IFRS Accounting

IFRS for SMEs®

Accounting Standard

Section 2 *Concepts and Pervasive Principles*

IFRS Accounting

IFRS for SMEs® Accounting Standard

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1 Overview of new features of Section 2 *Concepts and Pervasive Principles*

Reflects improvements from the 2018 *Conceptual Framework for Financial Reporting*:

- **introduces new concepts** relating to measurement, presentation, disclosure and guidance on derecognition
- **updates definitions** and recognition criteria for assets and liabilities
- **clarifies the concepts** of prudence, stewardship, measurement uncertainty and substance over form
- **adds an overriding principle** that the requirements in other sections of the Standard take precedence over concepts and principles in Section 2

- **retains the concept of 'undue cost or effort'**

2 Qualitative characteristics

Fundamental qualitative characteristics

Relevance	**Faithful representation**

Enhancing characteristics

Comparability	Verifiability	Timeliness	Understandability

Cost constraint

3 Updated definitions of an asset and a liability

Asset	Liability
Present economic resource	Present obligation
Controlled by the entity	As a result of past events
As a result of past events	Transfer of an economic resource
A right	No practical ability to avoid the transfer
Potential to produce economic benefits	

4 Measurement

Historical cost measurement bases	Current value measurement bases
Include cost and amortised cost	Include fair value, value in use (for assets), fulfilment value (for liabilities) and current cost

Selecting a measurement basis

Relevance	Faithful representation
Information is relevant if it can influence users' decisions	Information must faithfully represent the substance of what it purports to represent

Consider enhancing qualitative characteristics and the cost constraint

5 How Section 2 relates to other sections

Section 2 has the same status as all other sections in the Standard

- **Apply the concepts** in developing accounting policies
- **Use the hierarchy** in Section 10
- **Use the more detailed requirements first**. If an individual section specifies the treatment of a transaction, follow this requirement instead of developing a policy directly from Section 2

The requirements in other sections of the Standard take precedence over the concepts and principles in Section 2

5 Example of another section taking precedence

Scenario	An entity is considering developing an accounting policy under which its purchased brand asset has an indefinite useful life and therefore the intangible asset would not be amortised. Management assumes this policy would satisfy the principle of faithful representation because it anticipates the brand will hold its value.
Conclusion	Section 18 *Intangible Assets other than Goodwill* requires that all intangible assets be considered to have a finite useful life. Management's proposed approach is therefore not permissible.

6 Undue cost or effort

Optional exemptions provided in individual sections of the Standard

Management judgement of costs and benefits

Judgement at initial recognition

If exemption applies on subsequent measurement, reassess

6 Undue cost or effort exemptions in other sections

Not a general exemption—available only in specified situations

- **Section 11**—measurement of some investments
- **Sections 14 and 15**—fair value model for investments in associates and jointly controlled entities
- **Section 16**—fair value for investment properties
- **Section 18**—fair value of intangible assets acquired in a business combination
- **Section 19**—fair value of contingent consideration in a business combination
- **Section 21**—contingent asset disclosures
- **Section 22**—extinguishing liabilities by issuing equity, non-cash distributions
- **Section 23**—options to acquire additional goods or services
- **Section 28**—actuarial valuation method
- **Section 34**—biological assets

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Supporting materials

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Resources available on the IFRS Foundation's website

https://www.ifrs.org/supporting-implementation/2025-ifrs-for-smes-supporting-materials/

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