



# Accounting for Micro-entities in Brazil

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**1** The Brazilian accounting framework

**2** Key aspects of Financial Reporting Standards – ITG 1.000



# 1. The Brazilian accounting framework

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# The Brazilian accounting framework

Entities	Requirement
<b>CVM's filers</b>  (Brazilian Securities and Exchange Commission)	<ul style="list-style-type: none"><li>• IFRS as issued by IASB</li><li>• Accounting Standards issued by CPC and CVM's regulation</li></ul> <p>(a single set of consolidated financial statements are presented under both frameworks – dual compliance)</p>
<b>Non regulated entities</b>	<ul style="list-style-type: none"><li>• Accounting Standards issued by CPC</li><li>• Accounting Standards for SME issued by CPC</li><li>• Accounting Standard for Micro-entities (ITG 1000) issued by Brazilian Federal Council of Accounting (CFC)</li></ul>
<b>Banks</b>	<ul style="list-style-type: none"><li>• Regulatory framework issued by Brazilian Central Bank (Bacen)</li><li>• IFRS as issued by IASB (mandatory for banks with audit committee – equity &gt; BRL 1 billion)</li></ul>
<b>Insurance companies</b>	<ul style="list-style-type: none"><li>• Superintendence of Private Insurance (Susep) endorsed all the CPC standards applicable to insurance companies;</li><li>• IFRS as issued by IASB</li></ul>

# Comitê de Pronunciamentos Contábeis (“CPC”)

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## Objective:

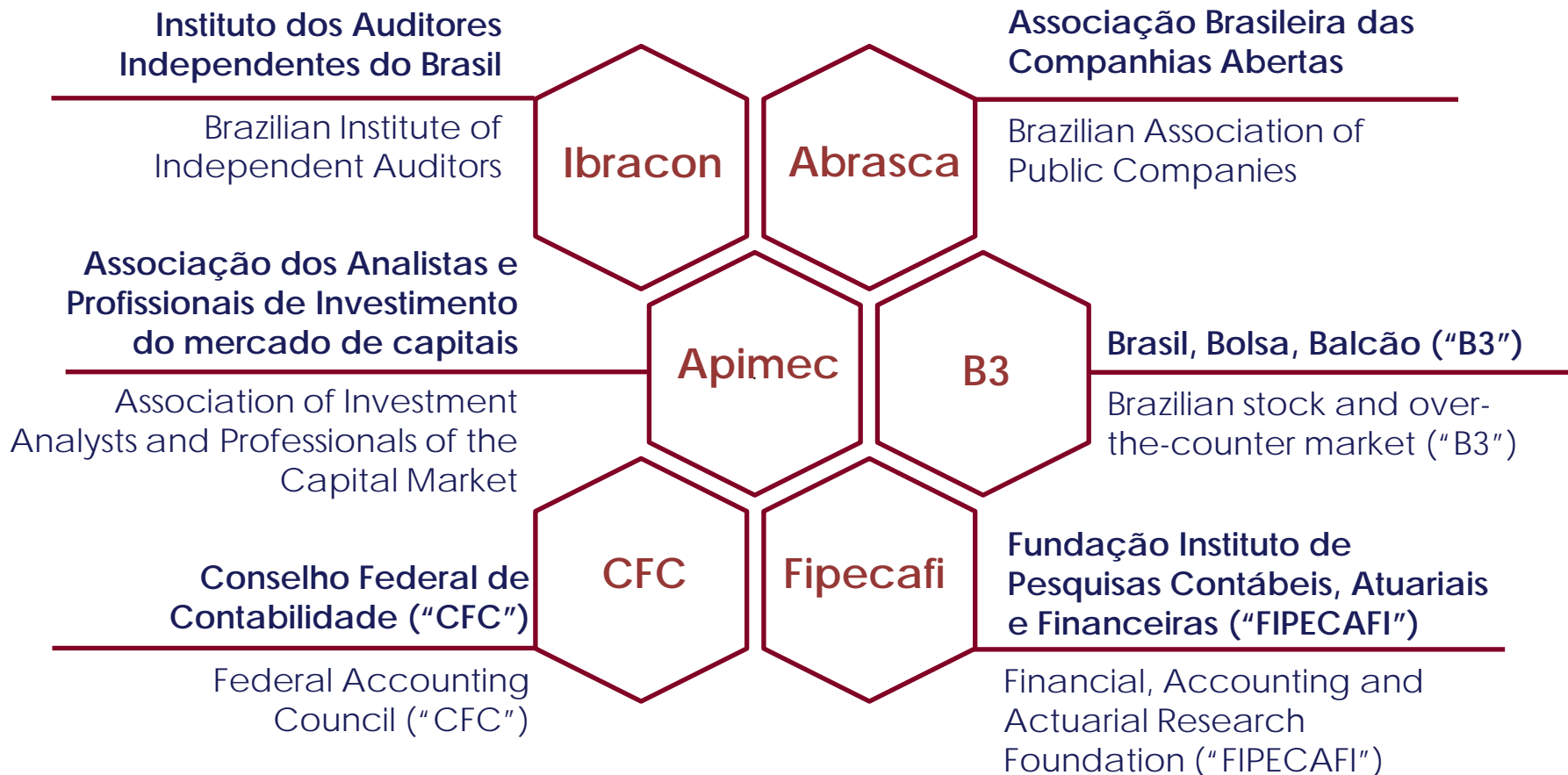
*“the study, preparation, and issuance of Technical Pronouncements on Accounting procedures and the disclosure of information of such nature, to allow the issuance of standards by the Brazilian regulatory entities, aiming at centralizing and standardizing the accounting standards production process, always taking into consideration the convergence of the Brazilian standards to the international standards”*

## Notes:

- CPC issues Pronouncements, Guidance and Interpretations;
- CPC aims the convergence with the IASB’s Standards (International Accounting Standards Board);
- Regulators issue their own acts endorsing those of the CPC;

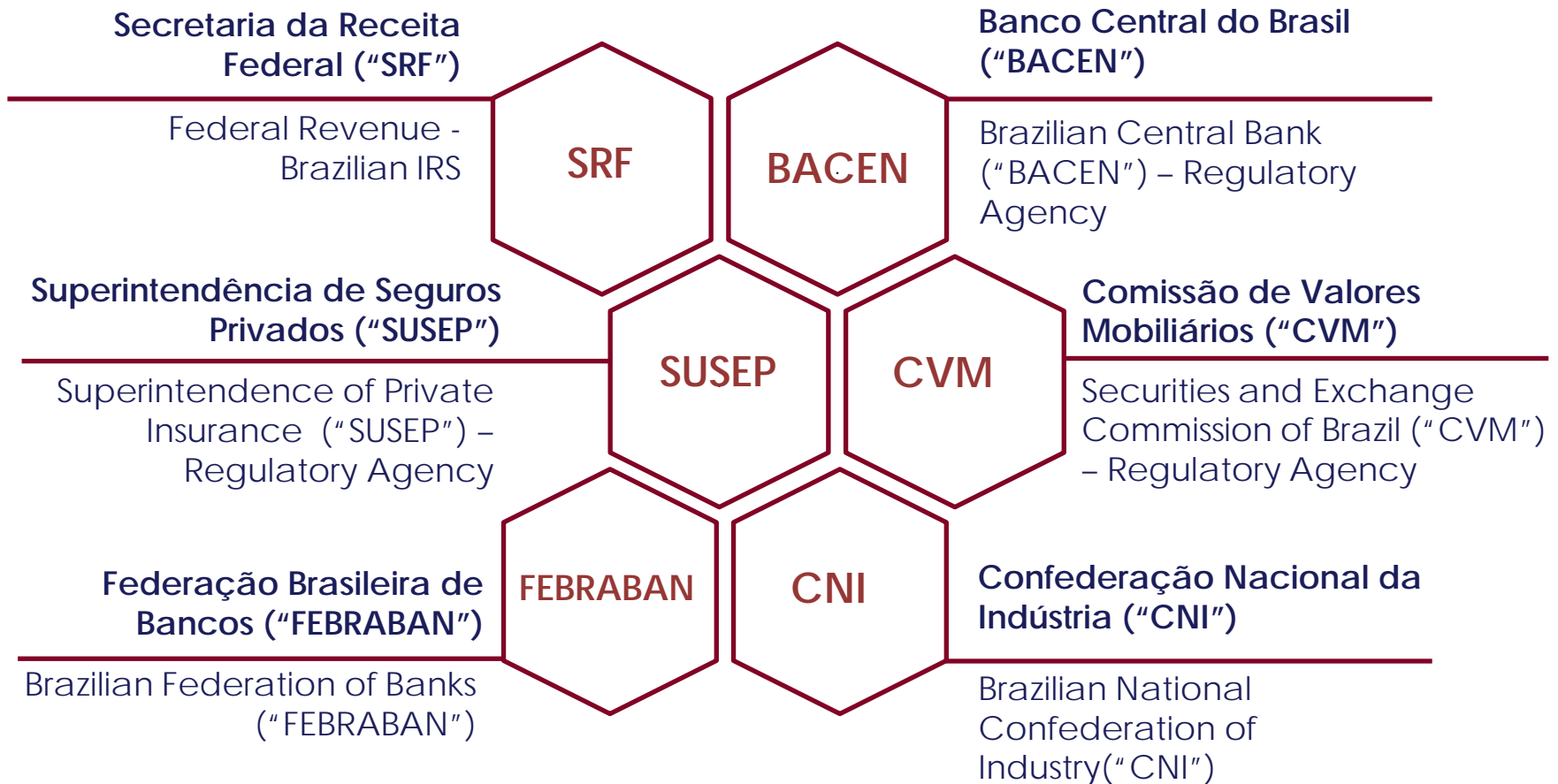
# Comitê de Pronunciamentos Contábeis (“CPC”)

CPC is an autonomous entity created in 2005 from the union of six entities that have an interest in the accounting standardization process.



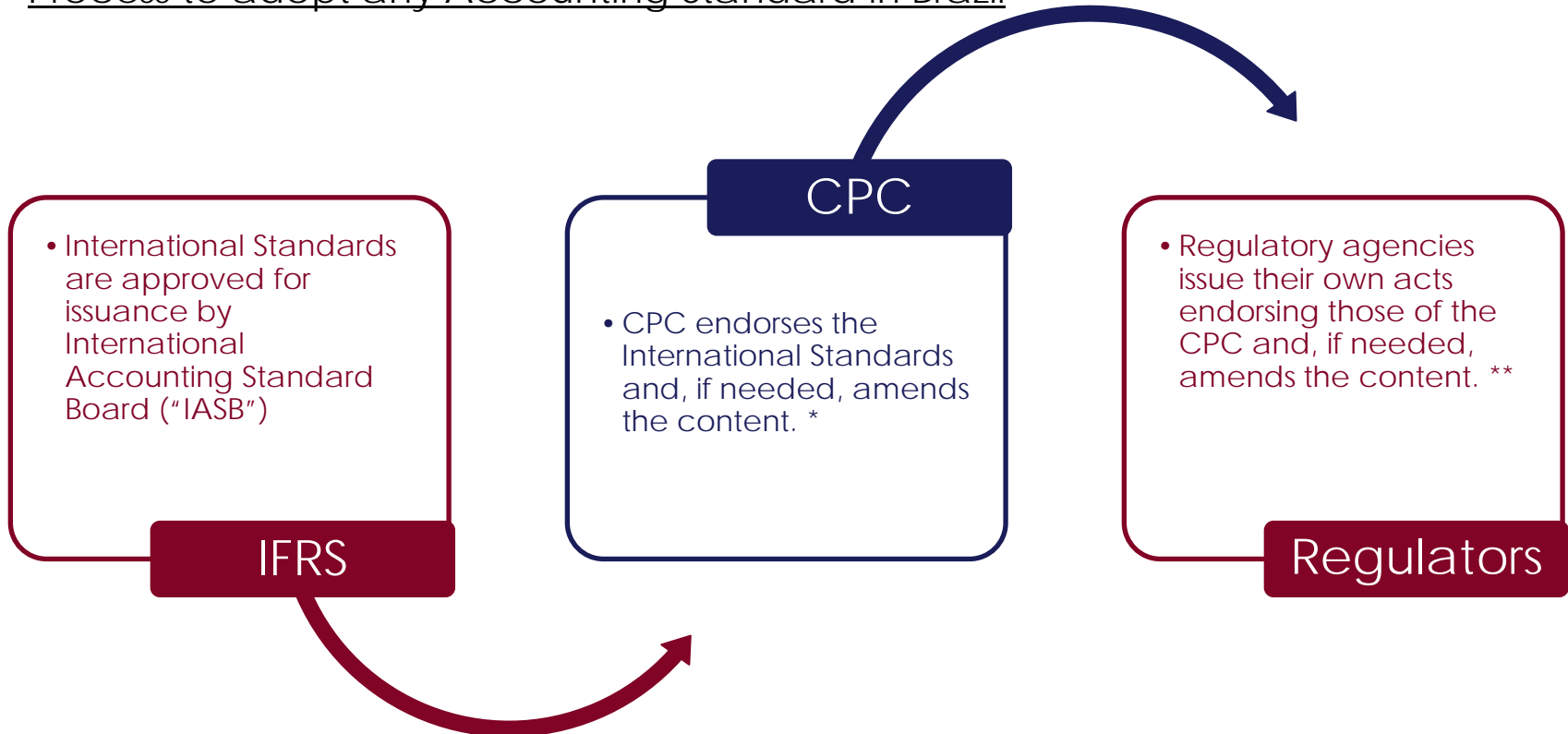
# Comitê de Pronunciamentos Contábeis (“CPC”)

In addition, representatives of four other entities are always invited to participate in the CPC.



# Comitê de Pronunciamentos Contábeis (“CPC”)

## Process to adopt any Accounting Standard in Brazil



\* Not usual to amend the International Standards. Usually some IFRS options are eliminated (e.g. revaluation model under IAS 16);

\*\* Usually the early adoption is not permitted;



# The Brazilian accounting framework

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- The CPC standards and CPC for SME are equivalents to IFRS;
- Due to some statutory law restriction some options are removed (e.g. revaluation model under IAS 16);
- The regulators need to endorse the CPC standards (e.g. CVM for filers, CFC for non regulated entities);
- Some regulators only endorse some CPC standards as part of regulatory framework (e.g. Bacen);

## 2. Key aspects of the Financial Reporting Standards (ITG 1.000)

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# Overview

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The ITG 1000 is an accounting framework applied to a micro or very small entities and it was issued by CFC in 2012.

The objective of ITG 1000 is reduce the complexity of accounting requirements for micro and small-sized entities enabling efforts proportionate to the size and complexity of the entity on the preparation of their financial statements and accounting records.

The ITG 1000 issued by CFC (equivalent to IFRS for SME) simplified accounting treatment for many different economic events that are usual to micro and very small entity.

# Scope

Definition of Micro and very small entities are established by Brazilian legislation

Micro

Gross Revenue  $\leq$  BRL 360,000

Very Small

Gross Revenue  $>$  BRL 360,000  
 $\leq$  BRL 4,800,000

# Measurement and recognition

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- Inventories:
  - ✓ measured at lower of cost and net realisable value;
  - ✓ cost should include all:
    - (i) cost of purchase
    - (ii) cost of conversion
    - (iii) other costs incurred in bringing the inventories to their present location and condition
- PP&E:
  - ✓ Initial recognition at cost;
  - ✓ subsequently measured at cost less depreciation & impairment;

# Measurement and recognition

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- Revenue:
  - ✓ Presented net of sales taxes, returns and rebates;
- Revenue services rendered:
  - ✓ Recognized using the by percentage of completion method;

# Components of financial statements

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- Mandatory:
  - ✓ statement of financial position (balance sheet);
  - ✓ statement of profit or loss;
  - ✓ Notes;
- Relief from (not mandatory but recommended):
  - ✓ statement of cash flows;
  - ✓ statement of changes in equity;
  - ✓ statement of other comprehensive income;

# Disclosure

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The notes should include the following information:

- a) A summary description of the nature of the entity's operations and its principal activities;
- b) A summary description of their the basis of preparation of the financial statements and their principal accounting policies;
- c) A statement that the financial statements have been prepared in compliance with the ITG 1.000;
- d) A summary description about the contingent liabilities;
- e) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them;





Thank You