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International Financial Reporting Standard (IFRS) for Small and Medium-Sized Entities released by the International Accounting Standards Board

The IASB issued the International Financial Reporting Standard for Small and Medium -Sized Entities (SMEs) on 9 July 2009, after a five year development process, and their deliberation of two exposure drafts.

Regulations regarding financial reporting are different in each jurisdiction; therefore, while the IFRS for SMEs is effective immediately, the IASB expects each jurisdiction to determine the effective date for application.

The AASB is considering further consultation with constituents about the use of the IFRS for SMEs in a revised differential reporting regime in Australia.

The IFRS for SMEs is approximately 230 pages long, and is self contained and designed to be applied without the need to reference full IFRSs.

Five types of simplifications

The IFRS for SMEs contains five types of simplification from full IFRSs:

- Some topics in full IFRSs are omitted because they are not relevant to typical SMEs;
- Some accounting policy options in full IFRSs are not allowed because a simplified method is available to SMEs;
- Simplification of many of the recognition and measurement principles that are in full IFRSs;
- Substantially fewer disclosures; and
- Simplified redrafting – revisions will be limited to once every three years.

Omitted topics

The IFRS for SMEs does not address the following topics that are covered in full IFRSs:

- Earnings per share;
- Interim financial reporting;
- Segment reporting; and
- Special accounting for assets held for sale.

Examples of options in full IFRSs NOT included in the IFRS for SMEs

- Financial instrument options, including available-for-sale, held-to-maturity and fair value options;
- The revaluation model for property, plant and equipment, and for intangible assets;
- Proportionate consolidation for investment in jointly-controlled entities;
- For investment property, measurement is driven by circumstances rather than allowing an accounting policy choice between the cost and fair value models; and
- Various options for government grants.

Recognition and measurement simplifications

The main simplifications to the recognition and measurement principles in full IFRSs include:

- ▶ **Financial instruments:**
 - Financial instruments meeting specified criteria are measured at cost or amortised cost. All others are measured at fair value through profit or loss. This avoids the inherent complexities of classifying financial instruments into four categories, such as assessing management's intentions and dealing with 'tainting provisions'.
 - The IFRS establishes a simple principle for derecognition. The 'pass-through' and 'continuing involvement' tests in full IFRSs are dropped.
 - Hedge accounting requirements, including the detailed calculations, are simplified and tailored for SMEs.
- ▶ **Goodwill and other indefinite-life intangible assets** are always amortised over their estimated useful lives (10 years if useful life cannot be estimated reliably).
- ▶ **Investments in associates and joint ventures** can be measured at cost unless there is a published price quotation (when fair value must be used).
- ▶ **Research and development costs** must be recognised as expenses.
- ▶ **Borrowing costs** must be recognised as expenses.
- ▶ **Property, plant and equipment, and intangible assets:**
 - The residual value, useful life and depreciation methods for items of property, plant and equipment, and amortisation period/method for intangible assets, need to be reviewed only if there is an indication that they may have changed since the most recent annual reporting date (full IFRSs require an annual review).
- ▶ **Defined benefit plants:**
 - All past service cost must be recognised immediately in profit or loss.
 - All actuarial gains and losses must be recognised immediately either in profit or loss or other comprehensive income.
 - An entity is required to use the projected unit credit method to measure its defined benefit obligation and the related expense only if it is possible to do so without undue cost or effort.
- ▶ **Income tax requirements** follow the approach set out in the IASB's exposure draft Income Tax, published in March 2009, which proposes a simplified replacement for IAS 12 Income Taxes.
- ▶ **No separate held-for-sale classification**, instead, holding an asset (or group of assets) for sale is an impairment indicator.
- ▶ **The fair value through profit or loss model** is required for biological assets only when fair value is readily determinable without undue cost or effort. Otherwise, SMEs follow the cost-depreciation-impairment model.
- ▶ **Equity –settled share-based payment** –The director's best estimate of the fair value of the equity-settled share-based payment is used to measure the expense if observable market prices are not available.

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