during the early years of implementing the IFRS for SMEs, because they only affect SMEs with one specific type of activity and they respond to a need for clarity and constitute a simplification for those entities, particularly those making the transition to the IFRS for SMEs.

BC226 However, the IASB decided not to make any changes to the presentation and disclosure requirements. It noted that it is not possible for the IFRS for SMEs to include industry-specific disclosures for different industries and remain user-friendly for simple SMEs. Nevertheless, it noted that when additional disclosures are important to an understanding of specific industry activities, paragraph 8.2(c) of the IFRS for SMEs would apply.

SMEIG Q&As

BC227 The IASB decided that existing Q&As should be incorporated into the IFRS for SMEs and/or the IFRS Foundation’s educational material and the original Q&As should then be deleted. The IASB decided that the following guidance from the Q&As should be incorporated into the IFRS for SMEs:

(a) clarification of the use of the IFRS for SMEs in the parent’s separate financial statements in Section 1 (taken from Q&A 2011/01);
(b) clarifying guidance on the undue cost or effort exemption that is used in several sections of the IFRS for SMEs (taken from Q&A 2012/01); and
(c) clarification in paragraph 9.18 of the IFRS for SMEs that cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on the disposal of the subsidiary (taken from Q&A 2012/04).

BC228 The IASB agrees with the SMEIG guidance in paragraph BC227(a)–(c) and also the SMEIG’s reasoning that supports the guidance as set out in the SMEIG Q&As. The IASB has provided additional reasoning for paragraph BC227(b)–(c) in paragraphs BC231–BC235. The IASB decided that the remaining guidance in the SMEIG Q&As was more educational in nature and so decided that it should only be provided as part of the IFRS Foundation’s educational material.

BC229 The result of incorporating any non-mandatory guidance from the Q&As in the IFRS for SMEs is that it will become mandatory. Only the parts of the Q&As incorporated in the IFRS for SMEs will become mandatory, and not the full Q&As from which the guidance was taken.

BC230 The IASB decided to delete all of the existing SMEIG Q&As at the time of issuing the amendments to the IFRS for SMEs. The guidance in the Q&As has been incorporated into the IFRS Foundation’s educational material that is available on the IASB website: http://go.ifrs.org/smetraining. Consequently, the guidance from the Q&As will continue to be available on the IASB website.
Undue cost or effort

Paragraphs 2.13 and 2.14 of the IFRS for SMEs highlight the balance between benefits and costs, and state the general principle to which the IASB refers in making its standard-setting decisions. The requirements within the IFRS for SMEs have been developed by taking into consideration the balance between benefits and costs. In addition to this consideration, the IFRS for SMEs also allows an undue cost or effort exemption in certain specific and defined circumstances. The IASB noted that some interested parties appear to have misunderstood the undue cost or effort exemption, and that these interested parties have concluded that it is a general principle/exemption that can be applied throughout the IFRS for SMEs. Consequently, the IASB decided that including additional guidance on applying the undue cost or effort exemptions will help to eliminate this misconception.

The IASB also thinks that the clarifying guidance will help to emphasise two further points:

(a) that the undue cost or effort exemption is not intended to be a low hurdle. This is because an entity is required to carefully weigh the expected effects of applying the exemption on the users of the financial statements against the cost or effort of complying with the related requirement. In particular, the IASB observed that it would expect that if an entity already had, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. This is because, in that case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the entity.

(b) that an entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date.

Some respondents to the 2013 ED asked for further guidance and/or a definition of undue cost or effort. The IASB decided that it was not appropriate to provide further guidance in the IFRS for SMEs because, ultimately, application of an undue cost or effort exemption depends on an SME’s specific circumstances and on management’s judgement. The IASB also noted that the terms ‘undue cost’ and ‘undue cost or effort’ are used in full IFRS and it would not be appropriate to define a term under the IFRS for SMEs that is used, but not defined, in full IFRS. This is because it may be used to interpret requirements in full IFRS. The IASB also observed that the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken. Consequently, undue cost or effort would generally be easier to meet for SMEs than for entities with public accountability, because the notion is applied relative to the benefits to users and SMEs are not accountable to public stakeholders.

Exchange differences on the translation of a foreign subsidiary

Some respondents to the 2013 ED said cumulative exchange differences from the translation of a foreign subsidiary should be recognised in profit or loss on
disposal of a subsidiary, which would be consistent with full IFRS. The IASB noted that not requiring ‘recycling’ through profit and loss was a change specifically made during the IASB’s redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(ee)). Some of the respondents to the 2013 ED also noted that if there is no requirement to recycle the exchange differences to profit or loss on disposal of a subsidiary, an SME should be permitted to recognise those exchange differences in retained earnings either immediately or on disposal; otherwise they will remain as a separate component of equity forever. The IASB noted that the IFRS for SMEs does not contain any requirements that prohibit SMEs from transferring amounts recognised in other comprehensive income within equity. Consequently, an SME could, in accordance with the IFRS for SMEs, transfer any cumulative exchange differences recognised in other comprehensive income and shown as a separate component of equity (for example, in a foreign currency translations reserve) directly into retained earnings on disposal of the related subsidiary (see paragraph BC202(a)). Nevertheless, the IASB observed that an entity would also need to consider whether there were jurisdiction-specific restrictions on transfers between components of equity.

The amendments to the IFRS for SMEs as a result of the initial comprehensive review

BC235 The IASB made 56 changes to the IFRS for SMEs during the initial comprehensive review. They are of the following types:
(a) three significant changes;
(b) twelve relatively minor changes/clarifications based on new and revised full IFRS Standards;
(c) seven new exemptions from the requirements in the IFRS for SMEs that are permitted only in special cases;
(d) six other changes to the recognition and measurement requirements;
(e) six other changes to the presentation and measurement requirements; and
(f) minor clarifications or clarifying guidance that are not expected to change current practice.

Significant changes to the IFRS for SMEs

BC236 The IASB made three significant changes during the initial comprehensive review:
(a) addition of an option to use the revaluation model for property, plant and equipment (see paragraphs BC208–BC212);
(b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12 (see paragraphs BC219–BC223); and
(c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 (see paragraph BC224–BC226).
Other changes to the IFRS for SMEs

New and revised full IFRS Standards

BC237 The IASB made twelve relatively minor changes/clarifications based on new and revised full IFRS Standards during the initial comprehensive review (see paragraphs BC201–BC207).

New exemptions

BC238 The IASB added seven new exemptions during the initial comprehensive review that are permitted in special cases:

(a) four undue cost or effort exemptions (see paragraphs BC239–BC241).
(b) two exemptions for common control transactions (see paragraph BC242–BC243).
(c) the exemption in paragraph 70 of IAS 16 that an entity may use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of the latter. This exemption was added in response to concerns raised on the 2013 ED that the IFRS for SMEs should not be more onerous than full IFRS.

Undue cost or effort exemptions

BC239 The IASB decided to add undue cost or effort exemptions for the following requirements in the IFRS for SMEs in response to comments raised by respondents to the RFI and the 2013 ED:

(a) measurement of investments in equity instruments at fair value in Sections 11 and 12;
(b) recognising intangible assets of the acquiree separately in a business combination;
(c) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and
(d) the requirement to offset income tax assets and liabilities (see paragraph BC222).

BC240 The IASB noted that the requirements in paragraph BC239(a)–(c) are often very difficult for SMEs to apply in the absence of market data, because they involve substantial judgement and complex calculations. The IASB therefore decided that, in these three situations, the benefits of having the information to users of SME financial statements do not justify SMEs spending undue cost or effort to provide the necessary fair value information. Nevertheless, the IASB also noted that an undue cost or effort exemption is not intended to be a low hurdle and that the additional guidance on application of the exemption will help to clarify this (see paragraphs BC231–BC233).

BC241 Some respondents to the 2013 ED noted that the identification of contingent liabilities in a business combination is also challenging and said that the exemption should be extended to contingent liabilities. The IASB decided not to extend the exemption. The IASB noted that one of the reasons that the IASB
permitted an undue cost or effort exemption for intangible assets acquired in a business combination is because the outcome of not separately recognising those intangible assets is unlikely to have a significant impact on an SME’s profit or loss or financial position. This is because any intangible assets that are not separately recognised will be included in the amount recognised as goodwill, and the resulting accounting will be similar because many SMEs will be required to amortise goodwill and other intangibles over a period of 10 years or less (see paragraph BC247). This reason does not apply to contingent liabilities assumed in a business combination.

**Common control exemptions**

BC242 In response to the concerns raised by respondents to the RFI, the IASB decided to add exemptions for the following transactions:

(a) paragraph 22.8 of the *IFRS for SMEs*—exemption from determination of the value of equity issued as the fair value of cash or other resources received or receivable for equity instruments issued as part of a business combination under common control. The IASB further decided that the exemption added to paragraph 22.8 should cover equity instruments issued as part of a business combination (including business combinations under common control), because paragraph 19.11 provides specific guidance for the accounting for equity instruments that are issued as part of a business combination within the scope of Section 19 *Business Combinations and Goodwill*.

(b) paragraph 22.18B of the *IFRS for SMEs*—exemption for distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution in line with full IFRS. The IASB noted that paragraph 22.18 was added to the *IFRS for SMEs* to incorporate the conclusions in IFRIC 17. The IASB agrees that it was an oversight not to include the scope exclusion in paragraph 5 of IFRIC 17.

BC243 The IASB noted that paragraph 10.4 of the accounting policy hierarchy in the *IFRS for SMEs* states that if the *IFRS for SMEs* does not specifically address a transaction, an entity’s management uses its judgement in developing an accounting policy. Paragraph 10.5 states that the entity considers other guidance in the *IFRS for SMEs* dealing with similar and related issues. Consequently, the IASB observed that by not providing specific requirements for equity instruments issued as part of a business combination of entities or businesses under common control, SMEs would still be able to apply paragraphs 19.11 or 22.8 by analogy. Similarly, SMEs would be permitted to apply paragraph 22.18 by analogy to distributions of non-cash assets that are ultimately controlled by the same parties before and after distribution. However, SMEs would also be able to consider other accounting treatments for those transactions, provided that the accounting treatments chosen are applied consistently and comply with the accounting policy hierarchy in paragraphs 10.4–10.5. The IASB also observed that this would be the case for the types of transactions covered by the exemptions in paragraph 22.15C(a)–(b).
Other changes to the recognition and measurement requirements

BC244 The IASB made the following six additional changes to the recognition and measurement requirement in the IFRS for SMEs during the initial comprehensive review. The IASB observed that four of those changes (see paragraphs BC245 and BC248–BC250) are unlikely to affect the vast majority of SMEs.

Combined financial statements

BC245 The IASB decided to amend the definition of combined financial statements to refer to entities under common control, instead of only those under common control by a single investor (see paragraph 9.28 of the IFRS for SMEs). This is because the IASB observed that combined financial statements may be prepared for entities controlled by a group of investors, such as a family.

Basic financial instruments

BC246 The 2013 ED proposed to clarify that foreign currency loans and loans with standard loan covenants will usually be basic financial instruments, after considering concerns from respondents to the RFI that these instruments do not meet the current criteria in paragraph 11.9 of the IFRS for SMEs. However, some respondents to the 2013 ED raised concerns that, even given the proposed changes to paragraph 11.9, certain ‘basic’ debt instruments, such as loans with stepped interest rates and early repayment penalties, would not meet the criteria in paragraph 11.9. They noted that this would mean that such debt instruments would be required to be measured at fair value in accordance with Section 12. Some respondents also said that paragraph 11.9 was difficult to understand and that the IASB should try to simplify the wording. The IASB concluded that many of the debt instruments about which the respondents had concerns would actually meet the criteria in paragraph 11.9. Consequently, the IASB reaffirmed that the criteria in paragraph 11.9 should result in amortised cost measurement for most simple loans taken out by SMEs. The IASB also decided to add illustrative examples to help SMEs apply paragraph 11.9. These examples address some of the specific debt instruments about which the respondents had concerns and that the IASB also thinks are likely to be commonly entered into by SMEs.

Useful life of intangible assets

BC247 The IASB decided to require that if the useful life of goodwill or another intangible asset cannot be established reliably then the useful life shall be estimated by management, but shall not exceed 10 years. Previously, the IFRS for SMEs required that if a reliable estimate could not be made, the useful life would be presumed to be 10 years. The IASB noted that although a default useful life of 10 years is simple, it does not provide users of financial statements with any information about the period over which goodwill or another intangible asset is expected to be available for use. The IASB also noted that requiring management to make a best estimate is unlikely to require additional work, because paragraphs 18.20 and 19.23 of the IFRS for SMEs already require management to assess whether the useful life can be established reliably. Some respondents to the 2013 ED expressed concern about requiring management to estimate the useful life if the useful life cannot be established reliably. The IASB
noted that SMEs are required to make best estimates in other sections of the IFRS for SMEs. Consequently, the IASB confirmed its decision to modify the requirements in the IFRS for SMEs.

Leases with an interest rate variation clause linked to market interest rates

BC248 The IASB decided that a lease with an interest rate variation clause linked to market interest rates should be included in Section 20 instead of being accounted for at fair value through profit or loss under Section 12. The IASB noted that such clauses are occasionally found in leases entered into by SMEs. Furthermore, the IASB noted that such an embedded risk would not normally require separate accounting under full IFRS.

Compound financial instruments

BC249 Paragraph 22.15 of the IFRS for SMEs required the liability component of a compound financial instrument to be accounted for at amortised cost even if the liability component, had it been a stand-alone instrument, would have been accounted for at fair value through profit or loss under Section 12. The IASB decided to remove this inconsistency and require the liability component to be accounted for in the same way as a similar stand-alone financial liability.

Scope of Section 26

BC250 Paragraph 26.17 of the IFRS for SMEs deals with the scenario in which the identifiable consideration received by an entity appears to be less than the fair value of the equity instruments granted or the liability incurred. However, the IASB observed that it only addressed government-mandated plans. The IASB noted that in some jurisdictions the issue arises in instances that are not restricted to government mandated plans. Consequently, the IASB decided to modify paragraph 26.17 to require the guidance to be applied to all share-based payment transactions in which the identifiable consideration appears to be less than the fair value of the equity instruments granted or the liability incurred, and not only to share-based payment transactions provided in accordance with programmes established under law.

Changes to the presentation and disclosure requirements

BC251 The IASB made the following six changes to the presentation and disclosure requirements during the initial comprehensive review:

(a) addition of a requirement that an entity must disclose its reasoning for using an undue cost or effort exemption (see paragraph BC252).

(b) addition of a requirement to present investment property measured at cost less accumulated depreciation and impairment separately on the face of the statement of financial position. The IASB decided to add this line item for consistency with the requirement for biological assets, and because it noted that it was important that investment property measured under the cost model in Section 17 is presented separately from property, plant and equipment.
(c) removal of the requirement to prepare prior year reconciliations of balances for both biological assets and share capital for consistency with other sections of the IFRS for SMEs.

(d) removal of the requirement to disclose the accounting policy for termination benefits (see paragraph BC253).

(e) alignment of the definition of ‘related party’ with IAS 24 (2009). The IASB agreed with respondents to the RFI who suggested aligning the definition of a related party with IAS 24 (2009), because the undefined term ‘significant voting power’ was causing problems in practice. The IASB also added a definition of ‘close members of the family of a person’.

BC252 In the 2013 ED the IASB proposed to add clarifying guidance on the application of an undue cost or effort exemption (see paragraphs BC231–BC233). However, the IASB did not propose that an SME should be required to disclose the reasoning for using the exemption. This is because the IASB thought that disclosing the reasoning may be too limited to provide useful information to users of financial statements. However, some respondents to the 2013 ED asserted that disclosure would help to control the use of the exemption and may provide useful information for users of the financial statements at little cost to SMEs. The IASB agreed with this reasoning and decided to require SMEs to disclose their reasoning each time an undue cost or effort exemption was used, with one exception. The IASB decided that a requirement to disclose a qualitative description of the factors that make up any goodwill recognised in a business combination would provide more useful information than the disclosure of the reasons for using the undue cost or effort exemption to support the non-recognition of certain intangible assets if their fair value could not be measured reliably.

BC253 Some respondents to the 2013 ED disagreed with removing the accounting policy disclosure requirement for termination benefits, solely because entities do not have a choice of accounting treatment for termination benefits. These respondents said that an entity should disclose all accounting policies for which disclosure is relevant to an understanding of the financial statements. The IASB agreed with this reasoning but noted that removing the requirement would be consistent with the disclosure requirements in other sections. The IFRS for SMEs has specific disclosure requirements for accounting policies when a choice of models or methods is permitted because, when the related transactions are material, this would normally mean that the disclosure of the accounting policy applied is important in understanding the financial statements. The IASB thinks that when a choice of accounting policy is not available, the general requirement in paragraph 8.5 of the IFRS for SMEs to disclose ‘... accounting policies used that are relevant to an understanding of the financial statements’ is sufficient.

BC254 Some respondents to the RFI and the 2013 ED said that the IASB should consider further ways to reduce the disclosure requirements in the IFRS for SMEs, but few examples were provided of when the existing disclosures are excessive. In addition, some respondents requested additional disclosure requirements in some areas of the IFRS for SMEs. The IASB considered any specific suggestions made but, except as specified in paragraph BC251, did not think that additional
changes were necessary. The IASB noted that it is currently looking at ways of improving disclosure under full IFRS and it will consider the outcome of this work at the next review of the IFRS for SMEs. The IASB also noted that paragraph 8.2(c) of the IFRS for SMEs contains a general requirement that entities must provide additional information if that information is relevant to an understanding of the financial statements.

**Minor clarifications of existing requirements in the IFRS for SMEs**

The IASB decided to make the following minor amendments to the IFRS for SMEs in response to concerns that had been highlighted by interested parties either formally or informally during the initial comprehensive review. The IASB thinks that such amendments clarify existing requirements and would result in a better understanding and application of those requirements. The IASB also observed that because these amendments clarify existing requirements, in most cases they would not be expected to affect the current accounting for affected transactions:

(a) clarification that the entities listed in paragraph 1.3(b) are not automatically publicly accountable (see paragraph 1.3(b) of the IFRS for SMEs).

(b) addition of clarifying guidance on the use of the IFRS for SMEs in the parent’s separate financial statements—based on Q&A 2011/01 (see paragraph 1.7 of the IFRS for SMEs).

(c) addition of clarifying guidance on the undue cost or effort exemption that is used in several sections of the IFRS for SMEs—based on Q&A 2012/01 (see paragraphs 2.14A–2.14D of the IFRS for SMEs).

The IASB’s additional reasoning is covered in paragraphs BC231–BC233.

(d) clarification that the single amount presented for discontinued operations includes any impairment of the discontinued operation measured in accordance with Section 27 (see paragraph 5.5(e)(ii) of the IFRS for SMEs). The wording previously referred to ‘the measurement to fair value less costs to sell’.

The IASB noted that Section 27 requires measurement at the lower of cost and the recoverable amount, not the lower of cost and fair value less costs to sell. However, the IASB does not expect the amendment to have a material impact on SMEs because, when an entity expects to recover the carrying amount of the net assets of a discontinued operation through sale, and the future cash flows from the remaining use of the discontinued operation are estimated to be negligible, the value in use would approximate fair value less costs to sell (and therefore fair value less costs to sell would approximate the recoverable amount).

(e) clarification that all subsidiaries acquired with the intention of sale or disposal within one year shall be excluded from consolidation and clarifying guidance on how to account for and disclose those subsidiaries (see paragraphs 9.3–9.3C and 9.23A of the IFRS for SMEs).
In response to concerns raised by respondents, the IASB has expanded on the guidance previously proposed in the 2013 ED.

(f) addition of clarifying guidance on the preparation of consolidated financial statements if group entities have different reporting dates (see paragraph 9.16 of the IFRS for SMEs).

Some respondents to the 2013 ED said that this guidance, which permits a parent entity to use the subsidiary’s most recent financial statements, allows too much flexibility. These respondents generally thought that the IASB should also add the requirement in IFRS 10 that the difference between the reporting date of the subsidiary and the parent should be no more than three months and should be consistent for each period. The IASB decided not to add this requirement for SMEs. This is because it noted that, in the rare case in which it would be impracticable to prepare financial statements at the same date, paragraph 9.16 would require the subsidiary’s financial statements to be adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. The IASB noted that the removal of the three-month restriction was also a change specifically made during the IASB’s redeliberations in response to comments on the 2007 Exposure Draft (see paragraph BC34(l)).

(g) clarification that cumulative exchange differences that arise from the translation of a foreign subsidiary are not recognised in profit or loss on the disposal of the subsidiary—based on Q&A 2012/04 (see paragraph 9.18 of the IFRS for SMEs).

(h) clarification of the definition of separate financial statements (see paragraphs 9.24–9.25 and the related definition in the glossary).

(i) clarification of the interaction of the scope of Sections 11 and 12 with other sections of the IFRS for SMEs (see paragraphs 11.7 and 12.3 of the IFRS for SMEs).

(j) clarification of when an arrangement would constitute a ‘financing transaction’ (see paragraph 11.13 of the IFRS for SMEs).

Some respondents to the 2013 ED asserted that some SMEs are interpreting paragraph 11.13 as requiring them to use the price of the transaction, for example, the nominal value of a loan, instead of the present value of the future payments, for off-market interest-based arrangements with related parties, for example, loans made to employees at less than market rates. Consequently, the IASB decided to clarify that when applying paragraph 11.13, the entity must consider whether an arrangement constitutes a financing transaction for the purposes of the IFRS for SMEs for either itself or the counterparty. In other words the entity must consider both financial assets and financial liabilities.

(k) clarification in the guidance on fair value measurement in Section 11 of when the best evidence of fair value may be a price in a binding sale agreement. The guidance applies to fair value measurements in other
sections and not just financial instruments within the scope of Section 11 (see paragraph 11.27 of the \textit{IFRS for SMEs}).

In response to concerns raised by respondents, the IASB expanded on the wording previously proposed in the 2013 ED.

(i) clarification of the requirements for hedge accounting, including the addition of a sentence that clarifies the treatment for exchange differences relating to a net investment in a foreign operation for consistency with paragraphs 9.18 and 30.13 (see paragraphs 12.8, 12.23, 12.25 and 12.29 of the \textit{IFRS for SMEs}).

(m) replacement of the undefined term ‘date of exchange’ with ‘date of acquisition’ in the requirements on measuring the cost of a business combination (see paragraph 19.11(a) of the \textit{IFRS for SMEs}).

(n) addition of clarifying guidance on the measurement requirements for employee benefit arrangements, deferred tax and non-controlling interests when allocating the cost of a business combination (see paragraph 19.14 of the \textit{IFRS for SMEs}).

The IASB noted that employee benefit arrangements and deferred tax are the only two areas in which measurement exemptions are necessary under paragraph 19.14 when allocating the cost of a business combination and that SMEs should not assume that they can treat other measures as fair value for other items.

(o) clarification that only some outsourcing arrangements, telecommunication contracts that provide the rights to capacity and take-or-pay contracts are, in substance, leases (see paragraph 20.3 of the \textit{IFRS for SMEs}).

(p) addition of clarifying guidance on classifying financial instruments as equity or a liability (see paragraph 22.3A of the \textit{IFRS for SMEs}).

(q) addition of clarifying guidance on the accounting for the settlement of the dividend payable for a distribution of non-cash assets (see paragraph 22.18 of the \textit{IFRS for SMEs}).

(r) alignment of the scope and the definitions of Section 26 with IFRS 2 to clarify that share-based payment transactions involving equity instruments of other group entities are within the scope of Section 26 (see paragraphs 26.1–26.1A and the related definitions in the glossary of the \textit{IFRS for SMEs}).

Interested parties have told the IASB that it is not clear that the \textit{IFRS for SMEs} applies to equity instruments of other group entities even though paragraph 26.16 addresses group plans. The IASB noted that the \textit{IFRS for SMEs} was finalised at a similar time to the 2009 amendments to IFRS 2 that clarified the scope of IFRS 2 in relation to group plans. Consequently, the 2009 amendments to IFRS 2 were not available during the drafting of the \textit{IFRS for SMEs}. However, to address the concerns raised by interested parties, the IASB decided to align the scope and definitions of Section 26 with IFRS 2 (after the 2009 amendments) to correct possible unintended consequences of the current wording.
clarification of the accounting treatment for vesting conditions and modifications to grants of equity instruments (see paragraphs 26.9, 26.12 and three new definitions in the glossary of the IFRS for SMEs).

clarification that the simplification provided for group plans is for the measurement of the share-based payment expense only and does not provide relief from its recognition (see paragraphs 26.16 and 26.22 of the IFRS for SMEs).

clarification that Section 27 does not apply to assets arising from construction contracts (see paragraph 27.1(f) of the IFRS for SMEs).

clarification of the application of the accounting requirements in paragraph 28.23 to other long-term employee benefits (see paragraph 28.30 of the IFRS for SMEs).

clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from Section 30, but not financial instruments denominated in a foreign currency (see paragraph 30.1 of the IFRS for SMEs).

simplification of the wording used in the exemption from the restatement of financial information on the first-time adoption of the IFRS for SMEs (see paragraph 35.11 of the IFRS for SMEs).

new glossary items for ‘active market’, ‘close members of the family of a person’, ‘foreign operation’, ‘minimum lease payments’ and ‘transaction costs’.

Transition and effective date

Transition provisions

The IASB does not expect retrospective application of any of the amendments to be significantly burdensome for SMEs. This is because most of the amendments to the IFRS for SMEs provide clarification of, or relief from, existing requirements. Consequently, in the 2013 ED the IASB proposed that the amendments to Sections 2–34 in the IFRS for SMEs should be applied retrospectively.

Some respondents to the 2013 ED noted that retrospective application of the amendments to Section 29 could be burdensome, because SMEs will need to consider the effect of each individual change to the requirements for recognising and measuring deferred tax, including minor wording changes. They noted that determining how all these individual changes if applied retrospectively would affect the financial statements could be time-consuming and complex for some SMEs.

The IASB observed that the amendments to Section 29 are not expected to significantly affect the amounts most SMEs recognise for deferred tax, because the amendments do not change the underlying approach to accounting for deferred tax. Furthermore, the IASB is only making minor changes to the disclosure requirements in Section 29. Consequently, the IASB noted that it would expect the impact of the amendments to Section 29 on the information in the financial statements to be limited for most SMEs. Nevertheless, the IASB
does not think that the benefit to users of SME financial statements of restated information under Section 29, which the IASB thinks is only likely to be required in a small percentage of cases, justifies requiring all SMEs to apply Section 29 retrospectively. As a result, the IASB decided allowing SMEs to apply the amendments to Section 29 prospectively from the beginning of the period in which the entity first applies the amendments, because it is supported by cost-benefit reasons.

BC259 The IASB also decided to require prospective application from the beginning of the period in which the entity first applies the amendments for the following two amendments:

(a) the option to use the revaluation model for property, plant and equipment. The IASB observed that such a requirement is consistent with the requirements for a change in accounting policy from the cost model to the revaluation model under full IFRS and that the requirements for SMEs should not be made more onerous than this. The IASB also noted that it may be difficult to apply the revaluation model retrospectively to property, plant and equipment without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.

(b) replacement of the undefined term ‘date of exchange’ with the defined term ‘date of acquisition’. The IASB observed that this would avoid the entity needing to review past business combinations to determine whether these two dates are the same.

BC260 Some respondents also said that some of the other amendments may also be costly to apply retrospectively and they did not think the benefits of restated information would justify incurring significant costs. The IASB observed that Section 35 does not require first-time adopters to retrospectively apply requirements in the IFRS for SMEs if it would be impracticable (see paragraph 35.11 of the IFRS for SMEs) and including a general ‘impracticable’ exemption in the transition requirements would be consistent with this. Consequently, the IASB decided that, although it does not think that applying the amendments to Sections 2–28 and 30–35 retrospectively would be significantly burdensome for SMEs, it would include an impracticable exemption that would apply to each amendment in isolation in case there are circumstances that it has not considered in which retrospective application would be impracticable.

Effective date of the amendments

BC261 The Preface to the IFRS for SMEs states:

The IASB expects that there will be a period of at least one year between when amendments to the IFRS for SMEs are issued and the effective date of those amendments.

BC262 The IASB does not expect any of the amendments to the IFRS for SMEs to result in significant changes for SMEs and therefore it decided that the effective date should be set as the first suitable date one year from the date that the amendments are issued. Some respondents said that the implementation time
of one year was too short and suggested that a period of 18 months to two years was more appropriate. Some of these respondents noted that SMEs need sufficient time to make the transition to any new requirements because of resource constraints. Some respondents also noted that additional time is required for jurisdictions that have to comply with local endorsement processes to provide sufficient implementation lead time to their SMEs. The IASB observed that the amendments are being issued in May 2015 and therefore the effective date of 1 January 2017 would fall more than 18 months after issue. Consequently, the IASB decided there was no need to reconsider this date.

**Early application**

The IASB decided that early application of the amendments to the IFRS for SMEs should be permitted to assist entities and jurisdictions that are currently in the process of adopting, or planning to adopt, the IFRS for SMEs. The IASB noted that early application would also permit SMEs to use the revised IFRS for SMEs for financial statements prepared for earlier years. For example, some SMEs may not be required to file financial statements or may need a significant length of time in order to file them. Consequently, these SMEs might be preparing financial statements a long time after their reporting date and may want to apply the amendments to earlier years.

**The IASB’s plan for future reviews of the IFRS for SMEs**

Respondents to the 2013 ED were evenly divided on whether the IASB should update the IFRS for SMEs approximately once every three years or if it should follow a longer cycle, with five years being the most common alternative suggestion. The IASB supported the following as a tentative approach for future reviews of the IFRS for SMEs:

(a) a comprehensive review of the IFRS for SMEs should commence approximately two years after the effective date of the amendments to the IFRS for SMEs resulting from a previous comprehensive review. This would allow time for SMEs to apply the amendments and for interested parties to identify and comment on any implementation issues or unintended consequences that result from those amendments. The IASB observed that it expected that comprehensive reviews would begin with the issuance of an RFI.

(b) between comprehensive reviews, the IASB, with input from the SMEIG, would decide whether there is a need for an interim review to consider any new and revised full IFRS Standards not yet incorporated or any urgent amendments that have been identified.

(c) this process would mean that amendments to the IFRS for SMEs would not typically be expected to be more frequent than approximately once every three years to provide SMEs with a stable platform.

**Analysis of the likely effects of the amendments**

Before the IASB issues new requirements, or makes amendments to existing Standards, it considers the costs and benefits of the new pronouncements. This includes assessing the effects on the costs for both preparers and users of
The IASB also considers the comparative advantage that preparers have in developing information that would otherwise require users of the financial statements to incur costs to develop. The IASB takes into account the benefits of economic decision-making resulting from improved financial reporting. The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its analysis and consultations with interested parties through outreach activities.

The IASB conducted extensive outreach activities with interested parties during the comprehensive review of the *IFRS for SMEs*. This included issuing two public consultation documents (the RFI and the 2013 ED), additional outreach to providers of finance to SMEs and discussing the main issues at meetings of the IFRS Advisory Council and world standard-setters. In addition, the IASB consulted the SMEIG on its proposed amendments during the development of the 2013 ED and the final amendments. This Effects Analysis is based on the feedback received through this process.

The evaluation of costs and benefits are necessarily qualitative, instead of quantitative. This is because quantifying costs and, particularly, benefits, is inherently difficult. Although other standard-setters undertake similar types of analyses, there is a lack of sufficiently well-established and reliable techniques for quantifying this analysis. Consequently, the IASB sees this Effects Analysis as being part of an evolving process. In addition, the assessment undertaken is that of the likely effects of the new requirements, because the actual effects will not be known until after the new requirements have been applied. These will be considered at the next review of the *IFRS for SMEs*.

The IASB is committed to assessing and sharing knowledge about the likely costs of implementing new requirements and the likely ongoing application costs and benefits of new or revised Standards—the costs and benefits are collectively referred to as ‘effects’.

In evaluating the likely effects of the amendments, the IASB has considered how:

- activities would be reported in the financial statements of those applying the *IFRS for SMEs*;
- comparability of financial information would be improved both between different reporting periods for the same entity and between different entities in a particular reporting period;
- more useful financial reporting would result in better economic decision-making;
- the compliance costs for preparers would likely be affected; and
- the costs of analysis for users of financial statements would likely be affected.

**Changes that could have a significant effect**

The following are the significant amendments to the *IFRS for SMEs*. All of these amendments closely align the related requirements with full IFRS. Consequently, an important benefit of these amendments is closer alignment.
with full IFRS. The following is a further consideration of the effects of these amendments in the context of SME financial statements:

(a) addition of an option to use the revaluation model.

Users of SME financial statements have told the IASB that they do not like entities to apply different accounting policy options for similar transactions because it affects comparability between entities. Nevertheless, the IASB has received significant feedback from preparers, standard-setters, accounting firms and other interested parties that not having an option to revalue property, plant and equipment is a barrier to the adoption of the IFRS for SMEs in jurisdictions in which SMEs commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment. In addition, the IASB also agreed with those respondents who stated that current value information is potentially more useful than historical cost information. Consequently, the IASB decided that in this special case, the benefits of a wider use of the IFRS for SMEs, and hence the potential for global improvements in reporting and consistency, outweigh the importance to users of SME financial statements of prohibiting this option for property, plant and equipment. Furthermore, the IASB noted that although the additional requirements to incorporate the revaluation option may increase the perceived complexity of the IFRS for SMEs slightly, the amendments introduce an option, not a requirement. Consequently, they do not necessitate a change or additional costs for preparers (see also paragraphs BC208–BC212).

(b) alignment of the main recognition and measurement requirements for deferred income tax with IAS 12.

Alignment is expected to have a limited overall effect on the recognition, measurement, presentation and disclosure of deferred tax (see paragraphs BC219–BC223). Consequently, the IASB does not expect the information provided to users of financial statements to be significantly affected. Furthermore, although preparers will initially have to spend time understanding the revised requirements, in most cases this is not expected to cause undue cost or effort—and if it does, the transition provisions provide relief from the retrospective restatement of the amounts for deferred tax. The IASB noted that some SMEs may find the revised requirements in Section 29 easier to apply than the previous requirements, for example, if they are familiar with the accounting for deferred tax under full IFRS or because of the significant training material and expertise in some jurisdictions on application of IAS 12.

(c) alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6.

The IASB noted that this amendment ensures that the requirements in the IFRS for SMEs are not more onerous than full IFRS. These requirements only apply to a specific type of activity and so will not affect most SMEs and users of their financial statements.
Other changes supported by cost-benefits reasons

The IASB thinks that the following changes are supported by cost-benefit reasons as explained in the paragraphs that are made reference to:

(a) amending paragraph 18.20 of the IFRS for SMEs to specify that if the useful life of an intangible asset, including goodwill, cannot be established reliably, the useful life shall be determined based on management’s best estimate but shall not exceed 10 years. This replaces the requirement to use a fixed 10-year life in the absence of a reliable estimate of the useful life. Using the best estimate is expected to provide better information for users of financial statements than requiring a fixed 10-year life at no additional cost to preparers (see paragraphs BC247).

(b) the addition of an undue cost or effort exemption for the following five requirements (see paragraphs BC202, BC222 and BC239–BC241):
   (i) measurement of investments in equity instruments at fair value in Sections 11 and 12;
   (ii) recognising intangible assets separately in a business combination;
   (iii) measurement of the entity’s own equity instruments at fair value when they are issued to a creditor to extinguish a liability (which results from incorporating the conclusions of IFRIC 19);
   (iv) the requirement to measure the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed; and
   (v) the requirement to offset income tax assets and liabilities.

(c) a requirement that an entity must disclose its reasoning for using any undue cost or effort exemption (see paragraph BC252).

(d) the transition requirements for the amendments to the IFRS for SMEs (see paragraphs BC258–BC260).

Changes that are expected to have a limited effect

Apart from the changes described in paragraphs BC270–BC271, the IASB’s amendments to the IFRS for SMEs are either one or more of the following types:

(a) relatively minor changes that align the requirements in the IFRS for SMEs with full IFRS to incorporate some of the changes in new or revised full IFRS Standards and/or to include clarifying guidance from full IFRS. These changes were introduced to reduce the costs of applying the IFRS for SMEs because they either provide additional clarity, a simplification and/or they fix known or expected problems or the potential for diversity in practice. These changes are not expected to add complexity for SME preparers and are in areas in which the needs of users of SME financial statements are expected to be similar to the needs of users of the financial statements of publicly accountable entities.
(b) changes that clarify existing requirements or remove unintended consequences of the existing wording in the IFRS for SMEs. The effect of those amendments is expected to be a better understanding and application of the requirements in the IFRS for SMEs and, in most cases, they would not be expected to affect the current accounting for those transactions.

(c) changes that are not expected to have a material impact for the vast majority of SMEs because, for example, they relate to transactions that are only rarely encountered by SMEs.
Dissent of James J Leisenring from the *IFRS for SMEs* issued in July 2009

DO1 Mr Leisenring dissents from the issue of the IFRS because he believes that the *IFRS for SMEs* is neither necessary nor desirable.

DO2 It is unnecessary because the vast majority of accounting policy decisions of SMEs are straightforward and extensive reference to IFRSs will not be required and, when required, not burdensome.

DO3 It is undesirable because the IFRS would produce non-comparable information. SMEs will not be comparable with each other and will not be comparable with publicly accountable entities. That result is inconsistent with the IASB Framework and the concepts and pervasive principles of the IFRS.

DO4 Non-comparability will result because the IFRS would allow SMEs, as a result of paragraph 10.5, to ignore the requirements of other IFRSs even when the specific accounting issue is addressed in those IFRSs. If an entity is satisfied with the result of applying paragraph 10.5(a) and (b) there is never a requirement to look to full IFRSs. Thus, identical transactions can be accounted for differently by different SMEs and differently from publicly accountable entities. If the Board finds it necessary to develop educational materials to assist SMEs in applying IFRSs, that would certainly be appropriate. However, Mr Leisenring believes that in all circumstances IFRSs should ultimately be the source of accounting guidance for all entities.

DO5 Mr Leisenring does not believe that the Board has demonstrated the need to make modifications to recognition and measurement requirements in IFRSs for application by SMEs on the basis of either cost-benefit analysis or user needs. As a result, he would not have any differences in recognition and measurement requirements from full IFRSs. Alternatively, he would much more extensively modify the disclosure requirements to meet special user needs. That modification might well create disclosures not required at present, such as information about economic dependency and common control.

DO6 Mr Leisenring also believes that the IFRS is inconsistent with the Constitution of the International Accounting Standards Committee Foundation and the Preface to International Financial Reporting Standards. Those documents set out an objective of a single set of accounting standards taking account of the special needs of small and medium-sized entities and emerging economies. Mr Leisenring accepts that objective but does not believe it implies separate sets of standards for entities in differing circumstances as indicated in paragraph BC42. The conclusion of that paragraph suggests that many sets of accounting standards would be appropriate depending on different circumstances.
Dissent of Ms Tokar from *2015 Amendments to the IFRS for SMEs*

**DO1** Ms Tokar is dissenting because of the IASB’s decision to make reporting of non-cash distributions at fair value subject to an undue cost or effort exemption. She is concerned that the undue cost or effort relief will deprive financial statement users of relevant information about the value of assets distributed to owners. While she could accept that an undue cost or effort exemption may be appropriate with respect to remeasuring the asset to be distributed between the time of recognition of the distribution payable and the time of settlement, she dissents from providing an undue cost or effort exemption in respect of the initial measurement of the transaction.

**DO2** In her view, fair value information should normally be used to assess the merits of the distribution decision from a corporate governance perspective, and thus this information should be available when financial statements are prepared. Although the IASB has sought to clarify, in these amendments, the circumstances in which an undue cost or effort exemption is available, Ms Tokar is concerned that allowing an undue cost or effort exemption for transactions for which fair value information should be available implies a lower hurdle than the IASB intends for the use of such an exemption. She believes that the effectiveness of the *IFRS for SMEs*, which includes a number of undue cost or effort exemptions, requires the exemption to be used only in circumstances in which the costs (both monetary and in entity resources or ‘effort’) clearly outweigh the benefits to users of having the information.
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INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES

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<tr>
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International Financial Reporting Standard for Small and Medium-sized Entities

Illustrative Financial Statements and Table of Presentation and Disclosure Requirements

This guidance accompanies, but is not part of, the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

Illustrative financial statements

F1 Section 3 Financial Statement Presentation of the IFRS for SMEs defines a complete set of financial statements and prescribes general standards of financial statement presentation. Section 4 Statement of Financial Position, Section 5 Statement of Comprehensive Income and Income Statement, Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings, Section 7 Statement of Cash Flows and Section 8 Notes to the Financial Statements prescribe the format and content of the individual financial statements and notes. Other sections of the IFRS for SMEs establish additional presentation and disclosure requirements. The following financial statements illustrate how those presentation and disclosure requirements might be met by a typical small or medium-sized entity. Of course, each entity will need to consider the content, sequencing and format of presentation and the descriptions used for line items to achieve a fair presentation in that entity’s particular circumstances. These illustrative financial statements should not be regarded as a template appropriate for all entities.

F2 The illustrative statement of financial position presents current assets followed by non-current assets, and presents current liabilities followed by non-current liabilities and then by equity (ie most liquid items first). In some jurisdictions, the sequencing is typically reversed (ie most liquid items last), and that is also permitted by the IFRS for SMEs. Consistently with paragraph 3.22 of the IFRS for SMEs, an entity may use titles for the financial statements other than those used in these illustrations.

F3 In accordance with paragraph 3.18, the illustrative financial statements present a single statement of comprehensive income and retained earnings in place of two separate statements—a statement of comprehensive income and a statement of changes in equity. This may be done if the only changes to the equity of an entity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors and changes in accounting policy. (Because there are no items of other comprehensive income, this statement could have been titled statement of income and retained earnings.) Two statements of comprehensive income and retained earnings are provided to illustrate the alternative classifications of income and expenses, by nature and by function—see paragraph 5.11 of the IFRS for SMEs.

F4 The illustrative financial statements are not intended to illustrate all aspects of the IFRS for SMEs. The IFRS Foundation’s IFRS for SMEs training material, available...
on the SME webpages of the IFRS Foundation website (www.ifrs.org), contains, by section, further illustrations of the presentation and disclosure requirements of the IFRS for SMEs.

F5 The IFRS for SMEs does not require a statement of financial position at the beginning of the earliest comparative period. The following illustrative statement of financial position only includes a column for the opening statement of financial position to aid in understanding of the calculations underlying amounts in the statement of cash flows.

XYZ Group

Consolidated statement of comprehensive income and retained earnings for the year ended 31 December 20X2
(Alternative 1—illustrating the classification of expenses by function)

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Revenue</td>
<td>5</td>
<td>6,863,545</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(5,178,530)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>1,685,015</td>
</tr>
<tr>
<td>Other income</td>
<td>6</td>
<td>88,850</td>
</tr>
<tr>
<td>Distribution costs</td>
<td></td>
<td>(175,550)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>(810,230)</td>
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<tr>
<td>Other expenses</td>
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<td>(106,763)</td>
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<tr>
<td>Finance costs</td>
<td>7</td>
<td>(26,366)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>8</td>
<td>654,956</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>9</td>
<td>(270,250)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td>384,706</td>
</tr>
<tr>
<td>Retained earnings at start of year</td>
<td></td>
<td>2,171,353</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td>(150,000)</td>
</tr>
<tr>
<td>Retained earnings at end of year</td>
<td></td>
<td>2,406,059</td>
</tr>
</tbody>
</table>

Note: The format illustrated aggregates expenses according to their function (cost of sales, distribution, administrative etc). As the only changes to XYZ Group’s equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.
XYZ Group
Consolidated statement of comprehensive income and retained earnings for the year ended 31 December 20X2
(Alternative 2—illustrating the classification of expenses by nature)

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X2</th>
<th>20X1</th>
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<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Revenue</td>
<td>5</td>
<td>6,863,545</td>
</tr>
<tr>
<td>Other income</td>
<td>6</td>
<td>88,850</td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td></td>
<td>3,310</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td></td>
<td>(4,786,699)</td>
</tr>
<tr>
<td>Employee salaries and benefits</td>
<td></td>
<td>(936,142)</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td></td>
<td>(272,060)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td></td>
<td>(30,000)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>7</td>
<td>(249,482)</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(26,366)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>8</td>
<td>654,956</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>9</td>
<td>(270,250)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td>384,706</td>
</tr>
<tr>
<td>Retained earnings at start of year</td>
<td></td>
<td>2,171,353</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td>(150,000)</td>
</tr>
<tr>
<td>Retained earnings at end of year</td>
<td></td>
<td>2,406,059</td>
</tr>
</tbody>
</table>

Note: The format illustrated aggregates expenses according to their nature (raw materials and consumables, employee salaries and benefits, depreciation and amortisation, impairment etc). As the only changes to XYZ Group’s equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.
XYZ Group

Consolidated statement of financial position at 31 December 20X2

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X2</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>28,700</td>
<td>22,075</td>
<td>18,478</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>585,548</td>
<td>573,862</td>
<td>521,234</td>
</tr>
<tr>
<td>Inventories</td>
<td>57,381</td>
<td>47,920</td>
<td>45,050</td>
</tr>
<tr>
<td></td>
<td>671,629</td>
<td>643,857</td>
<td>584,762</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in associate</td>
<td>12</td>
<td>107,500</td>
<td>107,500</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>13</td>
<td>2,549,945</td>
<td>2,401,455</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>14</td>
<td>850</td>
<td>2,550</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>15</td>
<td>4,309</td>
<td>2,912</td>
</tr>
<tr>
<td></td>
<td>2,662,604</td>
<td>2,514,417</td>
<td>2,299,907</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,334,233</td>
<td>3,158,274</td>
<td>2,884,669</td>
</tr>
<tr>
<td><strong>LIABILITIES AND EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>16</td>
<td>83,600</td>
<td>115,507</td>
</tr>
<tr>
<td>Trade payables</td>
<td>17</td>
<td>431,480</td>
<td>420,520</td>
</tr>
<tr>
<td>Interest payable</td>
<td>7</td>
<td>2,000</td>
<td>1,200</td>
</tr>
<tr>
<td>Current tax liability</td>
<td>271,647</td>
<td>190,316</td>
<td>173,211</td>
</tr>
<tr>
<td>Provision for warranty obligations</td>
<td>18</td>
<td>4,200</td>
<td>5,040</td>
</tr>
<tr>
<td>Current portion of employee benefit obligations</td>
<td>19</td>
<td>4,944</td>
<td>4,754</td>
</tr>
<tr>
<td>Current portion of obligations under finance leases</td>
<td>20</td>
<td>21,461</td>
<td>19,884</td>
</tr>
<tr>
<td></td>
<td>819,332</td>
<td>757,221</td>
<td>631,330</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loan</td>
<td>16</td>
<td>50,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Long-term employee benefit obligations</td>
<td>19</td>
<td>5,679</td>
<td>5,076</td>
</tr>
<tr>
<td>Obligations under finance leases</td>
<td>20</td>
<td>23,163</td>
<td>44,624</td>
</tr>
<tr>
<td></td>
<td>78,842</td>
<td>199,700</td>
<td>219,574</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>898,174</td>
<td>956,921</td>
<td>850,904</td>
</tr>
</tbody>
</table>

continued...
...continued

**Equity**

<table>
<thead>
<tr>
<th></th>
<th>22</th>
<th>30,000</th>
<th>30,000</th>
<th>30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4</td>
<td>2,406,059</td>
<td>2,171,353</td>
<td>2,003,765</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,436,059</td>
<td>2,201,353</td>
<td>2,033,765</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>3,334,233</td>
<td>3,158,274</td>
<td>2,884,669</td>
<td></td>
</tr>
</tbody>
</table>

Note: The *IFRS for SMEs* does not require a statement of financial position at the beginning of the earliest comparative period—hence the shading. It is presented here to aid understanding of the calculations underlying amounts in the statement of cash flows.
### XYZ Group

**Consolidated statement of cash flows for the year ended 31 December 20X2**

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>384,706</td>
<td>267,588</td>
</tr>
<tr>
<td>Adjustments for non-cash income and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-cash finance costs (a)</td>
<td>800</td>
<td>1,200</td>
</tr>
<tr>
<td>Non-cash income tax expense (b)</td>
<td>79,934</td>
<td>16,348</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>270,360</td>
<td>219,547</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>30,000</td>
<td>–</td>
</tr>
<tr>
<td>Amortisation of intangibles</td>
<td>1,700</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>Cash flow included in investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sale of equipment</td>
<td>(63,850)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Changes in operating assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in trade and other receivables</td>
<td>(11,686)</td>
<td>(52,628)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>(9,461)</td>
<td>(2,870)</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables (c)</td>
<td>10,120</td>
<td>10,870</td>
</tr>
<tr>
<td>Increase in current and long-term employee benefit payable</td>
<td>793</td>
<td>193</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>693,416</td>
<td>461,948</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of equipment</td>
<td>100,000</td>
<td>–</td>
</tr>
<tr>
<td>Purchases of equipment</td>
<td>(485,000)</td>
<td>(435,000)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(385,000)</td>
<td>(435,000)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of finance lease liabilities</td>
<td>(19,884)</td>
<td>(18,423)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(100,000)</td>
<td>–</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(150,000)</td>
<td>(100,000)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(269,884)</td>
<td>(118,423)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>38,532</td>
<td>(91,475)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>(93,432)</td>
<td>(1,957)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>23</td>
<td>(54,900)</td>
</tr>
</tbody>
</table>

---

© IFRS Foundation
(a) Finance costs paid in cash  25,566  35,512  
(b) Income taxes paid in cash  190,316  173,211  
(c) Includes unrealised foreign exchange loss  1,000  –  

**XYZ Group**  
Accounting policies and explanatory notes to the financial statements for the year ended 31 December 20X2  

1. General information  
XYZ (Holdings) Limited (the Company) is a limited company incorporated in A Land. The address of its registered office and principal place of business is __________. XYZ Group consists of the Company and its wholly-owned subsidiary XYZ (Trading) Limited. Their principal activities are the manufacture and sale of candles.

2. Basis of preparation and accounting policies  
These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board. They are presented in the currency units (CU) of A Land.

*Basis of consolidation*  
The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary. All intragroup transactions, balances, income and expenses are eliminated.

*Investments in associates*  
Investments in associates are accounted for at cost less any accumulated impairment losses.

Dividend income from investments in associates is recognised when the Group’s right to receive payment has been established. It is included in other income.

*Revenue recognition*  
Revenue from sales of goods is recognised when the goods are delivered and title has passed. Royalty revenue from licensing candle-making patents for use by others is recognised in accordance with the relevant licence agreements. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of A Land.

*Borrowing costs*  
All borrowing costs are recognised in profit or loss in the period in which they are incurred.

*Income tax*  
Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are generally recognised for all temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (taxable temporary differences). Deferred tax assets are generally recognised for all temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (deductible temporary differences)—but only to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

- Buildings 2 per cent
- Fixtures and equipment 10–30 per cent

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Intangible assets

Intangible assets are purchased computer software that is stated at cost less accumulated depreciation and any accumulated impairment losses. It is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Impairment of assets

At each reporting date, property, plant and equipment, intangible assets and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and
compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognised as assets of the Group at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

**Inventories**

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

**Trade and other receivables**

Most sales are made on the basis of normal credit terms and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.
Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into CU using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

Bank loans and overdrafts

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Employee benefits—long-service payment

The liability for employee benefit obligations relates to government-mandated long-service payments. All full-time staff, excluding directors, are covered by the programme. A payment is made of 5 per cent of salary (as determined for the twelve months before the payment) at the end of each of five years of employment. The payment is made as part of the December payroll in the fifth year. The Group does not fund this obligation in advance.

The Group’s cost and obligation to make long-service payments to employees are recognised during the employees’ periods of service. The cost and obligation are measured using the projected unit credit method, assuming a 4 per cent average annual salary increase, with employee turnover based on the Group’s recent experience, discounted using the current market yield for high quality corporate bonds.

Provision for warranty obligations

All goods sold by the Group are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the Group’s option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

3. Key sources of estimation uncertainty

Long-service payments

In determining the liability for long-service payments (explained in note 19), management must make an estimate of salary increases over the following five years, the discount rate for the next five years to use in the present value calculation and the number of employees expected to leave before they receive the benefits.

4. Restriction on payment of dividend

Under the terms of the bank loan and bank overdraft agreements, dividends cannot be paid to the extent that they would reduce the balance of retained earnings below the sum of the outstanding balance of the bank loan and the bank overdraft.
5. Revenue

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Sale of goods</td>
<td>6,743,545</td>
<td>5,688,653</td>
</tr>
<tr>
<td>Royalties—licensing of candle-making patents</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,863,545</td>
<td>5,808,653</td>
</tr>
</tbody>
</table>

6. Other income

Other income includes dividends received from an associate of CU25,000 in both 20X1 and 20X2 and gain on disposal of property, plant and equipment of CU63,850 in 20X2.

7. Finance costs

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Interest on bank loan and overdraft</td>
<td>(21,250)</td>
<td>(30,135)</td>
</tr>
<tr>
<td>Interest on finance leases</td>
<td>(5,116)</td>
<td>(6,577)</td>
</tr>
<tr>
<td></td>
<td>(26,366)</td>
<td>(36,712)</td>
</tr>
</tbody>
</table>

8. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Cost of inventories recognised as expense</td>
<td>5,178,530</td>
<td>4,422,575</td>
</tr>
<tr>
<td>Research and development cost (included in other expenses)</td>
<td>31,620</td>
<td>22,778</td>
</tr>
<tr>
<td>Foreign exchange loss on trade payables (included in other expenses)</td>
<td>1,000</td>
<td>–</td>
</tr>
<tr>
<td>Warranty expense (included in cost of sales*)</td>
<td>5,260</td>
<td>7,340</td>
</tr>
</tbody>
</table>

* If the entity classifies its expenses by nature in its income statement, this would say ‘included in raw materials and consumables used’.
9. Income tax expense

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td>271,647</td>
<td>190,316</td>
</tr>
<tr>
<td>Deferred tax (note 15)</td>
<td>(1,397)</td>
<td>(757)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>270,250</td>
<td>189,559</td>
</tr>
</tbody>
</table>

Income tax is calculated at 40 per cent (20X1: 40 per cent) of the estimated assessable profit for the year.

Income tax expense for the year CU270,250 in 20X2 (CU189,559 in 20X1) differs from the amount that would result from applying the tax rate of 40 per cent (both 20X2 and 20X1) to profit before tax because, under the tax laws of A Land, some employee compensation expenses (CU20,670 in 20X2 and CU16,750 in 20X1) that are recognised in measuring profit before tax are not tax-deductible.

10. Trade and other receivables

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade debtors</td>
<td>528,788</td>
<td>528,384</td>
</tr>
<tr>
<td>Prepayments</td>
<td>56,760</td>
<td>45,478</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>585,548</td>
<td>573,862</td>
</tr>
</tbody>
</table>

11. Inventories

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>42,601</td>
<td>36,450</td>
</tr>
<tr>
<td>Work in progress</td>
<td>1,140</td>
<td>900</td>
</tr>
<tr>
<td>Finished goods</td>
<td>13,640</td>
<td>10,570</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>57,381</td>
<td>47,920</td>
</tr>
</tbody>
</table>

12. Investment in associate

The Group owns 35 per cent of an associate whose shares are not publicly traded.

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of investment in associate</td>
<td>107,500</td>
<td>107,500</td>
</tr>
<tr>
<td>Dividend received from associate (included in other income)</td>
<td>25,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>
### 13. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Fixtures and equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 January 20X2</td>
<td>1,960,000</td>
<td>1,102,045</td>
<td>3,062,045</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>485,000</td>
<td>485,000</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(241,000)</td>
<td>(241,000)</td>
</tr>
<tr>
<td><strong>31 December 20X2</strong></td>
<td>1,960,000</td>
<td>1,346,045</td>
<td>3,306,045</td>
</tr>
</tbody>
</table>

|                        |                    |                        |          |
| **Accumulated depreciation and impairment** |                    |                        |          |
| 1 January 20X2         | 390,000            | 270,590                | 660,590  |
| Annual depreciation    | 30,000             | 240,360                | 270,360  |
| Impairment             | –                  | 30,000                 | 30,000   |
| Less accumulated depreciation on assets disposed of | –                  | (204,850)              | (204,850)|
| **31 December 20X2**   | 420,000            | 336,100                | 756,100  |

|                        |                    |                        |          |
| **Carrying amount**    |                    |                        |          |
| 31 December 20X2       | 1,540,000          | 1,009,945              | 2,549,945|

During 20X2 the Group noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of CU30,000.

The carrying amount of the Group’s fixtures and equipment includes an amount of CU40,000 (20X1: CU60,000) in respect of assets held under finance leases.

On 10 December 20X2 the directors resolved to dispose of a machine. The machine’s carrying amount of CU1,472 is included in fixtures and equipment at 31 December 20X2, and trade payables includes the Group’s remaining obligation of CU1,550 on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.
14. Intangible assets

Software:

<table>
<thead>
<tr>
<th></th>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
</tr>
<tr>
<td>1 January 20X2</td>
<td>8,500</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
</tr>
<tr>
<td>31 December 20X2</td>
<td>8,500</td>
</tr>
</tbody>
</table>

Accumulated depreciation and impairment

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 20X2</td>
<td>5,950</td>
</tr>
<tr>
<td>Annual amortisation (included in administrative expenses*)</td>
<td>1,700</td>
</tr>
</tbody>
</table>

| Carrying amount |      |
| 31 December 20X2 | 850 |

* If the entity classifies its expenses by nature in its income statement, this would say ‘included in depreciation and amortisation expense’.

15. Deferred tax

Differences between amounts recognised in the income statement and amounts reported to tax authorities in connection with investments in the subsidiary and associate are insignificant.

The deferred tax assets are the tax effects of expected future income tax benefits relating to:

(a) the long-service benefit (note 19), which will not be tax-deductible until the benefit is actually paid but has already been recognised as an expense in measuring the Group’s profit for the year.

(b) the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled but has already been recognised as an expense in measuring the Group’s profit for the year.

Management considers it probable that taxable profits will be available against which the future income tax deductions can be utilised.
The following are the deferred tax liabilities (assets) recognised by the Group:

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Foreign exchange loss</th>
<th>Long-service benefit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>1 January 20X1</td>
<td>1,700</td>
<td>–</td>
<td>(3,855)</td>
<td>(2,155)</td>
</tr>
<tr>
<td>Charge (credit) to profit or loss for the year</td>
<td>(680)</td>
<td>–</td>
<td>(77)</td>
<td>(757)</td>
</tr>
<tr>
<td>1 January 20X2</td>
<td>1,020</td>
<td>–</td>
<td>(3,932)</td>
<td>(2,912)</td>
</tr>
<tr>
<td>Charge (credit) to profit or loss for the year</td>
<td>(680)</td>
<td>(400)</td>
<td>(317)</td>
<td>(1,397)</td>
</tr>
<tr>
<td>31 December 20X2</td>
<td>340</td>
<td>(400)</td>
<td>(4,249)</td>
<td>(4,309)</td>
</tr>
</tbody>
</table>

The deferred tax assets for the foreign exchange loss and the long-service benefits and the deferred tax liability for software relate to income tax in the same jurisdiction, and the law allows net settlement. Consequently, they have been offset in the statement of financial position as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liability</td>
<td>340</td>
<td>1,020</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>(4,649)</td>
<td>(3,932)</td>
</tr>
<tr>
<td></td>
<td>(4,309)</td>
<td>(2,912)</td>
</tr>
</tbody>
</table>

16. Bank overdraft and loan

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft</td>
<td>83,600</td>
<td>115,507</td>
</tr>
<tr>
<td>Bank loan—fully repayable in 20X4, prepayable without penalty</td>
<td>50,000</td>
<td>150,000</td>
</tr>
<tr>
<td></td>
<td>133,600</td>
<td>265,507</td>
</tr>
</tbody>
</table>

The bank overdraft and loan are secured by a floating lien over land and buildings owned by the Group with a carrying amount of CU266,000 at 31 December 20X2 (CU412,000 at 31 December 20X1).

Interest is payable on the bank overdraft at 200 points above the London Interbank Borrowing Rate (LIBOR). Interest is payable on the seven-year bank loan at a fixed rate of 5 per cent of the principal amount.
17. Trade payables
Trade payables at 31 December 20X2 include CU42,600 denominated in foreign currencies (nil at 31 December 20X1).

18. Provision for warranty obligations
Changes in the provision for warranty obligations during 20X2 were:

<table>
<thead>
<tr>
<th>20X2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 20X2</td>
<td>CU 5,040</td>
</tr>
<tr>
<td>Additional accrual during the year</td>
<td>CU 5,260</td>
</tr>
<tr>
<td>Cost of warranty repairs and replacement during the year</td>
<td>(CU 6,100)</td>
</tr>
<tr>
<td>31 December 20X2</td>
<td>CU 4,200</td>
</tr>
</tbody>
</table>

The obligation is classified as a current liability because the warranty is limited to twelve months.

19. Employee benefit obligation—long-service payments
The Group’s employee benefit obligation for long-service payments under a government-mandated plan is based on a comprehensive actuarial valuation as of 31 December 20X2 and is as follows:

<table>
<thead>
<tr>
<th>20X2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligation at 1 January 20X2</td>
<td>CU 9,830</td>
</tr>
<tr>
<td>Additional accrual during the year</td>
<td>CU 7,033</td>
</tr>
<tr>
<td>Benefit payments made in year</td>
<td>(CU 6,240)</td>
</tr>
<tr>
<td>Obligation at 31 December 20X2</td>
<td>CU 10,623</td>
</tr>
</tbody>
</table>

The obligation is classified as:

<table>
<thead>
<tr>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liability</td>
<td>CU 4,944</td>
</tr>
<tr>
<td>Non-current liability</td>
<td>CU 5,679</td>
</tr>
<tr>
<td>Total</td>
<td>10,623</td>
</tr>
</tbody>
</table>
20. Obligations under finance leases

The Group holds one piece of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Within one year</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Later than one year but within five years</td>
<td>25,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Later than five years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>50,000</td>
<td>75,000</td>
</tr>
</tbody>
</table>

The obligation is classified as:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Current liability</td>
<td>21,461</td>
<td>19,884</td>
</tr>
<tr>
<td>Non-current liability</td>
<td>23,163</td>
<td>44,624</td>
</tr>
<tr>
<td>Total</td>
<td>44,624</td>
<td>64,508</td>
</tr>
</tbody>
</table>

21. Commitments under operating leases

The Group rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Minimum lease payments under operating leases recognised as an expense during the year</td>
<td>26,100</td>
<td>26,100</td>
</tr>
</tbody>
</table>

At year-end, the Group has outstanding commitments under non-cancellable operating leases that fall due as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU</td>
<td>CU</td>
</tr>
<tr>
<td>Within one year</td>
<td>13,050</td>
<td>26,100</td>
</tr>
<tr>
<td>Later than one year but within five years</td>
<td>–</td>
<td>13,050</td>
</tr>
<tr>
<td>Later than five years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>13,050</td>
<td>39,150</td>
</tr>
</tbody>
</table>

22. Share capital

Balances as at 31 December 20X2 and 20X1 of CU30,000 comprise 30,000 ordinary shares with par value CU1.00 fully paid, issued and outstanding. An additional 70,000 shares are legally authorised but unissued.
23. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>28,700</td>
<td>22,075</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>(83,600)</td>
<td>(115,507)</td>
</tr>
<tr>
<td></td>
<td>(54,900)</td>
<td>(93,432)</td>
</tr>
</tbody>
</table>

24. Contingent liabilities

During 20X2 a customer initiated proceedings against XYZ (Trading) Limited for a fire caused by a faulty candle. The customer asserts that its total losses are CU50,000 and has initiated litigation claiming this amount.

The Group’s legal counsel do not consider that the claim has merit and the Company intends to contest it. No provision has been recognised in these financial statements as the Group’s management does not consider it probable that a loss will arise.

25. Events after the end of the reporting period

On 25 January 20X3 there was a flood in one of the candle storage rooms. The cost of refurbishment is expected to be CU36,000. The reimbursements from insurance are estimated to be CU16,000.

On 14 February 20X3 the directors voted to declare a dividend of CU1.00 per share (CU30,000 total) payable on 15 April 20X3 to registered shareholders on 31 March 20X3. Because the obligation arose in 20X3, a liability is not shown in the statement of financial position at 31 December 20X2.

26. Related party transactions

Transactions between the Company and its subsidiary, which is a related party, have been eliminated in consolidation.

The Group sells goods to its associate (see note 12), which is a related party, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Sales of goods</th>
<th>Amounts owed to the Group by the related party and included in trade receivables at year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
<td>20X1</td>
</tr>
<tr>
<td>Associate</td>
<td>10,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

The payments under the finance lease (see note 20) are personally guaranteed by a principal shareholder of the Company. No charge has been requested for this guarantee.

The total remuneration of directors and other members of key management in 20X2 (including salaries and benefits) was CU249,918 (20X1: CU208,260).
27. Approval of financial statements

These financial statements were approved by the board of directors and authorised for issue on 10 March 20X3.
Table of Presentation and Disclosure Requirements by Section

This table has been derived from the presentation and disclosure requirements in the IFRS for SMEs.

D1 This table collects together the presentation and disclosure requirements in the IFRS for SMEs for ease of reference when preparing the financial statements.

D2 This table deals with both presentation and disclosures. Often a required presentation is the equivalent of a disclosure requirement. To illustrate, Section 3 Financial Statement Presentation, Section 4 Statement of Financial Position, Section 5 Statement of Comprehensive Income and Income Statement, and Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings of the Standard require the presentation of some specific line items in the statement of financial position, statement of comprehensive income, income statement (if presented), statement of changes in equity and statement of cash flows.

D3 In most cases, the Standard does not specify whether a disclosure should be made within a financial statement or in the notes. In several cases, however, disclosures are expressly required to be in a financial statement; these are identified in this table.

D4 Some requirements specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by the IFRS for SMEs or present a separate line item if the information resulting from that disclosure is not material. This is the case even if the IFRS for SMEs contains a list of specific requirements or describes them as minimum requirements. The concept of materiality is discussed in paragraph 2.6.

D5 The application of the IFRS for SMEs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of an entity eligible to use the Standard. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in the IFRS for SMEs is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity’s financial position and financial performance. An entity must present additional line items, headings and subtotals in the financial statements when such presentation is relevant to an understanding of the entity’s financial position, performance and changes in financial position. Similarly, an entity must include in the notes to financial statements information that is not presented elsewhere in the financial statements but is relevant to an understanding of them.

Section 1 Small and Medium-sized Entities

No presentation or disclosure requirements in this section.

Section 2 Concepts and Pervasive Principles

No presentation or disclosure requirements in this section.
### Section 3 Financial Statement Presentation

#### Compliance with the *IFRS for SMEs*

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3</td>
<td>An entity whose financial statements comply with the <em>IFRS for SMEs</em> shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the <em>IFRS for SMEs</em> unless they comply with all the requirements of this Standard.</td>
</tr>
</tbody>
</table>
| 3.5 | When an entity departs from a requirement of this Standard in accordance with paragraph 3.4, it shall disclose the following:  
(a) that management has concluded that the financial statements present fairly the entity’s financial position, financial performance and cash flows;  
(b) that it has complied with the *IFRS for SMEs*, except that it has departed from a particular requirement to achieve a fair presentation; and  
(c) the nature of the departure, including the treatment that the *IFRS for SMEs* would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2 and the treatment adopted. |
| 3.6 | When an entity has departed from a requirement of this Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 3.5(c). |
| 3.7 | In the extremely rare circumstances when management concludes that compliance with a requirement in this Standard would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:  
(a) the nature of the requirement in this Standard and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2; and  
(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation. |

* IFRS Foundation

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**TABLE OF PRESENTATION AND DISCLOSURE REQUIREMENTS**

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113
### Frequency of reporting

3.10 An entity shall present a complete set of financial statements (including comparative information—see paragraph 3.14) at least annually. When the end of an entity’s reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

(a) that fact;

(b) the reason for using a longer or shorter period; and

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

### Consistency of presentation

3.12 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose the following:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

3.13 If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.
### Comparative information

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.14</td>
<td>Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.</td>
</tr>
</tbody>
</table>

### Materiality and aggregation

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.15</td>
<td>An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.</td>
</tr>
</tbody>
</table>

### Complete set of financial statements

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.17</td>
<td>A complete set of financial statements of an entity shall include all of the following:</td>
</tr>
<tr>
<td></td>
<td>(a) a statement of financial position as at the reporting date;</td>
</tr>
<tr>
<td></td>
<td>(b) either:</td>
</tr>
<tr>
<td></td>
<td>(i) a single statement of comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income.</td>
</tr>
<tr>
<td></td>
<td>(ii) a separate income statement and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.</td>
</tr>
<tr>
<td></td>
<td>(c) a statement of changes in equity for the reporting period;</td>
</tr>
<tr>
<td></td>
<td>(d) a statement of cash flows for the reporting period; and</td>
</tr>
<tr>
<td></td>
<td>(e) notes, comprising a summary of significant accounting policies and other explanatory information.</td>
</tr>
<tr>
<td>3.18</td>
<td>If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).</td>
</tr>
</tbody>
</table>

* IFRS Foundation
3.19 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement or it may present a statement of comprehensive income in which the ‘bottom line’ is labelled ‘profit or loss’.

3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.

3.21 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.

### Identification of the financial statements

3.23 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
(b) whether the financial statements cover the individual entity or a group of entities;
(c) the date of the end of the reporting period and the period covered by the financial statements;
(d) the presentation currency, as defined in Section 30 Foreign Currency Translation; and
(e) the level of rounding, if any, used in presenting amounts in the financial statements.

3.24 An entity shall disclose the following in the notes:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and
(b) a description of the nature of the entity’s operations and its principal activities.
### Presentation of information not required by this Standard

| 3.25 | This Standard does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information. |

### Section 4 Statement of Financial Position

#### Information to be presented in the statement of financial position

<table>
<thead>
<tr>
<th>4.2</th>
<th>As a minimum, the statement of financial position shall include line items that present the following amounts:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) cash and cash equivalents;</td>
</tr>
<tr>
<td></td>
<td>(b) trade and other receivables;</td>
</tr>
<tr>
<td></td>
<td>(c) financial assets (excluding amounts shown under (a), (b), (i) and (j));</td>
</tr>
<tr>
<td></td>
<td>(d) inventories;</td>
</tr>
<tr>
<td></td>
<td>(e) property, plant and equipment;</td>
</tr>
<tr>
<td></td>
<td>(ea) investment property carried at cost less accumulated depreciation and impairment;</td>
</tr>
<tr>
<td></td>
<td>(f) investment property carried at fair value through profit or loss;</td>
</tr>
<tr>
<td></td>
<td>(g) intangible assets;</td>
</tr>
<tr>
<td></td>
<td>(h) biological assets carried at cost less accumulated depreciation and impairment;</td>
</tr>
<tr>
<td></td>
<td>(i) biological assets carried at fair value through profit or loss;</td>
</tr>
<tr>
<td></td>
<td>(j) investments in associates;</td>
</tr>
<tr>
<td></td>
<td>(k) investments in jointly controlled entities;</td>
</tr>
<tr>
<td></td>
<td>(l) trade and other payables;</td>
</tr>
<tr>
<td></td>
<td>(m) financial liabilities (excluding amounts shown under (l) and (p));</td>
</tr>
<tr>
<td></td>
<td>(n) liabilities and assets for current tax;</td>
</tr>
<tr>
<td></td>
<td>(o) deferred tax liabilities and deferred tax assets (these shall always be classified as non-current);</td>
</tr>
<tr>
<td></td>
<td>(p) provisions;</td>
</tr>
<tr>
<td></td>
<td>(q) non-controlling interest, presented within equity separately from the equity attributable to the owners of the parent; and</td>
</tr>
<tr>
<td></td>
<td>(r) equity attributable to the owners of the parent.</td>
</tr>
</tbody>
</table>

*continued...*
4.3 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

### Current/non-current distinction

4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

### Sequencing of items and format of items in the statement of financial position

4.9 This Standard does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity’s financial position; and

- (b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity’s financial position.
### Information to be presented either in the statement of financial position or in the notes

<table>
<thead>
<tr>
<th>4.11</th>
<th>An entity shall disclose, either in the statement of financial position or in the notes, the following subclassifications of the line items presented:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>property, plant and equipment in classifications appropriate to the entity;</td>
</tr>
<tr>
<td>(b)</td>
<td>trade and other receivables showing separately amounts due from related parties, amounts due from other parties and receivables arising from accrued income not yet billed;</td>
</tr>
<tr>
<td>(c)</td>
<td>inventories, showing separately amounts of inventories:</td>
</tr>
<tr>
<td></td>
<td>(i) held for sale in the ordinary course of business;</td>
</tr>
<tr>
<td></td>
<td>(ii) in the process of production for such sale; and</td>
</tr>
<tr>
<td></td>
<td>(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.</td>
</tr>
<tr>
<td>(d)</td>
<td>trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;</td>
</tr>
<tr>
<td>(e)</td>
<td>provisions for employee benefits and other provisions; and</td>
</tr>
<tr>
<td>(f)</td>
<td>classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that, as required by this standard, are recognised in other comprehensive income and presented separately in equity.</td>
</tr>
</tbody>
</table>

*continued...*
4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

(a) for each class of share capital:
   (i) the number of shares authorised.
   (ii) the number of shares issued and fully paid and issued but not fully paid.
   (iii) par value per share or that the shares have no par value.
   (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods.
   (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.
   (vi) shares in the entity held by the entity or by its subsidiaries or associates.
   (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

(b) a description of each reserve within equity.

4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities;
(b) a description of the facts and circumstances of the sale or plan; and
(c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.
### Section 5  *Statement of Comprehensive Income and Income Statement*

**Presentation of total comprehensive income**

<table>
<thead>
<tr>
<th>5.2</th>
<th>An entity shall present its total comprehensive income for a period either:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) in a single statement of comprehensive income, in which case the statement of comprehensive income presents all items of income and expense recognised in the period; or</td>
</tr>
<tr>
<td></td>
<td>(b) in two statements—an income statement and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of profit or loss as permitted or required by this Standard.</td>
</tr>
</tbody>
</table>

*continued...*
As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:

(a) revenue.

(b) finance costs.

(c) share of the profit or loss of investments in associates (see Section 14 Investments in Associates) and jointly controlled entities (see Section 15 Investments in Joint Ventures) accounted for using the equity method.

(d) tax expense excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35).

(e) a single amount comprising the total of:
   (i) the post-tax profit or loss of a discontinued operation; and
   (ii) the post-tax gain or loss attributable to an impairment, or reversal of an impairment, of the assets in the discontinued operation (see Section 27 Impairment of Assets), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation.

(f) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented).

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this Standard:
   (i) will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and
   (ii) will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).

(h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method.

(i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).
5.6 An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period:

(a) profit or loss for the period attributable to:
   (i) non-controlling interest; and
   (ii) owners of the parent.

(b) total comprehensive income for the period attributable to:
   (i) non-controlling interest; and
   (ii) owners of the parent.

Requirements applicable to both approaches

| 5.8 | Under this Standard, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10 Accounting Policies, Estimates and Errors). |
| 5.9 | An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity’s financial performance. |
| 5.10 | An entity shall not present or describe any items of income and expense as ‘extraordinary items’ in the statement of comprehensive income (or in the income statement, if presented) or in the notes. |
Analysis of expenses

5.11 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

**Analysis by nature of expense**

(a) Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs) and are not reallocated among various functions within the entity.

**Analysis by function of expense**

(b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

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

Information to be presented in the statement of changes in equity

6.3 The statement of changes in equity includes the following information:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Section 10 Accounting Policies, Estimates and Errors; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
### Information to be presented in the statement of income and retained earnings

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5</td>
<td>An entity shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5 Statement of Comprehensive Income and Income Statement:</td>
</tr>
<tr>
<td></td>
<td>(a) retained earnings at the beginning of the reporting period;</td>
</tr>
<tr>
<td></td>
<td>(b) dividends declared and paid or payable during the period;</td>
</tr>
<tr>
<td></td>
<td>(c) restatements of retained earnings for corrections of prior period errors;</td>
</tr>
<tr>
<td></td>
<td>(d) restatements of retained earnings for changes in accounting policy; and</td>
</tr>
<tr>
<td></td>
<td>(e) retained earnings at the end of the reporting period.</td>
</tr>
</tbody>
</table>

### Section 7 Statement of Cash Flows

#### Information to be presented in the statement of cash flows

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.3</td>
<td>An entity shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.</td>
</tr>
</tbody>
</table>

#### Reporting cash flows from operating activities

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.7</td>
<td>An entity shall present cash flows from operating activities using either:</td>
</tr>
<tr>
<td></td>
<td>(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows; or</td>
</tr>
<tr>
<td></td>
<td>(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.</td>
</tr>
</tbody>
</table>

#### Reporting cash flows from investing and financing activities

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.10</td>
<td>An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities.</td>
</tr>
</tbody>
</table>
Interest and dividends

7.14 An entity shall present separately cash flows from interest and dividends received and paid. The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.

Income tax

7.17 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

7.18 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Components of cash and cash equivalents

7.20 An entity shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position. However, an entity is not required to present this reconciliation if the amount of cash and cash equivalents reported in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Other disclosures

7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.
Section 8 Notes to the Financial Statements

Structure of the notes

<table>
<thead>
<tr>
<th>8.2</th>
<th>The notes shall:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 8.5-8.7;</td>
</tr>
<tr>
<td>(b)</td>
<td>disclose the information required by this Standard that is not presented elsewhere in the financial statements; and</td>
</tr>
<tr>
<td>(c)</td>
<td>provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.</td>
</tr>
</tbody>
</table>

| 8.3 | An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes. |

<table>
<thead>
<tr>
<th>8.4</th>
<th>An entity normally presents the notes in the following order:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>a statement that the financial statements have been prepared in compliance with the IFRS for SMEs (see paragraph 3.3);</td>
</tr>
<tr>
<td>(b)</td>
<td>a summary of significant accounting policies applied (see paragraph 8.5);</td>
</tr>
<tr>
<td>(c)</td>
<td>supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and</td>
</tr>
<tr>
<td>(d)</td>
<td>any other disclosures.</td>
</tr>
</tbody>
</table>

Disclosure of accounting policies

<table>
<thead>
<tr>
<th>8.5</th>
<th>An entity shall disclose the following in the summary of significant accounting policies:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>the measurement basis (or bases) used in preparing the financial statements; and</td>
</tr>
<tr>
<td>(b)</td>
<td>the other accounting policies used that are relevant to an understanding of the financial statements.</td>
</tr>
</tbody>
</table>
Information about judgements

8.6 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

8.7 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and
(b) their carrying amount as at the end of the reporting period.

Section 9 Consolidated and Separate Financial Statements

Requirement to present consolidated financial statements

9.2 Except as permitted or required by paragraphs 9.3 and 9.3C, a parent entity shall present consolidated financial statements in which it consolidates its investments in subsidiaries. Consolidated financial statements shall include all subsidiaries of the parent.

9.3 A parent need not present consolidated financial statements if both of the following conditions are met:

(a) the parent is itself a subsidiary; and
(b) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS or with this Standard.

9.3C If a parent has no subsidiaries other than subsidiaries that are not required to be consolidated in accordance with paragraphs 9.3A–9.3B, it shall not present consolidated financial statements. However, the parent shall provide the disclosure in paragraph 9.23A.
### Non-controlling interest in subsidiaries

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.20</td>
<td>An entity shall present non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent, as required by paragraph 4.2(q).</td>
</tr>
<tr>
<td>9.21</td>
<td>An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income, as required by paragraph 5.6 (or in the income statement, if presented, as required by paragraph 5.7).</td>
</tr>
</tbody>
</table>

### Disclosures in consolidated financial statements

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
</table>
| 9.23      | The following disclosures shall be made in consolidated financial statements:  
(a) the fact that the statements are consolidated financial statements;  
(b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;  
(c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statement; and  
(d) the nature and extent of any significant restrictions (for example, resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans. |
| 9.23A     | In addition to the disclosure requirements in Section 11, a parent entity shall disclose the carrying amount of investments in subsidiaries that are not consolidated (see paragraphs 9.3A–9.3C) at the reporting date, in total, either in the statement of financial position or in the notes. |

### Disclosures in separate financial statements

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
</table>
| 9.27      | When a parent, an investor in an associate or a venturer with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:  
(a) that the statements are separate financial statements; and  
(b) a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates, and shall identify the consolidated financial statements or other primary financial statements to which they relate. |
## Disclosures in combined financial statements

9.30 The combined financial statements shall disclose the following:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>the fact that the financial statements are combined financial statements;</td>
</tr>
<tr>
<td>(b)</td>
<td>the reason why combined financial statements are prepared;</td>
</tr>
<tr>
<td>(c)</td>
<td>the basis for determining which entities are included in the combined financial statements;</td>
</tr>
<tr>
<td>(d)</td>
<td>the basis of preparation of the combined financial statements; and</td>
</tr>
<tr>
<td>(e)</td>
<td>the related party disclosures required by Section 33 Related Party Disclosures.</td>
</tr>
</tbody>
</table>

## Section 10 Accounting Policies, Estimates and Errors

### Disclosure of a change in accounting policy

10.13 When an amendment to this Standard has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>the nature of the change in accounting policy;</td>
</tr>
<tr>
<td>(b)</td>
<td>for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;</td>
</tr>
<tr>
<td>(c)</td>
<td>the amount of the adjustment relating to periods before those presented, to the extent practicable; and</td>
</tr>
<tr>
<td>(d)</td>
<td>an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).</td>
</tr>
</tbody>
</table>

Financial statements of subsequent periods need not repeat these disclosures.
### Disclosure of a change in estimate

| 10.18 | An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates. |

### Disclosure of prior period errors

| 10.23 | An entity shall disclose the following about prior period errors:  
(a) the nature of the prior period error;  
(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;  
(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and  
(d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).  
Financial statements of subsequent periods need not repeat these disclosures. |
Section 11 Basic Financial Instruments

Disclosures

The following disclosures make reference to disclosures for financial liabilities measured at fair value through profit or loss. Entities that have only basic financial instruments (and therefore do not apply Section 12 Other Financial Instrument Issues) will not have any financial liabilities measured at fair value through profit or loss and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

In accordance with paragraph 8.5, an entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

Statement of financial position—categories of financial assets and financial liabilities

An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 12.8 and 12.9);
(b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a));
(c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 12.8 and 12.9);
(d) financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9);
(e) financial liabilities measured at amortised cost (paragraph 11.14(a)); and
(f) loan commitments measured at cost less impairment (paragraph 11.14(b)).

An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).
For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, for example, quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this Standard, the entity shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.

### Derecognition

If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose the following for each class of such financial assets:

(a) the nature of the assets;
(b) the nature of the risks and rewards of ownership to which the entity remains exposed; and
(c) the carrying amounts of the assets and of any associated liabilities that the entity continues to recognise.

### Collateral

When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following:

(a) the carrying amount of the financial assets pledged as collateral; and
(b) the terms and conditions relating to its pledge.
Defaults and breaches on loans payable

11.47 For loans payable recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an entity shall disclose the following:

(a) details of that breach or default;
(b) the carrying amount of the related loans payable at the reporting date; and
(c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income, expense, gains or losses

11.48 An entity shall disclose the following items of income, expense, gains or losses:

(a) income, expense, gains or losses, including changes in fair value, recognised on:
   (i) financial assets measured at fair value through profit or loss;
   (ii) financial liabilities measured at fair value through profit or loss;
   (iii) financial assets measured at amortised cost; and
   (iv) financial liabilities measured at amortised cost.
(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss; and
(c) the amount of any impairment loss for each class of financial asset.

Section 12 Other Financial Instrument Issues

Disclosures

12.26 An entity applying this section shall make all of the disclosures required in Section 11 Basic Financial Instruments incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 11. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27–12.29.

continued...
Table of Presentation and Disclosure Requirements

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
</table>
| 12.27   | An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17:  
(a) a description of the hedge;  
(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and  
(c) the nature of the risks being hedged, including a description of the hedged item. |
| 12.28   | If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19–12.22) it shall disclose the following:  
(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss for the period; and  
(b) the amount of the change in fair value of the hedged item recognised in profit or loss for the period. |
| 12.29   | If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation (paragraphs 12.23–12.25), it shall disclose the following:  
(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;  
(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;  
(c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23);  
(d) the amount that was reclassified to profit or loss for the period amount (paragraphs 12.23 and 12.25); and  
(e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in profit or loss for the period (paragraph 12.23). |
Section 13 Inventories

Disclosures

13.22 An entity shall disclose the following:
(a) the accounting policies adopted in measuring inventories, including the cost formula used;
(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(c) the amount of inventories recognised as an expense during the period;
(d) impairment losses recognised or reversed in profit or loss in accordance with Section 27 Impairment of Assets; and
(e) the total carrying amount of inventories pledged as security for liabilities.

Section 14 Investments in Associates

Financial statement presentation

14.11 An investor shall classify investments in associates as non-current assets.

Disclosures

14.12 An entity shall disclose the following:
(a) its accounting policy for investments in associates;
(b) the carrying amount of investments in associates (see paragraph 4.2(j)); and
(c) the fair value of investments in associates accounted for using the equity method for which there are published price quotations.

14.13 For investments in associates accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.

14.14 For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any discontinued operations of such associates.

continued...
14.15 For investments in associates accounted for by the fair value model, an investor shall make the disclosures required by paragraphs 11.41–11.44. If an investor applies the undue cost or effort exemption in paragraph 14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.

Section 15 Investments in Joint Ventures

Disclosures

15.19 An entity shall disclose the following:
(a) the accounting policy it uses for recognising its interests in jointly controlled entities;
(b) the carrying amount of investments in jointly controlled entities (see paragraph 4.2(k));
(c) the fair value of investments in jointly controlled entities accounted for using the equity method for which there are published price quotations; and
(d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.

15.20 For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.

15.21 For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44. If a venturer applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.
Section 16 Investment Property

Disclosures

16.10 An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):

(a) the methods and significant assumptions applied in determining the fair value of investment property.

(b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

(i) additions, disclosing separately those additions resulting from acquisitions through business combinations;

(ii) net gains or losses from fair value adjustments;

(iii) transfers to and from investment property carried at cost less accumulated depreciation and impairment (see paragraph 16.8);

(iv) transfers to and from inventories and owner-occupied property; and

(v) other changes.

This reconciliation need not be presented for prior periods.

16.11 In accordance with Section 20 Leases, the owner of an investment property provides lessors’ disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees’ disclosures for finance leases and lessors’ disclosures for any operating leases into which it has entered.
Section 17 Property, Plant and Equipment

Disclosures

17.31 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

(a) the measurement bases used for determining the gross carrying amount;
(b) the depreciation methods used;
(c) the useful lives or the depreciation rates used;
(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
   (i) additions;
   (ii) disposals;
   (iii) acquisitions through business combinations;
   (iv) increases or decreases resulting from revaluations under paragraphs 17.15B–17.15D and from impairment losses recognised or reversed in other comprehensive income in accordance with Section 27;
   (v) transfers to and from investment property carried at fair value through profit or loss (see paragraph 16.8);
   (vi) impairment losses recognised or reversed in profit or loss in accordance with Section 27 Impairment of Assets;
   (vii) depreciation; and
   (viii) other changes.

This reconciliation need not be presented for prior periods.
17.32 An entity shall also disclose the following:
(a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities;
(b) the amount of contractual commitments for the acquisition of property, plant and equipment; and
(c) if an entity has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.

17.33 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:
(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) the methods and significant assumptions applied in estimating the items’ fair values;
(d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.
### Section 18 Intangible Assets other than Goodwill

**Disclosures**

<table>
<thead>
<tr>
<th>18.27</th>
<th>An entity shall disclose the following for each class of intangible assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) the useful lives or the amortisation rates used;</td>
</tr>
<tr>
<td></td>
<td>(b) the amortisation methods used;</td>
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<td></td>
<td>(c) the gross carrying amount and any accumulated amortisation</td>
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<tr>
<td></td>
<td>(aggregated with accumulated impairment losses) at the beginning and</td>
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<td></td>
<td>end of the reporting period;</td>
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<td></td>
<td>(d) the line item(s) in the statement of comprehensive income (and in</td>
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<td></td>
<td>the income statement, if presented) in which any amortisation of</td>
</tr>
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<td></td>
<td>intangible assets is included; and</td>
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<tr>
<td></td>
<td>(e) a reconciliation of the carrying amount at the beginning and end</td>
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<tr>
<td></td>
<td>of the reporting period showing separately:</td>
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<tr>
<td></td>
<td>(i) additions;</td>
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<td></td>
<td>(ii) disposals;</td>
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<td></td>
<td>(iii) acquisitions through business combinations;</td>
</tr>
<tr>
<td></td>
<td>(iv) amortisation;</td>
</tr>
<tr>
<td></td>
<td>(v) impairment losses;</td>
</tr>
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<td></td>
<td>(vi) other changes.</td>
</tr>
<tr>
<td></td>
<td>This reconciliation need not be presented for prior periods.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>18.28</th>
<th>An entity shall also disclose:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) a description, the carrying amount and remaining amortisation</td>
</tr>
<tr>
<td></td>
<td>period of any individual intangible asset that is material to the</td>
</tr>
<tr>
<td></td>
<td>entity's financial statements;</td>
</tr>
<tr>
<td></td>
<td>(b) for intangible assets acquired by way of a government grant and</td>
</tr>
<tr>
<td></td>
<td>initially recognised at fair value (see paragraph 18.12):</td>
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<tr>
<td></td>
<td>(i) the fair value initially recognised for these assets; and</td>
</tr>
<tr>
<td></td>
<td>(ii) their carrying amounts.</td>
</tr>
<tr>
<td></td>
<td>(c) the existence and carrying amounts of intangible assets to which</td>
</tr>
<tr>
<td></td>
<td>the entity has restricted title or that are pledged as security for</td>
</tr>
<tr>
<td></td>
<td>liabilities; and</td>
</tr>
<tr>
<td></td>
<td>(d) the amount of contractual commitments for the acquisition of</td>
</tr>
<tr>
<td></td>
<td>intangible assets.</td>
</tr>
</tbody>
</table>

*continued...*
An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Standard).

Section 19 Business Combinations and Goodwill

Disclosures for business combination(s) during the reporting period

<table>
<thead>
<tr>
<th>19.25</th>
<th>For each business combination during the period, the acquirer shall disclose the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>the names and descriptions of the combining entities or businesses;</td>
</tr>
<tr>
<td>(b)</td>
<td>the acquisition date;</td>
</tr>
<tr>
<td>(c)</td>
<td>the percentage of voting equity instruments acquired;</td>
</tr>
<tr>
<td>(d)</td>
<td>the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments);</td>
</tr>
<tr>
<td>(e)</td>
<td>the amounts recognised at the acquisition date for each class of the acquiree’s assets, liabilities and contingent liabilities, including goodwill;</td>
</tr>
<tr>
<td>(f)</td>
<td>the amount of any excess recognised in profit or loss in accordance with paragraph 19.24 and the line item in the statement of comprehensive income (and in the income statement, if presented) in which the excess is recognised; and</td>
</tr>
<tr>
<td>(g)</td>
<td>a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, or intangible assets or other items not recognised in accordance with paragraph 19.15.</td>
</tr>
</tbody>
</table>
### Disclosures for all business combinations

**19.26** An acquirer shall disclose the useful lives used for goodwill and a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

(a) changes arising from new business combinations;
(b) impairment losses;
(c) disposals of previously acquired businesses; and
(d) other changes.

This reconciliation need not be presented for prior periods.

### Section 20 Leases

#### Financial statements of lessees—finance leases

**20.13** A lessee shall make the following disclosures for finance leases:

(a) for each class of asset, the net carrying amount at the end of the reporting period;
(b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years; and
   (iii) later than five years.
(c) a general description of the lessee’s significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.

**20.14** In addition, the requirements for disclosure about assets in accordance with Section 17 Property, Plant and Equipment, Section 18 Intangible Assets other than Goodwill, Section 27 Impairment of Assets and Section 34 Specialised Assets apply to lessees for assets leased under finance leases.
### Financial statements of lessees—operating leases

20.16 A lessee shall make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years.

(b) lease payments recognised as an expense; and

(c) a general description of the lessee’s significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.

### Financial statements of lessors—finance leases

20.23 A lessor shall make the following disclosures for finance leases:

(a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years.

(b) unearned finance income.

(c) the unguaranteed residual values accruing to the benefit of the lessor.

(d) the accumulated allowance for uncollectable minimum lease payments receivable.

(e) contingent rents recognised as income in the period.

(f) a general description of the lessor’s significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.
Financial statements of lessors—operating leases

20.30 A lessor shall disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years; and
   (iii) later than five years.

(b) total contingent rents recognised as income; and

(c) a general description of the lessor’s significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.

20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.
Section 21 Provisions and Contingencies

Disclosures about provisions

21.14 For each class of provision, an entity shall disclose all of the following:
   (a) a reconciliation showing:
      (i) the carrying amount at the beginning and end of the period;
      (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
      (iii) amounts charged against the provision during the period; and
      (iv) unused amounts reversed during the period.
   (b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
   (c) an indication of the uncertainties about the amount or timing of those outflows; and
   (d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

21.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:
   (a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–21.11;
   (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
   (c) the possibility of any reimbursement.

If it is impracticable to make one or more of these disclosures, that fact shall be stated.
### Disclosures about contingent assets

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.16</td>
<td>If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period and, unless it would involve undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If such an estimate would involve undue cost or effort, the entity shall disclose that fact and the reasons why estimating the financial effect would involve undue cost or effort.</td>
</tr>
</tbody>
</table>

### Prejudicial disclosures

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.17</td>
<td>In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.</td>
</tr>
</tbody>
</table>

### Section 22 Liabilities and Equity

#### Disclosures

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.20</td>
<td>If the fair value of the assets to be distributed as described in paragraphs 22.18–22.18A cannot be measured reliably without undue cost or effort, the entity shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.</td>
</tr>
</tbody>
</table>
Section 23 Revenue

General disclosures about revenue

23.30 An entity shall disclose:
(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and
(b) the amount of each category of revenue recognised during the period, showing separately, at a minimum, revenue arising from:
   (i) the sale of goods;
   (ii) the rendering of services;
   (iii) interest;
   (iv) royalties;
   (v) dividends;
   (vi) commissions;
   (vii) government grants; and
   (viii) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

23.31 An entity shall disclose the following:
(a) the amount of contract revenue recognised as revenue in the period;
(b) the methods used to determine the contract revenue recognised in the period; and
(c) the methods used to determine the stage of completion of contracts in progress.

23.32 An entity shall present:
(a) the gross amount due from customers for contract work, as an asset; and
(b) the gross amount due to customers for contract work, as a liability.
Section 24 Government Grants

Disclosures

24.6 An entity shall disclose the following:
(a) the nature and amounts of government grants recognised in the financial statements;
(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income; and
(c) an indication of other forms of government assistance from which the entity has directly benefited.

24.7 For the purpose of the disclosure required by paragraph 24.6(c), government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice, the provision of guarantees and loans at nil or low interest rates.

Section 25 Borrowing Costs

Disclosures

25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for financial liabilities that are not at fair value through profit or loss. This section does not require any additional disclosure.
## Disclosures

26.18 An entity shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

<p>| | |</p>
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<tbody>
<tr>
<td>(a)</td>
<td>a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted and the method of settlement (for example, whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.</td>
</tr>
<tr>
<td>(b)</td>
<td>the number and weighted average exercise prices of share options for each of the following groups of options:</td>
</tr>
<tr>
<td>(i)</td>
<td>outstanding at the beginning of the period;</td>
</tr>
<tr>
<td>(ii)</td>
<td>granted during the period;</td>
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<tr>
<td>(iii)</td>
<td>forfeited during the period;</td>
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<tr>
<td>(iv)</td>
<td>exercised during the period;</td>
</tr>
<tr>
<td>(v)</td>
<td>expired during the period;</td>
</tr>
<tr>
<td>(vi)</td>
<td>outstanding at the end of the period; and</td>
</tr>
<tr>
<td>(vii)</td>
<td>exercisable at the end of the period.</td>
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</table>

26.19 For equity-settled share-based payment arrangements, an entity shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.

26.20 For cash-settled share-based payment arrangements, an entity shall disclose information about how the liability was measured.

26.21 For share-based payment arrangements that were modified during the period, an entity shall disclose an explanation of those modifications.

26.22 If the entity is part of a group share-based payment plan, and it measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).
### Section 26 Share-based Payment Transactions

26.23 An entity shall disclose the following information about the effect of share-based payment transactions on the entity’s profit or loss for the period and on its financial position:

- (a) the total expense recognised in profit or loss for the period; and
- (b) the total carrying amount at the end of the period for liabilities arising from share-based payment transactions.

### Section 27 Impairment of Assets

**Disclosures**

27.32 An entity shall disclose the following for each class of assets indicated in paragraph 27.33:

- (a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which those impairment losses are included; and
- (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which those impairment losses are reversed.

27.33 An entity shall disclose the information required by paragraph 27.32 for each of the following classes of asset:

- (a) inventories;
- (b) property, plant and equipment (including investment property accounted for by the cost method);
- (c) goodwill;
- (d) intangible assets other than goodwill;
- (e) investments in associates; and
- (f) investments in joint ventures.

### Section 28 Employee Benefits

**Disclosures about short-term employee benefits**

28.39 This section does not require specific disclosures about short-term employee benefits.
Disclosures about defined contribution plans

28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an entity treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting (see paragraph 28.11) it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan’s surplus or deficit and the implications, if any, for the entity.

Disclosures about defined benefit plans

28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful:

(a) a general description of the type of plan, including funding policy;
(b) the entity’s accounting policy for recognising actuarial gains and losses (either in profit or loss or as an item of other comprehensive income) and the amount of actuarial gains and losses recognised during the period;
(c) if the entity uses any of the simplifications in paragraph 28.19 in measuring its defined benefit obligation, it shall disclose that fact and the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort;
(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;
(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes;
(f) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately, if applicable:
   (i) contributions;
   (ii) benefits paid; and
   (iii) other changes in plan assets.

continued...
(g) the total cost relating to defined benefit plans for the period, disclosing separately the amounts:

(i) recognised in profit or loss as an expense; and

(ii) included in the cost of an asset.

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date;

(i) the amounts included in the fair value of plan assets for:

(i) each class of the entity’s own financial instruments; and

(ii) any property occupied by, or other assets used by, the entity.

(j) the actual return on plan assets; and

(k) the principal actuarial assumptions used, including, when applicable:

(i) the discount rates;

(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;

(iii) the expected rates of salary increases;

(iv) medical cost trend rates; and

(v) any other material actuarial assumptions used.

The reconciliations in (e) and (f) need not be presented for prior periods.

A subsidiary that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group (see paragraph 28.38) shall, in its separate financial statements, describe its policy for making the allocation and shall make the disclosures in (a)–(k) for the plan as a whole.

### Disclosures about other long-term benefits

28.42 For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

### Disclosures about termination benefits

28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.
28.44 When there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. Section 21 Provisions and Contingencies requires an entity to disclose information about its contingent liabilities unless the possibility of an outflow in settlement is remote.

Section 29 Income Tax

Current and non-current

29.36 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

29.37 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Disclosures

29.38 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

continued...
An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income);
(b) any adjustments recognised in the period for current tax of prior periods;
(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;
(f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;
(g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 29.31; and
(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Section 10 Accounting Policies, Estimates and Errors, because they cannot be accounted for retrospectively.

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<table>
<thead>
<tr>
<th>29.39</th>
<th>An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:</th>
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<tbody>
<tr>
<td>(a)</td>
<td>current tax expense (income);</td>
</tr>
<tr>
<td>(b)</td>
<td>any adjustments recognised in the period for current tax of prior periods;</td>
</tr>
<tr>
<td>(c)</td>
<td>the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;</td>
</tr>
<tr>
<td>(d)</td>
<td>the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;</td>
</tr>
<tr>
<td>(e)</td>
<td>the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;</td>
</tr>
<tr>
<td>(f)</td>
<td>adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;</td>
</tr>
<tr>
<td>(g)</td>
<td>deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 29.31; and</td>
</tr>
<tr>
<td>(h)</td>
<td>the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Section 10 Accounting Policies, Estimates and Errors, because they cannot be accounted for retrospectively.</td>
</tr>
</tbody>
</table>
29.40 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.

(b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.

(c) an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).

(d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(e) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and

(ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.

(f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.

(g) in the circumstances described in paragraph 29.33, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

29.41 If an entity does not offset tax assets and liabilities in accordance with paragraph 29.37 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the entity shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

### Section 30 Foreign Currency Translation

#### Disclosures

30.24 In paragraphs 30.26 and 30.27, references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.

continued...
30.25 An entity shall disclose the following:
   (a) the amount of exchange differences recognised in profit or loss during
       the period, except for those arising on financial instruments measured
       at fair value through profit or loss in accordance with Section 11 Basic
       Financial Instruments and Section 12 Other Financial Instrument Issues; and
   (b) the amount of exchange differences arising during the period and
       classified in a separate component of equity at the end of the period.

30.26 An entity shall disclose the currency in which the financial statements are
       presented. When the presentation currency is different from the functional
       currency, an entity shall state that fact and shall disclose the functional
       currency and the reason for using a different presentation currency.

30.27 When there is a change in the functional currency of either the reporting
       entity or a significant foreign operation, the entity shall disclose that fact and
       the reason for the change in functional currency.

Section 31 Hyperinflation

Disclosures

31.15 An entity to which this section applies shall disclose the following:
   (a) the fact that financial statements and other prior period data have been
       restated for changes in the general purchasing power of the functional
       currency;
   (b) the identity and level of the price index at the reporting date and
       changes during the current reporting period and the previous reporting
       period; and
   (c) amount of gain or loss on monetary items.

Section 32 Events after the End of the Reporting Period

Date of authorisation for issue

32.9 An entity shall disclose the date when the financial statements were authorised
       for issue and who gave that authorisation. If the entity's owners or others have
       the power to amend the financial statements after issue, the entity shall
       disclose that fact.
Non-adjusting events after the end of the reporting period

32.10 An entity shall disclose the following for each category of non-adjusting event after the end of the reporting period:

(a) the nature of the event; and
(b) an estimate of its financial effect or a statement that such an estimate cannot be made.

32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

(a) a major business combination or disposal of a major subsidiary;
(b) announcement of a plan to discontinue an operation;
(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government;
(d) the destruction of a major production plant by a fire;
(e) announcement, or commencement of the implementation, of a major restructuring;
(f) issues or repurchases of an entity’s debt or equity instruments;
(g) abnormally large changes in asset prices or foreign exchange rates;
(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;
(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Section 33 Related Party Disclosures

Disclosure of parent-subsidiary relationships

33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity’s parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.
### Disclosure of key management personnel compensation

| 33.7 | An entity shall disclose key management personnel compensation in total. |

### Disclosure of related party transactions

| 33.8 | A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to SMEs include, but are not limited to: |
|      | (a) transactions between an entity and its principal owner(s); |
|      | (b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and |
|      | (c) transactions in which an entity or person that controls the reporting entity incurs expenses directly that otherwise would have been borne by the reporting entity. |

| 33.9 | If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include: |
|      | (a) the amount of the transactions; |
|      | (b) the amount of outstanding balances and: |
|      | (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and |
|      | (ii) details of any guarantees given or received. |
|      | (c) provisions for uncollectable receivables related to the amount of outstanding balances; and |
|      | (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties. |

Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the entity on behalf of the related party or vice versa. 

*continued...*
33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:

(a) entities with control, joint control or significant influence over the entity;

(b) entities over which the entity has control, joint control or significant influence;

(c) key management personnel of the entity or its parent (in the aggregate); and

(d) other related parties.

33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to:

(a) a state (a national, regional or local government) that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.

However, the entity must still disclose a parent-subsidiary relationship as required by paragraph 33.5.

33.12 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services;

(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral;

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; and

(j) participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities.

continued...
...continued

| 33.13  | An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm’s length transactions unless such terms can be substantiated. |
| 33.14  | An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. |

Section 34 Specialised Activities

Agriculture disclosures—fair value model

| 34.7   | An entity shall disclose the following with respect to its biological assets measured at fair value: |
|        | (a) a description of each class of its biological assets. |
|        | (b) the methods and significant assumptions applied in determining the fair value of each class of agricultural produce at the point of harvest and each class of biological assets. |
|        | (c) a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include: |
|        | (i) the gain or loss arising from changes in fair value less costs to sell; |
|        | (ii) increases resulting from purchases; |
|        | (iii) decreases resulting from harvest; |
|        | (iv) increases resulting from business combinations; |
|        | (v) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and |
|        | (vi) other changes. |
|        | This reconciliation need not be presented for prior periods. |
### Agriculture disclosures—cost model

**34.10** An entity shall disclose the following with respect to its biological assets measured using the cost model:

(a) a description of each class of its biological assets;
(b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
(c) the depreciation method used;
(d) the useful lives or the depreciation rates used; and
(e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

### Exploration for and evaluation of mineral resources

**34.11C** Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An entity shall measure, present and disclose any resulting impairment loss in accordance with Section 27 Impairment of Assets, except as provided by paragraph 34.11F.

### Service concession arrangements—operating revenue

**34.16** The operator of a service concession arrangement shall recognise, measure and disclose revenue in accordance with Section 23 Revenue for the services it performs.

### Section 35 Transition to the IFRS for SMEs

#### Scope of this section

**35.2** An entity that has applied the *IFRS for SMEs* in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with the *IFRS for SMEs*, must either apply this section or apply the *IFRS for SMEs* retrospectively in accordance with Section 10 Accounting Policies, Estimates and Errors as if the entity had never stopped applying the *IFRS for SMEs*. When such an entity does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph 35.12A in addition to the disclosure requirements in Section 10.
Procedures for preparing financial statements at the date of transition

35.11 If it is impracticable for an entity to make one or more of the adjustments required by paragraph 35.7 at the date of transition, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify which amounts in the financial statements have not been restated. If it is impracticable for an entity to provide any of the disclosures required by this Standard, including those for comparative periods, the omission shall be disclosed.

Explanation of transition to the IFRS for SMEs

35.12 An entity shall explain how the transition from its previous financial reporting framework to this Standard affected its reported financial position, financial performance and cash flows.

35.12A An entity that has applied the IFRS for SMEs in a previous period, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying the IFRS for SMEs;
(b) the reason it is resuming the application of the IFRS for SMEs; and
(c) whether it has applied this section or has applied the IFRS for SMEs retrospectively in accordance with Section 10.

Reconciliations

35.13 To comply with paragraph 35.12, an entity’s first financial statements prepared using this Standard shall include:

(a) a description of the nature of each change in accounting policy;
(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this Standard for both of the following dates:
   (i) the date of transition to this Standard; and
   (ii) the end of the latest period presented in the entity’s most recent annual financial statements determined in accordance with its previous financial reporting framework.
(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity’s most recent annual financial statements to its profit or loss determined in accordance with this Standard for the same period.

continued...
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<table>
<thead>
<tr>
<th>35.14</th>
<th>If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.</th>
</tr>
</thead>
<tbody>
<tr>
<td>35.15</td>
<td>If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.</td>
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</table>

**Effective date and transition**

<table>
<thead>
<tr>
<th>A1</th>
<th>Earlier application of 2015 Amendments to the IFRS for SMEs is permitted. If an entity applies 2015 Amendments to the IFRS for SMEs for an earlier period it shall disclose that fact.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A3</td>
<td>The entity shall identify which amounts in the financial statements have not been restated as a result of applying paragraph A2.</td>
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</tbody>
</table>
This is the only official printed edition of the IASB’s International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) that incorporates and is updated by 2015 Amendments to the IFRS for SMEs (effective for annual reporting periods beginning on or after 1 January 2017 with early application permitted).

The IFRS for SMEs has simplifications that reflect the needs of users of SMEs’ financial statements and cost-benefit considerations. Compared with full IFRS, it is less complex in a number of ways:

• topics that are not relevant for SMEs are omitted;
• many of the principles for recognising and measuring assets, liabilities, income and expenses in full IFRS are simplified;
• significantly fewer disclosures are required;
• the IFRS for SMEs has been written in clear, easily translatable language; and
• to further reduce the burden for SMEs, revisions are not expected to be made more frequently than once every three years.

It is intended for entities that do not have public accountability as defined in the IFRS for SMEs.

This edition is presented in two volumes. Part A (the requirements) containing the IFRS for SMEs Standard and Derivation Table, and Part B containing the accompanying documents, such as Basis for Conclusions and Illustrative Financial Statements.

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