


2

The IFRS for SMEs

Section 35 Transition to the IFRS for SMEs

Paul Pacter

Day 3 16:00 to 17:00




3

Section 35 – First-time Adoption (FTA)

First set of financial statements in which the entity makes an “explicit and unreserved statement of compliance with the IFRS for SMEs”:

“...in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities...”




4

Section 35 – Types of first-time adoption

Can be switching from:

- National GAAP
- Full IFRSs
- Or maybe never published General Purpose Financial Statements in the past
- Date of transition is beginning of earliest period presented




5

Section 35 – Two key steps

Select accounting policies based on IFRS for SMEs at end of reporting period of FTA:

- Assume 31 December 2012 for this PowerPoint presentation




6

Section 35 – Two key steps

Prepare at least two years financial statements, and opening balance sheet for the earliest year, using those policies

- Required: Financial statements for 2012 and 2011 using IFRS for SMEs
- Need not present balance sheet at 1/1/11
- Optional: Present IFRS for SMEs financial statements earlier than 2011



Section 35 – Two key steps

7

Important simplification for SMEs:

- If it is impracticable to restate one or more prior period items, IFRS for SMEs allows an exception, with disclosure of the resulting non-comparabilities



Section 35 – Selecting initial policies

8

Criteria for selecting accounting policies [from paragraph 10.4]:

- Relevance
- Reliability

Many accounting policy decisions depend on circumstances – not “free choice”

- But some are pure “free choice”



Section 35 – Selecting initial policies

9

A few examples of decisions that depend on circumstances:

- % of completion versus completed contract
- Method of depreciation
- Specific identification or FIFO for inventories
- Whether to adjust the financial statements for events occurring after end of period
- Functional currency for translation



Section 35 – Selecting initial policies

10

On the other hand, the IFRS for SMEs allows some accounting policy choices that do not depend on circumstances:

- First-time adopters must choose
- Once the choice is made, any change must follow Section 10
- Examples of choices – next 3 slides



Section 35 – Accounting policy choices

11

• Accounting policy choices permitted in the IFRS for SMEs (page 1 of 3):

- Single statement of comprehensive income or separate income statement and statement of comprehensive income
- Combined statement of income and retained earnings (if entity's circumstances allow)



Section 35 – Accounting policy choices

12

• Accounting policy choices permitted in the IFRS for SMEs (page 2 of 3):

- Direct or indirect method for operating cash flows
- Investments in associates and JVs at cost, equity method, or FV thru P&L
- All actuarial gains/losses reported as part of P&L or as Other Comprehensive Income (but no deferrals allowed)



Section 35 – Accounting policy choices

13

- **Accounting policy choices permitted in the IFRS for SMEs (page 3 of 3):**
 - In separate company financial statements, account for investment in subsidiary at cost or at fair value through P&L
- **This list of choices is small compared with full IFRSs**



Section 35 – Accounting policy choices

14

- **Examples of choices in full IFRSs not available in IFRS for SMEs:**
 - Revalue PP&E and intangibles
 - Investment property at cost or FVTPL
 - Proportionate consolidation for JVs
 - Government grants – range of methods
 - Actuarial gains/losses: Corridor approach
- Continued...



Section 35 – Accounting policy choices

15

- **More choices in full IFRSs not available in IFRS for SMEs:**
 - Financial instruments
 - fair value option
 - available-for-sale option
 - held-to-maturity
 - macro hedging
 - basis adjustment
 - reclassification



Section 35 – Types of adjustments

16

- **FTA of IFRS for SMEs potentially involves adjustments from national GAAP or full IFRSs to IFRS for SMEs:**
 1. Derecognise some old assets and liabilities
 2. Recognise some new assets and liabilities
 3. Reclassifications
 4. Measurement changes



Section 35 – Adjustments required

17

1. **Derecognise some old assets and liabilities. Examples:**
 - No capitalised research, borrowing training, pre-operating, or advertising costs
 - No accrued liabilities for general reserves, future losses, and most restructurings



Section 35 – Adjustments required

18

2. **Recognise some new assets and liabilities. Examples:**
 - Derivatives and embedded derivatives
 - Obligations for defined benefit pension, retiree medical and life insurance, termination benefits, accrued vacation
 - If plan is 'over-funded' employer would have a pension asset

continued...



Section 35 – Adjustments required

19

2. Recognise some new assets and liabilities (more examples):

- Deferred tax assets and liabilities
- Provisions (liabilities) for onerous contracts, litigation, decommissioning, environmental, warranties



Section 35 – Adjustments required

20

3. Reclassifications. Examples:

- Dividends declared after balance sheet date are not liabilities
- Treasury stock is not an asset
- Split land and buildings acquired jointly
- Liability versus equity:
 - Mandatorily redeemable preferred shares and puttables are a liability
 - Minority interest is in equity

continued...



Section 35 – Adjustments required

21

3. Reclassifications. More examples:

- Equity component of convertible debt, if still outstanding at FTA date
- Scope of consolidation
- Some offsetting
- How discontinued operations are presented in the income statement



Section 35 – Adjustments required

22

4. Measurement changes:

- Measurement principles in IFRS for SMEs must be applied to measure all recognised assets and liabilities at date of FTA
 - More fair value measurements
 - More present value
- Some examples on next two slides



Section 35 – Adjustments required

23

4. Measurement changes – examples of possible differences with local GAAP:

- Share-based payments
- Non-controlling interest in bus. comb.
- LIFO prohibited under IFRS for SMEs
- Reversals of writedowns required
- Some agricultural assets at FV thru P&L
- Immediately recognise past service cost



Section 35 – Adjustments required

24

4. Measurement changes – examples of possible differences with local GAAP:

- Must conform subs' accounting policies
- No proportionate consolidation
- Expected value for provisions
- FV of some financial instruments



Section 35 – Adjustments required

25

Adjustments to move from previous GAAP to IFRS for SMEs at FTA:

- Should be recognised directly in retained earnings or, if appropriate, another category of equity, at the date of the opening IFRS balance sheet.



Section 35 – Exceptions to restatement

26

There are some exceptions to the requirement to restate comparative data using IFRS for SMEs:

- Some exceptions are optional
- Some exceptions are mandatory



Section 35 – Optional exceptions

27

Business Combinations:

- May keep old GAAP. Need not restate:
 - Initial measurement of goodwill
 - Goodwill written off against equity
 - Carrying amounts of acquired assets and liabilities
- However, entity may elect to restate old combinations back to any starting date
- Must test goodwill for impairment at opening balance sheet date



Section 35 – Optional exceptions

28

Property, plant and equipment:

- May measure at FV at 1/1/2011. This becomes 'deemed cost' going forward
- Also, revaluations under old GAAP can be 'deemed cost' at 1/1/2011
- In both cases, starting 1/1/2011 entity uses cost-depreciation-impairment model



Section 35 – Optional exceptions

29

Cumulative foreign currency translation adjustments:

- Any amount deferred in equity under old GAAP can be eliminated (adjust retained earnings) at 1 Jan 2011 – fresh start
- If eliminated, gain or loss on future disposal of the foreign operation reflects only translation adjustments arising after 1 Jan 2011



Section 35 – Optional exceptions

30

'Split accounting' for convertible debt redeemed before 1 Jan 2011

- Need not separate out equity component
- Need not apply IFRS 2 to share-based payments issued before 1 Jan 2011**



Section 35 – Optional exceptions

31

Full-cost oil and gas assets

- Retrospective application of IFRSs for oil and gas assets is not required. Carrying amount under old GAAP = 'deemed cost'

Determining whether an arrangement contains a lease

- Can base determination on facts at time of FTA rather than when the arrangement was entered into



Section 35 – Optional exceptions

32

In general Sec 3 requires comparative information for all amounts in financial statements and in the notes

- 35.11 has an exemption if it is impracticable to make the comparative disclosure at FTA
- But the omission must be disclosed



Section 35 – Mandatory exceptions

33

Derecognition of financial assets / liabilities:

- Do not 'undo' past derecognitions based on new information

Hedge accounting

- No new designation of hedge accounting for hedges prior to 1 Jan 2011 if not treated as hedges under old GAAP

Estimates

- Do not change previous estimates unless there was an error



Section 35 – Mandatory exceptions

34

Discontinued operations:

- Do not change what was reported under old GAAP

Measuring non-controlling interests (NCI)

- Must allocate P&L and Total Comprehensive Income between NCI and owners of the parent must be applied prospectively from date of transition to IFRS for SMEs
- Do not restate earlier periods



Section 35 – Impact of adoption

35

What's the expected impact on income and equity if SME switches to IFRS for SMEs?

- Depends on what its existing GAAP is
 - Is it now close to IFRSs? Miles away?
 - Are things like deferred taxes, pensions, provisions, impairments accrued?
 - Capital leases? Derivatives?
 - Consolidation? Cash flow statement?
 - And quality of implementation.
- Depends on which options it chooses



Questions or comments?

36

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.



This presentation may be modified from time to time. The latest version may be downloaded from:

<http://www.iasb.org/Conferences+and+Workshops/IFRS+for+SMEs+Train+the+trainer.+workshops.htm>

The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

The IASC Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this PowerPoint presentation, whether such loss is caused by negligence or otherwise.

