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Amendments to IFRS for SMEs

By Steven Firer

Introduction

Amendments to the International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) are effective for annual periods beginning on or after 1 January 2017.

In light of these amendments, it is crucial to highlight the changes that will have an impact on most companies who use this framework as a basis of preparation of their financial statements.

Undue Cost or Effort

The undue cost or effort exemption has been included in more sections, to alleviate the burden on management to comply with the standard where the cost or effort of compliance would exceed the actual benefit derived by the users of the financial statements. This, however, comes with additional mandatory disclosure requirements. Specific clarifying guidance has also been added on the undue cost or effort exemption.

Requirements for undue cost or effort exemption:

Financial instruments – undue cost or effort exemption form the measurement of investments in equity instruments at fair value.

Business combinations – undue cost or effort exemption to the requirement to recognise intangible assets acquired in a business combination separately.

Liabilities – undue cost or effort exemption from the requirement to measure the liability to pay non-cash distributions at the fair value of the non-cash assets to be distributed.

Income tax – undue cost or effort exemption from the requirement to offset income tax assets and liabilities

Existing undue cost or effort exemptions still applicable

Investments in associates – investments in associates may be accounted for at cost less impairments, if the fair value would impose undue cost or effort.

Investment property – accounted for in terms of the cost model, if the fair value would impose undue cost or effort.

Provisions and contingencies – relief on the requirement to disclose the financial effect of contingent assets.

It should be noted that this exemption may only be applied to the above sections of the standard and may not be used as a general exemption from complying with the standard's requirements.

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Additional disclosure requirement

Wherever the undue cost or effort exemption has been applied, the fact and reason as to why the cost would exceed the benefit for the user of the financial statements must be disclosed.

Clarifying guidance

The decision to apply the undue cost or effort exemption needs to be rationalised specifically with relation to the benefit the user would derive. If it is imperative for the users to know what the fair value is, then it can be argued that no cost would be undue.

New Policy Choices

A significant new policy choice that has been made available relates to the subsequent measurement of property, plant and equipment, where previously only the cost model was permitted. The revised standard allows for classes of property, plant and equipment to be carried at fair value, should it provide more relevant information to the users of the financial statements. A change in policy from cost to revaluation shall be applied prospectively under the transition provisions.

An existing key policy choice available under IFRS for SMEs relates to the treatment of financial instruments. The standard affords management the opportunity to account for financial instruments in terms of the provisions of IFRS for SMEs or elect to apply IAS 39 Financial Instruments: Recognition and Measurement. What is important to note, is that IAS 39 Financial Instruments: Recognition and Measurement will not be replaced by IFRS 9 Financial Instruments in IFRS for SMEs at the time when that standard becomes effective, and the provisions of IAS 39 Financial Instruments: Recognition and Measurement will apply as they stand at that date.

Additional Key Amendments

Amendments to the standard see the tax and deferred tax treatments per IFRS for SMEs align with those of IAS 12 Income Taxes.

A significant disclosure revision on the face of the financial statements is the inclusion 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.

There is the addition of an option to permit an entity to account for investments in subsidiaries, associates and jointly controlled entities in its separate financial statements using the equity method and clarification of the definition of 'separate financial statements'.

Groups – Financial information of the parent and subsidiaries used for preparation of consolidated figures shall be prepared as of the same date, unless impracticable to do so. In such a case, the most recent financial statements of the subsidiary, adjusted for significant transactions that have occurred subsequently, must be used. In the past, there was a general misperception that where the group companies' year-ends differ by less than three months, no adjustment was required and the financial information as at that subsidiary's year-end could be used for consolidation purposes.

Disposal of foreign operations – 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 of the foreign operation.

Specialised activities – This refers to the removal of the requirement to disclose comparative information for the reconciliation of changes in the carrying amount of biological assets when using the fair value model.

A modification requiring that if the useful life of goodwill or another intangible asset cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed ten years.

Contact us

For more information on IFRS Practice Statement 'Management Commentary'

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