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ACCOUNTING UPDATE (IFRS for SME's)

Amendments to IFRS for SMEs

Introduction

The International Accounting Standards Board (IASB) has published amendments to its 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs). The amendments are the result of the first comprehensive review of that standard, which was originally issued in 2009. They affect 21 of the 35 sections of the standard (not counting consequential amendments) and the glossary, however, most of the changes are rather minor. The amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

Overview of Changes

	Section	Amendment
1	S1 – *Definition of an SME*	- Clarification with regard to public accountability and clarification with regard to the use of the IFRS for SMEs in the parent's separate financial statements added.
2	S2 – *Concepts and pervasive principles*	- Added guidance on the 'undue cost and effort' exemption. It is not a general principle. Consideration of cost or effort is from the perspective of the entity whereas considerations of benefits are from the perspective of the potential user. The entity is required to disclose the reasons why it has applied this exemption if it applies it.
3	S4 – *Statement of Financial Position*	- Requirement to present investment property measured at cost less accumulated depreciation and impairment separately on the face of the statement of financial position added and relief from requirement to disclose certain comparative information provided. - An entity with share capital is required to disclose a reconciliation of the opening and closing share capital for each class of share. No reconciliation disclosure is required for the comparative period.
4	S5 – *Statement of Comprehensive Income and Income Statement*	- Clarification with regard to the single amount presented for Discontinued Operations added and alignment with changes made to IAS 1 *Presentation of Financial Statements* on reclassifications. - Other comprehensive income items that are recognised outside of profit or loss now include revaluation surplus/ deficits arising from property, plant and equipment.
5	S6 – *Statement of changes in Equity and Statement of Income and Retained Earnings*	- Alignment with changes made to IAS 1 *Presentation of Financial Statements* on OCI components.
6	S9 – *Consolidated and separate Financial Statements*	- The following amendments were made to consolidation matters: • *General rule* – An entity which controls another entity (subsidiary) is required to prepare consolidated financial statements in which all subsidiaries are consolidated. An entity is exempt from preparing consolidated financial statements if it is a subsidiary of another entity and the parent prepares consolidated IFRS/ IFRS for SME compliant financial statements. • *Subsidiary acquired for disposal* – If an entity acquires a subsidiary with the intention of selling it within 12 months from acquisition, it is

	Section	Amendment
		required to measure it in terms of S11 – *Basic financial instruments*. If after 12 months, the entity still controls the subsidiary, it will consolidate it from the date of acquisition and restate the prior period financial statements. • *Uniform reporting date* – Financial information of the parent and subsidiaries used in the preparation of consolidated financial statements shall be prepared as at the same date unless it is impracticable to do so. • *Disposal of a foreign operation* – The cumulative foreign currency translation gain or loss recognised in equity relating to a foreign operation shall not be reclassified to profit or loss on disposal (loss of control) of a foreign operation. • *Separate financial statements* – In the parent's separate financial statements, it may use either the Cost (less impairment), FV (through P&L) or Equity method accounting policies in respect of its investment in subsidiaries, associates and joint-controlled entities.
7	S11 – *Basic Financial Instruments*	- Several clarifications and 'undue cost and effort' exemption regarding the requirement to measure investments in equity instruments at FV added. Clarifications include: • General measurement basis is cost except for preference shares or ordinary shares which are publicly trades or whose fair values can be measured reliably without undue cost or effort. • Instruments at FV through P&L exclude transaction costs unless the arrangement is in effect a financing transaction in which case the instruments shall be measured at the present value of the future cash flows discounted at the market rare for a similar debt instrument.
8	S12 – *Other Financial Instruments issues*	- Clarifications on the scope of this section and clarifications regarding hedge accounting added. Scope includes contracts to buy or sell non-financial items except where these are entered into and continue to be held for the entity's expected purchase, sale or usage requirements.
9	S17 – *Property, Plant and Equipment*	- Alignment with changes made to IAS 16 *Property, plant and equipment* on classification of spare parts, stand-by and servicing equipment, which can be recognised in accordance with this section if they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. - An entity may elect to measure property, plant and equipment using either the cost or revaluation models. The selected policy is to be applied to the entire class of property, plant and equipment. The application of this change is prospective if retrospective application is impracticable. However, where the change is from the cost model to the revaluation model, this change is applied prospectively.
10	S18 – *Intangible Assets other than Goodwill*	- Modified requirement to useful life determination for amortisation of an intangible. All Intangible assets are deemed to have a finite life. If the useful life of an intangible asset cannot be established reliably, the useful life should be based on management's best estimate not exceeding 10 years.
11	S19 – *Business Combinations and Goodwill*	- Replacement of the undefined term 'date of exchange' with the defined term 'date of acquisition' when determining the cost of a business combination. - 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.

	Section	Amendment
		- Addition of an undue cost or effort exemption to the requirement to recognise intangible assets separately in a business combination and the addition of a disclosure requirement for all entities to provide a qualitative description of the factors that make up any goodwill recognised.
12	S20 - *Leases*	- Modification to include leases with an interest rate variation clause that is linked to market interest rates within the scope of this section instead of Section 12 *Other Financial Instruments*. - Clarification that only some outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts are, in substance, leases.
13	S22 – *Liabilities and Equity*	- Addition of clarifying guidance on classifying financial instruments as equity or a liability. An entity shall classify a financial instrument as a financial liability or as equity in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity instrument. Unless an entity has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity instruments. - Exemption from the initial measurement requirements for equity instruments issued as part of a business combination, including business combinations of entities or businesses under common control. An entity shall measure the equity instruments, other than those issued as part of a business combination or those accounted as extinguishing financial liabilities with equity instruments, at the FV of the cash or other resources received or receivable, net of transaction costs (direct costs of issuing an equity instrument). If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis.
14	S26 – *Share-based Payment*	- Alignment of the scope and the definitions with IFRS 2 *Share-based Payment* to clarify that share-based payment transactions involving equity instruments of other group entities are in the scope of this Section. - The clarifications are as follows: • This section applies to all share-based payment transactions in which the identifiable consideration appears to be less than the FV of the equity instruments granted or the liability incurred and not only to share-based payment transactions that are provided in accordance with programmes established under law. • The grant date for vesting conditions and modifications to grants of equity instruments with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to the FV of the equity instrument granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders the service. • 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.
15	S27 – *Impairment of Assets*	- Clarification that this section does not apply to assets arising from construction contracts.
16	S28 – *Employee Benefits*	- The disclosure requirements on accounting policy for termination benefits has been removed. - An entity shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the

	Section	Amendment
		period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in P&L as an expense unless another section of this IFRS requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.
17	S29 – *Income Taxes*	- Alignment of the main principles of this section with IAS 12 *Income Taxes* for the recognition and measurement of deferred income tax, but modified to be consistent with the other requirements in the IFRS for SMEs (covers all amendments to this section, except those from amendment below, and the related definitions in the section 22 *Glossary*). - Addition of an undue cost or effort exemption to the requirement to offset income tax assets and liabilities. 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.
18	S30 – *Foreign Currency Translation*	- Clarification that financial instruments that derive their value from the change in a specified foreign exchange rate are excluded from this Section, but not financial instruments denominated in a foreign currency.
19	S33 – *Related Party Disclosures*	- Alignment of the definition of 'related party', with IAS 24 *Related Party Disclosures*, which now includes a management entity providing key management personnel services.
20	S34 – *Specialised activities*	- Removal of the requirement to disclose comparative information for the reconciliation of changes in the carrying amount of biological assets. - An entity using IFRS that is engaged in exploration for, or evaluation of mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets. The policy must be applied consistently. Costs such as acquisition of rights to explore, topographical and similar studies, exploratory drilling, trenching, sampling and technical feasibility are included in the initial measurements of the asset. Expenditure related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The assets are initially measured at cost and subsequently measured in terms of Section 17 *Property, plant and equipment* and Section 18 *Intangible assets other than goodwill*. These assets shall be assessed for impairments when fact and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.
21	S35 – *Transition to the IFRS for SMEs*	- The following transitional amendments were added: • An option to permit Section 35 to be used more than once based on the amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* from the Annual Improvements to IFRSs 2009–2011 Cycle. • An exception to the retrospective application of the IFRS for SMEs for government loans that exist at the date of transition to the IFRS for SMEs based on Government Loans (Amendments to IFRS 1) issued in March 2012. • An option to permit first-time adopters to use an event-driven FV measurement as 'deemed cost' based on the amendments to IFRS 1 from Improvements to IFRSs. • An option to permit an entity to use the previous generally accepted accounting principles (GAAP) carrying amount of items of property, plant and equipment or intangible assets used in operations subject

	Section	Amendment
		to rate regulation based on the amendments to IFRS 1 from Improvements to IFRSs. • Guidance for entities emerging from severe hyperinflation that are applying the IFRS for SMEs for the first time based on *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendments to IFRS 1) issued in December 2010.
22	*Glossary*	- Minor amendments to definitions and five new definitions were added as a result of the amendments made. The definitions include: • Active market • Close members of the family of a person • Foreign operations • Minimum lease payments • Transaction costs

In conclusion

Preparers should note that Section 10 *Accounting Policies, Estimates and Errors* requires an entity to disclose:

- the effects of adoption of a standard, amendment or pronouncement that is mandatory for the first time in the financial year presented. The disclosure required includes the title of the standard, nature of the change in accounting policy, the impact of the change and transitional provisions including any retrospective impacts.
- where an entity has not applied the requirements of a new standard, amendment or pronouncement that has been issued but is not effective/mandatory, the standard/pronouncement in question, the known or reliably measured impact of adoption of the change, the date that the change is effective and the date that the entity expects to adopt the change. The standard requires an entity that has not fully evaluated the impact to make a statement to that effect.

In situations where it is impracticable for an entity to apply any new or revised requirements in the amendments retrospectively, the standard allows an entity to apply those requirements in the earliest period for which is it practicable to do so. In addition, the standard also provides that an entity:

- may elect to apply the amendments to the income tax section of the standard prospectively from the beginning of the period in which it first applies the amendments;
- shall apply the amendment with respect to measuring the cost of a business combination prospectively from the beginning of the period in which the amendments are first applied; and
- shall apply the amendments in certain paragraphs prospectively if the revaluation model is applied to any classes of property, plant and equipment.

Entities are also required to identify the amounts in the financial statements that have not been restated as a result of applying the above exceptions to and exemptions from retrospective application.

Glossary

Acronym	Definition
FV	Fair value
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS for SMEs	International Financial Reporting Standards for Small and Medium-sized Entities'
OCI	Other Comprehensive Income
P&L	Profit and Loss