Amendments in IFRS for SMEs

In May 2015 the IASB completed its comprehensive review of the IFRS for SMEs. After consulting widely with constituents, the IASB concluded that the IFRS for SMEs is working well in practice. However, some areas were identified where targeted improvements could be made.

Consequently, after considering the feedback it received, and taking into account the fact that the IFRS for SMEs is still a relatively new Standard, the IASB has made limited amendments to the IFRS for SMEs.

The most significant amendments that relate to transactions commonly encountered by SMEs are:

- permitting SMEs to use a revaluation model for property, plant and equipment; and
- aligning the main recognition and measurement requirements for deferred income tax with International Financial Reporting Standards (IFRS, sometimes referred to as 'full IFRS' when compared to the IFRS for SMEs).

Most of the other amendments clarify existing requirements or add supporting guidance, rather than change the underlying requirementsin the IFRS for SMEs. Consequently, for most SMEs and users of their financial statements, the amendments are expected to improve understanding of the existing requirements, without having a significant effect on an SME's financial reporting practices and financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

Why did the IASB undertake an initial comprehensive review of the IFRS for SMEs?

The IASB issued the IFRS for SMEs in July 2009 in response to international demand for the IASB to develop global standards for small and medium-sized entities (SMEs). The IFRS for SMEs was developed using 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. The IFRS for SMEs was developed over a five year period and included opportunities for public input at several stages throughout the process.

When the IFRS for SMEs was issued, the IASB stated that it planned to undertake an initial comprehensive review of the IFRS for SMEs after two years of use by SMEs to consider whether there was a need for any amendments.

Specifically, the IASB said it would consider whether to amend the IFRS for SMEs to address any implementation issues identified and also whether to consider any changes made to IFRS since the IFRS for SMEs was published. Soon after the IFRS for SMEs was issued, the IFRS Foundation set up the SME Implementation Group (SMEIG), an international advisory group to the IASB, consisting of those that have experience preparing, using or advising on SME financial statements. The aim of the SMEIG is to support international adoption of the IFRS for SMEs, monitor its implementation and advise on any amendments to the Standard.

The IASB decided to commence its initial comprehensive review in 2012, with support from the SMEIG, based on its view that sufficient jurisdictions had adopted the IFRS for SMEs by 2010 to provide broad insight into the implementation experience.

Today, out of the 140 jurisdiction profiles posted on our website so far, 72 jurisdictions permit or require the IFRS for SMEs and an additional 14 are currently considering plans to adopt it.

Amendments to the IFRS for SMEs

The IASB made a limited number of changes to the IFRS for SMEs. These changes are discussed below:

Amendments that introduce accounting policy options (available in IFRS)

- Option to use the revaluation model for property, plant and equipment.
- Option to use the equity method for investments in subsidiaries, associates and jointly controlled entities in separate financial statements, if presented.

Amendments that change requirements

Changes most likely to affect SMEs:

- Alignment of the main recognition and measurement principles for income tax with full IFRSs.
- Modification of the criteria to be a basic debt instrument to ensure that most simple loans qualify for amortised cost measurement. Requirement that if the useful life of goodwill or another intangible asset cannot be established reliably, management's best estimate is used, but must not exceed 10 years. Previously a default 10-year life was presumed in such cases.

Changes to the requirements for the following less commonly encountered transactions by SMEs (not expected to affect most SMEs):

- Liabilities extinguished by issuing the entity's own equity instruments, such as shares.
- Leases with an interest rate variation clause linked to market interest rates.
- Compound financial instruments with complex characteristics.

- Exploration and evaluation assets.

Amendments that add undue cost or effort exemptions and requirements

Amendments that exempt an entity from the following requirements when application would cause undue cost or effort:

- Measurement of investments in equity instruments at fair value.
- Recognising intangible assets separately in a business combination.
- Offsetting income tax assets and liabilities.
- Measuring the liability to pay a non-cash dividend at the fair value of the assets to be distributed.

The IASB has also added guidance to emphasise that an undue cost or effort exemption is not intended to be a low hurdle. In particular, an entity is required to carefully weigh the expected effects of applying the exemption on the users of its financial statements against the cost or effort of complying with the related requirement.

Amendments that add other exemptions (based on similar exemptions in IFRS)

- Two common control exemptions:
  - An exemption from the fair value measurement requirements for equity issued in a business combination of entities under common control.
  - An exemption from the fair value measurement requirements for distributions of non-cash assets controlled by the same parties before and after the distribution.
- An exemption that simplifies the accounting requirements when part of an item of property, plant and equipment is replaced.

Amendments that modify presentation or disclosure requirements

- Requirement that an entity must disclose its reasoning for using any undue cost or effort exemption.
- Requirement that investment property measured at cost less accumulated depreciation and impairment is presented separately on the face of the statement of financial position.
- Requirement that entities group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- Requirement that an entity must disclose the factors that make up goodwill recognised in a business combination and the useful life of goodwill.
- Requirement to disclose the carrying amount of subsidiaries acquired and held for sale or disposal.
- Alignment of the definition of a related party with IFRSs. The revised definition is unlikely to affect most related party relationships.
- Relief from disclosing prior year reconciliations of balances for biological assets and share capital and from disclosing the accounting policy for termination benefits (for consistency with other requirements of the IFRS for SMEs).

Amendments for first-time adopters

The IASB has included three options and two new area of guidance for first time adopters of the IFRS for SMEs based on amendments to IFRS issued since the IFRS for SMEs was published.

Amendments that provide minor Clarifications

The remaining amendments are minor and are not expected to result in changes in practice or to affect the financial statements for most SMEs. Such amendments are of the following types:

- clarifying definitions or guidance;
- clarification of the scope of a few sections; and
- redrafting of unclear requirements or removing minor inconsistencies.

Transition and effective date

Entities reporting using the IFRS for SMEs are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided all of the amendments are applied at the same time. Amendments must be applied retrospectively, unless impracticable, with the following exceptions:

- If an entity chooses to apply the revaluation model to any classes of property, plant and equipment, it must apply the related requirements prospectively from the beginning of the period (ie the period in which it first applies the amendments).
- An entity is permitted to apply the revised income tax requirements prospectively from the beginning of the period.
- An entity must apply the clarified terminology 'date of acquisition' prospectively from the beginning of the period (only applicable if an entity has business combinations).

This article is taken from IFRS Foundation's publicaitons.

If you have any questions about this Legal alert, please feel free to contact Artur Harutyunyan, Managing partner of AN Audit CJSC (email: artur.harutyunyan@anaudit.am)