

STAFF PAPER

January 2015

IASB Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>		
Paper topic	Transition requirements for the revaluation option for property, plant and equipment		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective of this meeting

1. The purpose of this meeting is for the International Accounting Standards Board (IASB) to discuss the transition requirements for the option to use the revaluation model for property, plant and equipment (PPE) in the forthcoming amendments to the *IFRS for SMEs*.

Introduction

2. At its October 2013 meeting, the IASB decided that an option to use the revaluation model for PPE should be added to the *IFRS for SMEs*. Consistently with other requirements in the *IFRS for SMEs*, the staff have used full IFRSs as a starting point when drafting the requirements for the revaluation model to be included in the amendments to the *IFRS for SMEs*.
3. Paragraph 17 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states “*The initial application of a policy to revalue assets in accordance with IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets is a change in an accounting policy to be dealt with as a revaluation in accordance with IAS 16 or IAS 38, rather than in accordance with this Standard*”. In other words IAS 8 requires prospective application of a change in accounting policy from the cost model to the revaluation model. The staff think that a similar requirement to paragraph 17 of IAS 8 should be included in Section 10

Accounting Policies, Estimates and Errors to ensure that the *IFRS for SMEs* is not more onerous than full IFRSs.

4. Consistently with paragraph 17 of IAS 8 the staff also think that the transition requirements in the amendments to the *IFRS for SMEs* should either permit or require prospective application of the revaluation model for PPE.

Staff recommendation

5. The staff recommend that the IASB should permit prospective application of the revaluation model for PPE if an entity changes its accounting policy for any classes of PPE under the amendments to the *IFRS for SMEs*. This would be consistent with the transition requirements for Section 29 *Income Tax*.
6. The staff recommend that the transition requirements are reworded¹ as shown in underline:

Effective date and transition

- A1 *Amendments to the IFRS for SMEs (2015)*, issued in [date], amended paragraphs XXX and the glossary of terms; added paragraphs XXX; and deleted paragraphs XXX. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2017. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact. Amendments to Sections 2–34 shall be applied retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* except as permitted in paragraph A2.
- A2 If it is impracticable for an entity to apply any new or revised requirements in the amendments to Sections 2–34 retrospectively, the entity shall apply those requirements in the earliest period for which it is practicable to do so. In addition an entity may elect one or both of the following:
- (a) to apply the amendments to Section 29 prospectively from the date it first applies *Amendments to the IFRS for SMEs (2015)*.
- (b) to apply the amendments to paragraphs XXX prospectively from the date it first applies *Amendments to the IFRS for SMEs (2015)*. These paragraphs are only applicable if the entity applies the revaluation model to any classes of property, plant and equipment in accordance with paragraph 17.15.
- A3 The entity shall disclose the amounts in the financial statements that have not been restated as a result of applying paragraph A2.

Questions for the IASB

- 1) Does the IASB agree with the staff recommendation to amend the transition provisions?

¹ The existing wording was agreed at the November 2013 IASB meeting.