

**IFRS for SMEs® Standard**

Section 35 Transition to the IFRS for SMEs, Issue 1—Application of the undue cost or effort exemption when measuring fair value on transition to the IFRS for SMEs Standard

Q&As are developed by the SME Implementation Group (SMEIG), which assists the International Accounting Standards Board (Board) in supporting the application of the IFRS for SMEs Standard.

The Q&As provide non-mandatory and timely guidance on accounting questions about applying the IFRS for SMEs Standard.

During the second comprehensive review of the IFRS for SMEs Standard, the Board will consider the Q&As developed since the issue of the 2015 amendments to the IFRS for SMEs Standard and determine whether to incorporate the responses in the IFRS for SMEs Standard.

**Issue**

When an entity prepares its first financial statements applying the IFRS for SMEs Standard, should it assess whether an asset or liability can be measured reliably at fair value at the date of transition to the Standard without undue cost or effort using information about the costs and benefits at the date of transition, or using information about the costs and benefits at the date of its first financial statements prepared applying the Standard?

**Response**

When preparing its first financial statements applying the IFRS for SMEs Standard, an entity assesses whether the fair value of an asset, for example, an investment property, or liability can be measured reliably at the entity’s date of transition to the Standard without undue cost or effort using information about the costs and benefits at the date of transition to the Standard. The entity does not consider the additional cost or effort due to the elapse of time between the date of transition and the date of its first financial statements prepared applying the Standard when determining whether fair value can be measured reliably without undue cost or effort at the date of transition.
Basis for Conclusions

BC1 A draft Q&A was published in August 2019, which set out the original question for consideration by the SMEIG. The SMEIG was asked if, when an entity prepares its first financial statements applying the IFRS for SMEs Standard, the entity assesses whether an investment property can be measured reliably at fair value at the date of transition to the Standard without undue cost or effort using information about the costs and benefits at that date of transition, or using information about the costs and benefits at the date of its first financial statements prepared applying the Standard.

BC2 In the draft Q&A, the SMEIG proposed that the assessment be based on information about the costs and benefits at the date of transition.

BC3 Some respondents to the draft Q&A recommended that the scope of the Q&A be extended to apply also to the application of the undue cost or effort exemption when measuring at the date of transition the fair value of other assets or liabilities for which the Standard permits the use of the undue cost or effort exemption.

BC4 The SMEIG members agreed that the scope of the Q&A should be extended. The members concluded that, for consistency, the assessment of the costs and benefits of measuring other assets, for example, an associate, or liabilities at fair value on the date of transition is also based on information at the date of transition rather than at a later date (the date of the first financial statements prepared applying the IFRS for SMEs Standard). The analysis in paragraphs BC6 and BC7 use investment property as an example.

BC5 Paragraph 35.7(d) of the IFRS for SMEs Standard requires an entity to apply the Standard in measuring all recognised assets and liabilities on the date of transition to the Standard unless otherwise exempted.

BC6 In line with the original request, and as an example of measurement at transition, the SMEIG considered the application of paragraph 35.7(d) together with the other transition exemptions to the measurement of investment property. An entity applies Section 16 Investment Property of the IFRS for SMEs Standard to measure investment properties whose fair value can be measured reliably without undue cost or effort on an ongoing basis. Paragraph 16.7 requires such investment property to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss if the fair value can be measured reliably without undue cost or effort.

BC7 Paragraphs 35.9–35.11 of the IFRS for SMEs Standard provide exceptions and exemptions to the requirements in paragraph 35.7 in specified circumstances. One of the exemptions, paragraph 35.10(c), permits a first-time adopter to elect to measure an investment property at the date of transition at its fair value and use that fair value as its deemed cost at that date. Regarding paragraph 35.10(c), the SMEIG noted that:

(a) paragraph 35.10(c) does not include an undue cost or effort exemption.

(b) a first-time adopter may elect to apply the exemption in paragraph 35.10(c) if it is applying the cost model in Section 17 Property, Plant and Equipment of the IFRS for SMEs Standard because it cannot measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis. Applying this exemption, a first-time adopter would use fair value (without considering undue cost or effort) as deemed cost when measuring the investment property at the date of transition.

(c) when a first-time adopter is applying the fair value model to an investment property, the exemption in paragraph 35.10(c) is not relevant at the date of transition, and the investment property is measured at the date of transition at fair value if the fair value can be measured reliably without undue cost or effort.
BC8  Paragraph 2.14C of the IFRS for SMEs Standard requires an entity to assess undue cost or effort on initial recognition in the financial statements based on information about the costs and benefits at the time of initial recognition. Paragraph 2.14C requires a new assessment of undue cost or effort to be made at the date of any subsequent measurement of an item, based on information available at that date.

BC9  The requirements of paragraph 2.14C apply to the assessment of whether an asset or liability can be measured reliably at fair value without undue cost or effort at the date of transition. The requirements of paragraph 2.14C are not varied for the date of transition.

BC10 Applying paragraph 2.14C, the assessment of whether the fair value of an asset, for example, an investment property, or liability can be measured reliably without undue cost or effort at the date of transition is based on information about the costs and benefits at that date. The assessment of undue cost or effort is based on information available at each reporting date; therefore, any additional cost or effort due to the elapse of time between the date of transition and the date of the first financial statements prepared applying the IFRS for SMEs Standard is not considered when measuring the asset or liability at the date of transition.