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About this publication

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This guide provides information with regard to IFRS for Small and Medium-Sized Entities (SMEs). This guide has been prepared based on the complete IFRS for SMEs, (together with the Basis for Conclusions, Illustrative Financial Statements and Presentation and Disclosure Checklist) that were released in July 2009 by the International Accounting Standards Board (IASB). The application of IFRS for SMEs is the responsibility of the management of the relevant entity and therefore this guide cannot be taken as a definitive reference and does not replace the need for professional judgment with regard to relevant standards and other requirements and all of the relevant circumstances. Moreover, no reference is made to any real tax and legal framework.

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The RSM IFRS Champions Group

To help meet the IFRS needs of clients, RSM International has established an IFRS Champions Group drawn from member firms around the globe.

This team operates regionally and meets regularly to develop IFRS technical expertise in the network, discuss leading edge developments on IFRS and share experiences arising from their IFRS work.

This publication has been prepared by the RSM International IFRS Leadership Group and has been reviewed by some RSM IFRS Champions from member firms of RSM International.

RSM International has produced a brochure entitled 'Your partner in understanding the business implications of IFRS'. This brochure highlights RSM's global expertise regarding International Financial Reporting Standards as well as the contact details of all the members of the IFRS Leadership Group.

The IFRS Champions Group has produced a range of guides and technical articles on IFRS; all of which can be downloaded from the RSM International website, www.rsmi.com. Alternatively, you can contact Ellen Costa in the RSM Executive Office at ellen.costa@rsmi.com or your local RSM member firm.
1. Why IFRS for SMEs?

Global financial statements

IFRS for SMEs is a self-contained set of standards incorporating accounting principles based on Full IFRS. Companies applying IFRS for SMEs will have the opportunity to prepare their financial statements using a set of standards based on the truly global financial reporting language: International Financial Reporting Standards (IFRS). This SMEs-dedicated set of standards will allow them to expand into a new global financial dimension. Globalisation is an economic fact that affects goods, capital and, last but not least, information. A global financial reporting language is likely to bring the following benefits to SMEs:

1. **Understanding the global financial reporting language:** SMEs in jurisdictions where IFRS has not historically been used who wish to apply IFRS will need to become familiar with the requirements of IFRS. Gaining a sound knowledge of IFRS represents a benefit in itself. Most of the world is already applying or quickly moving towards IFRS for listed companies and in many cases also for non-listed companies. Knowing the global reporting language will make it easier for companies from different jurisdictions around the world to explore the possibility of cross-border acquisitions or partnerships as well as simplifying inbound and outbound investments.

2. **Global recognition:** Since IFRS for SMEs is a globally recognised set of financial reporting standards, SMEs that consistently apply them will improve both transparency and comparability. Access to capital through global lenders and investors is a potential benefit for SMEs that were historically limited to entities with securities traded on public capital markets.

3. **Attracting talented finance people:** Becoming fluent in IFRS is going to be a prerequisite for accountants in order to secure a successful career path. SMEs that will offer opportunities to work in an IFRS environment are likely to be more appealing to accountants compared to SMEs that continue to prepare accounts according to local GAAP.

“The publication of IFRS for SMEs is a major breakthrough for companies throughout the world. For the first time, SMEs will have a common high quality and internationally respected set of accounting requirements. We believe the benefits will be felt in both developed and emerging economies”

Sir David Tweedie
IASB Chairman
4. **In preparation for IPOs:** Growing companies that are considering listing their shares on overseas stock exchanges might want to consider applying IFRS for SMEs as an intermediate step that will facilitate the implementation of Full IFRS when it is required to be applied for the purposes of the IPO.

5. **Simplification:** The IFRS for SMEs is a self-contained standard of about 230 pages tailored to the needs and capabilities of smaller businesses. Significant simplifications have been pervasively introduced throughout all areas of IFRSs/IASs: recognition, measurement, derecognition and disclosures. In addition, some topics in Full IFRS, not relevant to SMEs have been omitted.

6. **Opportunities related to the “one-off” exemptions offered by IFRS 1:** SMEs moving to IFRS for SMEs will have the ability to use the “exemptions” granted by IFRS 1, *First time adoption of IFRS*. For example, SMEs will be able to use the fair value as initial deemed cost for Property, Plant and Equipment where there are outdated values being used under the depreciated cost method under previous GAAP. Once the initial cost based on fair value has been determined, SMEs are allowed to use the cost method as the basis for subsequent measurement.

A self-contained set of standards of about 230 pages. Based on Full IFRSs, IFRS for SMEs retains the authority of Full IFRS but introduces significant simplifications compared to Full IFRS.
2. IFRS for SMEs: Analysis of the project

2.1 Key cornerstones underlying IFRS for SMEs

Scope of IFRS for SMEs

The proposed IFRS for SMEs has been designed for an entity with no public accountability. An entity is defined as having “public accountability” if:

- It has issued, or is in the process of issuing, debt, equity or other instruments in a public market;
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Examples of such an entity include a bank, an insurance company, a securities broker/dealer, a pension fund, a mutual fund and an investment bank.

This definition avoids a quantified size test and, instead, adopts a public accountability principle. IFRS for SMEs has been designed using a 50-employee typical entity guideline, not as a quantified size test for defining SMEs but rather to assist the Board in determining the types of transactions that the standard should address. The standard may be suitable for even smaller entities. IFRS for SMEs is not intended to be mandatory. It will be up to each individual jurisdiction to determine whether or not to adopt the standard and, if it is adopted, to what extent that should be the case.

IFRS for SMEs has been specifically designed in order to meet the needs of entities with no public accountability.

Not “publicly accountable” entities represent more than 95% of all companies globally.

In the U.S. private companies can use IFRS for SMEs. In fact the IASB is a designated standard setter (along with FASB) in the AICPA Code of Ethics.
2. IFRS for SMEs: Analysis of the project

The name

Initially, the project was named IFRS for Small and Medium-sized Entities (SMEs). However, some constituents felt that this name was not appropriate because “small” and “medium” implies a size test and because the term “SME” already has precise, and differing, quantified definitions in many jurisdictions and having two definitions for the same term would lead to confusion. As a result, the Board tentatively decided that the title of the standard should be changed to IFRS for Private Entities, with Private Entities defined similarly to the definition of SMEs. However, despite the Board’s statement that the name change did not change the underlying scope of applicability of the standard, some constituents felt that changing the name to “Private Entities” was perceived as a move away from small and medium-sized entities toward those at the larger-size end of the spectrum of entities without public accountability. Additionally, it was pointed out that, like “SME”, the term “Private Entity” has particular meanings in some countries.

The IASB also explored the following possibilities: IFRS for Non-Publicly Accountable Entities, IFRS for Non-Public-Interest Entities, IFRS for Private Companies, IFRS for Smaller Entities, IFRS for Unlisted Entities and IFRS for Limited-Interest Entities. With the support of the National Standard Setters (NSS), the IASB restricted its options to “IFRS for Non-Publicly Accountable Entities” or “NPAEs” and “IFRS for Small and Medium-Sized Entities” or “SMEs”. Eventually, the IASB opted for “IFRS for Small and Medium-Sized Entities”.

Small listed entities are not within the scope of IFRS for SMEs

Small listed companies are publicly accountable entities and therefore out of the scope of IFRS for SMEs.

IFRS for SMEs is not mandatory. It is a matter for each jurisdiction to decide which entities without public accountability should be required to prepare general-purpose financial statements in accordance with IFRS for SMEs.

Listed entities are considered publicly accountable entities regardless of their size. Consequently, only the application of Full IFRS is considered appropriate for those types of entities.
2. IFRS for SMEs: Analysis of the project

IASB rejected a three-tier approach

The IASB explored the possibility of developing a three-tier approach:

- One set of standards for publicly accountable entities (Full IFRS);
- A second set of standards for non-publicly accountable entities other than micro entities (IFRS for SMEs); and
- A third and very simple set of standards for micro entities (IFRS for micro entities).

However, the IASB decided not to pursue such a strategy, because financial statements prepared using a super-simple and brief set of accounting requirements (IFRS for micro entities) would not meet the objective of decision usefulness. Such sets of super simplified standards would not be likely to provide useful information about the entity’s financial position, performance and changes in financial position that is useful to a wide range of users in making economic decisions.

Stand-alone document with only one cross-reference to Full IFRS

The Exposure Draft (ED) issued in February 2007 included 23 cross-references to Full IFRS. The only cross-reference to Full IFRS in the final standard relates to financial instruments. SMEs have the option to use either (i) Section 11, Basic Financial Instruments and Section 12, Other Financial Instruments Issues or (ii) IAS 39, Financial Instruments: Recognition and Measurement plus the disclosure requirements of Sections 11 and 12 of IFRS for SMEs.

IFRS for SMEs (230 pages), except for the “simplifications”, is intended to be a summary of Full IFRS (2,800 pages).

The “GAAP hierarchy” introduced in IFRS for SMEs does not mandate reference to Full IFRS when IFRS for SMEs is silent.
“Condensed” GAAP: relationship with Full IFRS

It is fair to say that in order to develop IFRS for SMEs, the IASB used Full IFRS as a starting point and then reduced it using the simplification strategies we will discuss in the following sections. Inevitably, in going from a more than 2,800-page set of standards to a less than 250-page standard many parts of Full IFRS were compressed and some paragraphs were not included. As a result, we have many cases where there is guidance in Full IFRS that is not replicated in IFRS for SMEs. In most cases, the omitted topics would not be relevant for SMEs. Some examples of this are:

- IAS 39, *Financial Instruments: Recognition and Measurement* defines financial guarantees and requires specific recognition and measurement provisions. Section 11, *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* do not define or mention financial guarantees at all.

- Section 19, *Business Combinations and Goodwill* is silent on acquisitions achieved in subsequent stages (stepped acquisitions). IFRS 3 includes detailed guidance.

- Section 27, *Impairment of Assets* includes very little guidance on how to determine the discount rate in order to calculate the Value in Use. On the other hand, IAS 36, *Impairment of Assets* includes more specific and detailed guidance.

- IAS 1, *Presentation of Financial Statements* specifically states that when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. Section 4, *Statement of Financial Position* does not explicitly state this. However, in terms of current/non-current classification, it includes exactly the same principles of IAS 1.

- IAS 32, *Financial Instruments: Presentation* includes specific provisions that deal with offsetting requirements when an entity undertakes a number of financial instrument transactions with a single counterparty and enters into a “master netting arrangement” with that counterparty. Section 4, *Statement of Financial Position*, Section 11, *Basic Financial Instruments* and Section 12, *Other Financial Instruments Issues* do not contain similar specific guidance for “master netting arrangements”.

There are many more examples like these. However, it seems that in most of these circumstances, the intention of the IASB was not to propose a different accounting treatment, but rather simply to summarise the requirements of Full IFRS whilst retaining the same accounting treatment.

As analysed in more detail in the following sections, in cases where IFRS for SMEs does not specifically address a transaction, Section 10 provides a “GAAP hierarchy” under which management may consider the requirements and guidance of Full IFRS in dealing with similar and related issues, however they are not required to do so.
2. IFRS for SMEs: Analysis of the project

Some IFRIC and SIC have been incorporated

IFRIC and SIC interpretations that were considered to be relevant to typical SMEs have been incorporated into relevant sections of IFRS for SMEs. These are:

- SIC 12, Consolidation – Special Purpose Entities
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 8, Scope of IFRS 2
- IFRIC 12, Service Concession Arrangements
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 15, Agreements for the Construction of Real Estate
- IFRIC 17, Distributions of Non-cash Assets to Owners

However, it was decided that separate IFRIC Interpretations will not be issued in order specifically to deal with interpretation issues relating to IFRS for SMEs.

“Undue cost or effort principle” added in some sections

In order to provide additional relief to preparers using IFRS for SMEs, in some cases, an “undue cost or effort” principle has been introduced to replace the “impracticability” relief criterion of Full IFRS. Applying a requirement is considered to be “impracticable” when the entity cannot apply it after making every reasonable effort to do so. Although not defined, the notion of “undue cost or effort” focuses on the concept of balancing costs and benefits which, in turn, might require management’s judgment of when a cost is considered to be excessive. In other words, the “undue cost or effort” principle implies that cost is always a key element to be considered.

The “undue cost or effort” principle has been introduced in the following sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Measurement attribute</th>
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<tbody>
<tr>
<td>Section 14, Investments in Associates</td>
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<tr>
<td>Section 21, Provisions and Contingencies</td>
<td>Best estimate (disclosures about contingent assets)</td>
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</tr>
<tr>
<td>Section 34, Specialised Activities</td>
<td>FV</td>
</tr>
</tbody>
</table>
2. IFRS for SMEs: Analysis of the project

SMEs can use the exemptions and exceptions included in IFRS 1

SMEs can use all of the optional exemptions for first time adopters included in IFRS 1, First Time Adoption of International Financial Reporting Standards (e.g. parent and subsidiary adopt IFRS at different times or deemed cost for investment property and intangible assets). Moreover, compared to Full IFRS, SMEs are additionally exempted from retrospectively presenting discontinued operations.

Subsidiary whose parent uses full IFRS

Section 1, Small and Medium-sized Entities states that “A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that uses full IFRS, is not prohibited from using IFRS for SMEs in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all of the provisions of this IFRS.” The consolidated financial statements of the parent must be prepared with a consistent application of Full IFRS across all the entities being consolidated. As a result, when preparing an IFRS Reporting Package for consolidation purposes, if the parent uses Full IFRS, the subsidiary will not be able to use IFRS for SMEs where there are differences in accounting policies between the two. In some cases policies may be the same under Full IFRS and IFRS for SMEs, however an analysis of differences would need to be undertaken by parents of such groups.

Unlike Full IFRS the principle of “undue cost and effort” has been introduced and used in many sections. It is primarily used in order to provide relief in cases where the fair value measurement might be considered too burdensome for SMEs.

The absence of specific IFRIC interpretations for IFRS for SMEs contributes to limiting the overall literature to be consulted.
2. IFRS for SMEs: Analysis of the project

2.2 Significantly reduced disclosure requirements

Disclosure requirements have been significantly reduced or omitted in their entirety compared to Full IFRS. This represents a significant and welcome relief for SMEs. In general Full IFRS disclosure requirements might be quite burdensome and require a significant effort in order to capture all relevant information to be displayed in the notes.

Overall disclosures requirements for SMEs are decreased about tenfold compared to entities applying Full IFRS.

The reasons why disclosures required by Full IFRS have been reduced or omitted from IFRS for SMEs is either:

- They relate to topics or policy options in Full IFRS that have been omitted from IFRS for SMEs, or they relate to recognition and measurement principles in Full IFRS that have been replaced by simplifications in IFRS for SMEs; or
- They are not included on the basis of users’ needs or cost-benefit considerations.

The following is a sample of disclosure reduction:

- The vast majority of the disclosure requirements of IFRS 7, Financial Instruments: Disclosures are not required in Section 11 of IFRS for SMEs.
- Section 27 does not require disclosure of all the estimates used to measure recoverable amount of cash generating units containing goodwill, as required by IAS 36, Impairment of Assets.
- An entity that uses the cost model for its investment property is not required to disclose the fair value of its investment property. IAS 40, Investment Property requires disclosure of the fair value of investment property measured under the cost model.
2. IFRS for SMEs: Analysis of the project

- Similarly, a SME that applies the cost model – the only model allowed – for Property, Plant and Equipment, is not required to disclose the fair value when this is materially different from the carrying amount. This disclosure is strongly encouraged in IAS 16, Property Plant & Equipment.

- In terms of disclosure relating to income taxes, SMEs are required, by Section 29, to provide an explanation of the significant differences in amounts reported in the statement of comprehensive income and amounts reported to tax authorities instead of a full numerical reconciliation between actual tax expense and tax expense that would be expected by multiplying profit by the applicable tax rate(s), with each significant difference disclosed separately, as required by IAS 12, Income Taxes.

- With regard to investment in associates, Section 14 requires limited disclosures as compared to IAS 28, Investments in Associates. The following disclosures are omitted for SMEs: summarised financial information for assets, liabilities, revenues and profit or loss; share of contingent liabilities and the nature and extent of any significant restrictions on the ability of associates to transfer funds to the investor, if any.

These are just some examples of the reduction in disclosures required by IFRS for SMEs. In most sections there are reduced disclosure requirements compared with Full IFRS. The IASB has issued an accompanying Illustrative Financial Statements and Presentation and Disclosure Checklist which SMEs may find useful in determining the full extent of disclosures required under IFRS for SMEs.
2. IFRS for SMEs: Analysis of the project

2.3 Omitted topics

Some standards included in Full IFRS have a clear focus on publicly listed companies. IFRS for SMEs does not address the following topics:

Interim financial reporting

IAS 34, *Interim Financial Reporting* states that interim financial reports are those financial reports containing either a complete set of financial statements or a set of condensed financial statements for a period shorter than an entity’s full financial year (interim period). IAS 34 does not mandate which entities should be required to publish interim financial reports but if an entity’s interim financial report is described as complying with IFRSs, it must comply with all of the requirements of IAS 34.

Presentation of earnings per share information

IAS 33, *Earnings per Share* requires an entity to provide a measure of the interests of each ordinary share of an entity in the performance of the entity over the reporting period. It is calculated as basic and diluted by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

SMEs are not required to present interim financial reporting and are not required to disclose information about operating segments and earnings per share. However, if SMEs elect to do so, they shall describe the basis for preparing and presenting such information by applying the hierarchy in Section 10, *Accounting Policies, Estimates and Errors*. SMEs can use the applicable Full IFRS standard as a source of guidance but are not required to do so.

Presentation of segment information

IFRS 8, *Operating Segments* requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria and about which separate financial information is available and it is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

SMEs are not required to comply with the typical reporting requirements of publicly traded companies.
2. IFRS for SMEs: Analysis of the project

Classification, presentation and measurement of assets held for sale is not required

There is no “held for sale” classification for non-financial assets, or groups of assets and liabilities and related measurement provisions as is required by IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. According to Section 17, the decision to sell an asset should be added as an impairment indicator. However, SMEs are required to identify and segregate discontinued operations in the statement of comprehensive income for the current period and all prior periods presented in the financial statements, unless impracticable. Additionally, as noted earlier, first-time adopters of IFRS for SMEs are not required to re-present retrospectively discontinued operations.

Specialised activities

Additionally, IFRS for SMEs does not contain requirements for insurance companies similar to IFRS 4, Insurance Contracts. Generally, insurance companies are companies holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses and therefore they are considered publicly accountable entities.

Section 34, Specialised Activities incorporates industry specific requirements for agricultural companies and companies engaged in extractive activities or service concession arrangements. Section 34 includes industry specific requirements that correspond to IAS 41, Agriculture, IFRS 6, Exploration for and Evaluation of Mineral Resources and IFRIC 12, Service Concession Arrangements.

Assets held for sale do not need to be presented and measured separately. Separate presentation of discontinued operations is still required.

Section 34 includes special accounting treatments for agriculture, extractive activities and service concession arrangements.
2. IFRS for SMEs: Analysis of the project

2.4 Significant accounting simplifications as introduced compared to Full IFRS

2.4.1 General

As described above in 2.3, SMEs are not required to apply IFRS standards typically applicable to listed entities. Segment information, earnings per share and interim reporting are not addressed by IFRS for SMEs. If SMEs present such information they are required to select and describe the basis for preparing and presenting such information but are not required to make reference to the respective standards in Full IFRS.

Retained fair value measurement. Fair value is still one of the measurement attributes of IFRS for SMEs. However, for the following reasons, fair value measurement should not represent an insurmountable issue for SMEs:

- Elimination of certain accounting options requiring fair value measurement compared to Full IFRSs;
- Simplification of the measurement provisions relating to financial instruments;
- The fact that most of the transactions that SMEs are likely to be involved in are basic and therefore either they do not require fair value measurement or fair value measurement will be relatively straightforward;
- Introduction of the "undue cost or effort" relief, as described above at 2.1.

Segment reporting, earnings per share and interim reporting are omitted from IFRS for SMEs.

Accounting for financial instruments has been dramatically simplified compared to Full IFRS.

The revaluation model is not allowed for PP&E.

The fair value model can be used for Investment Properties.
2. IFRS for SMEs: Analysis of the project

2.4.2 Areas where significant changes have been introduced compared to Full IFRS (further detailed information is reported in Section 3)

Complex accounting options have been removed

Accounting options that exist in Full IFRS but that were eliminated in IFRSs for SMEs are:

- **Section 11 and 12: Financial instruments.** As a result of reshaping the accounting treatment of financial instruments, the option to categorise financial assets as available for sale or held to maturity as well as the “fair value option” have not been included in IFRS for SMEs. As explained earlier, SMEs have the option to revert back to IAS 39. In addition, IFRS for SMEs contains simplified derecognition rules and hedge accounting requirements.

- **Section 15: Proportionate consolidation of jointly-controlled entities.** The accounting policy for jointly-controlled entities can be selected from: (i) the cost model, (ii) fair value through profit or loss model or (iii) equity method. However, for investments in jointly-controlled entities for which there is a published price quotation the fair value model must be applied.

  Interestingly, with regard to joint ventures, the number of accounting alternatives is increased when compared to Full IFRS which currently allows entities to prepare consolidated financial statements using only either the equity method or the proportionate consolidation method. Cost and fair value methods are not allowed.

- **Section 16 and 17: Revaluation of property, plant and equipment and of intangible assets.** Only the cost model is allowed.

Investments in joint ventures can be accounted for using the cost method, provided a published price quotation is not available.

The cost method is the only accounting policy available for Property, Plant and Equipment.

Only two categories of financial assets/liabilities: 1) amortised cost and 2) fair value through profit or loss.
2. IFRS for SMEs: Analysis of the project

- **Section 11 and 12: Simplified accounting for financial instruments.**
  Accounting for financial instruments has been significantly simplified. The following are the most significant cornerstones of Section 11, *Basic Financial Instruments* and Section 12, *Other Financial Instruments Issues*:
  - Section 11 deals with basic financial instruments such as simple payables and receivables. Section 12 deals with all other more complex financial instruments.
  - There are two categories of financial assets rather than four. Basically, cash, receivables, payables, loans, most commitments to make or receive loans, equity instruments whose fair value cannot be reliably measured and options on such instruments are measured at cost or amortised cost. All other types of financial instruments are measured at fair value through profit or loss. As a result the cost model will be appropriate for the significant majority of financial instruments held by SMEs.
  - A simpler but tighter principle for derecognition. The significant continuing involvement approach has been removed. Also, the complex "pass-through testing" and "control retention testing" of IAS 39 have been omitted. As a result, derecognition is simpler, however it will be allowed in fewer circumstances compared to IAS 39.
  - In terms of hedge accounting, Section 12 addresses the four types of risks that SMEs typically seek to hedge. Hedge accounting is not allowed for any other types of risk. Section 12 limits the use of hedge accounting to certain hedging instruments as well as these risks. The benefit for SMEs is that if the conditions are met, there are relaxed requirements for designating a hedging relationship. For example, while section 12 requires the hedge to be "highly effective", the specific requirement as to that effectiveness being within a range of 80-125 per cent (as per IAS 39) has been omitted. Section 12 includes little guidance on measuring hedge effectiveness. Such guidance should be included in the training materials developed by the IASC Foundation.
  - Bifurcation of embedded derivatives hosted in financial instruments is not required by IFRS for SMEs.

Hedge accounting and “derecognition” requirements are simpler but tighter compared to Full IFRS.

Complying with the effectiveness range of 80-125 per cent of IAS 39 is no longer mandated.

Bifurcation of embedded derivatives hosted in financial instruments is not required.
2. IFRS for SMEs: Analysis of the project

- **Section 14: Multiple options for investments in associates.** Similar to investments in joint ventures discussed above, SMEs have the option to account for all investments in associates using one of the following methods: (i) the cost model, (ii) fair value through profit or loss model or (iii) equity method.

  However, for investments in associates for which there is a published price quotation the fair value model must be applied.

  As is the case under Full IFRS, SMEs shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or jointly controlled entities), however they can elect to apply different policies for different classes.

- **Section 18: Capitalising development costs meeting specified criteria.** All research and development costs are recognised as an expense as incurred. Capitalisation of development costs is not an option. As a result, SMEs will not have to put in place internal procedures in order to assess whether and when a project is commercially viable.
2. IFRS for SMEs: Analysis of the project

- Section 19: Goodwill and other indefinite-life intangibles are amortised over their useful life.
  - All intangible assets, including goodwill, have a finite useful life and are amortised over their estimated useful lives
  - Only if useful life cannot be reliably estimated, then it is presumed to be 10 years
  - Impairment testing is required only when there is an indication of impairment, not annually. However, IFRS for SMEs includes simplified guidance for calculating the impairment of goodwill.

Goodwill and all other intangible assets have a finite useful life and are amortised over it.

Impairment testing is performed where there are indicators of impairment.

Goodwill is calculated using only the purchased-goodwill approach.

Costs directly attributable to the business combination are capitalised.

Development costs are always expensed as incurred.
2. IFRS for SMEs: Analysis of the project

- **Section 20:** Inflation cost relating to operating leases can be recognised on a cash basis. IFRS for SMEs includes an exemption to the application of the straight-line method for operating leases if payments to the lessor are structured purely to compensate for the lessor’s expected cost increases. In such circumstances, the inflation component is *de facto* recognised on a cash basis.

- **Section 24:** Accounting for government grants is simplified. A new “IFRS for SMEs model” is required for all government grants. This new model is based on the principles for recognising grants included in IAS 41, *Agriculture*. Under this approach:
  - An unconditional grant is recognised in income when the grant is receivable;
  - A conditional grant is recognised in income when the conditions are met;
  - Grants are measured at the fair value of the asset received; and
  - Grants received before the income recognition criteria are satisfied are recognised as deferred income (a liability).

- **Section 25:** Capitalising borrowing costs meeting specified criteria.
  Borrowing costs are always expensed as incurred.

- **Section 26:** Share–based payments calculation has been simplified. Section 26 provides some simplifications in terms of fair value measurement. In particular, in cases where observable market prices are not available, preparers can use the “directors’ best estimate”. Using the intrinsic value method is not permitted and disclosure only, without expense recognition, is not appropriate.

Government grants are accounted for using a single model.

In certain cases, share based payments can be measured using “directors” best estimate.

Borrowing costs are always expensed as incurred.
2. IFRS for SMEs: Analysis of the project

- **Section 28**: Accounting for Defined Benefit Obligations has been significantly simplified. Section 28 allows SMEs to choose between two different methods for recognising actuarial gains and losses:
  - Immediate recognition in profit or loss; or
  - Immediate recognition in other comprehensive income without recycling.

  In terms of measurements, if SMEs are able, without undue cost or effort, to use the projected unit credit method, they should do so. If not, SMEs are allowed to apply an approach based on IAS 19, Employee Benefits but with calculations significantly simplified. As a result of such measurement simplifications, it is unlikely to be necessary to engage external experts in the vast majority of cases.

- **Section 29**: Income Tax gives consideration to the Exposure Draft on Income Tax, published in March 2009. IFRS for SMEs pursues an approach that is based on the Exposure Draft on Income Tax. The IASB believes that the only significant measurement difference in the IFRS for SMEs as compared with the Exposure Draft on Income Tax is where a different tax rate applies to distributed and undistributed income.

- **Section 30**: Recycling of the Foreign Currency Translation (CTA) is not required. SMEs are not allowed simply to elect to deem their local currency as their functional currency even if the law requires financial statements to be presented in the local currency. But on the other hand, IFRS for SMEs does not allow recycling through profit or loss of any cumulative exchange differences that were previously recognised in the statement of comprehensive income on disposal of a foreign operation. This requirement eliminates the significant administrative burden needed to track such historical exchange differences. The fact that SMEs’ exchange differences are reported in the statement of comprehensive income when they arise, makes the recycling less of an issue.

  Actuarial calculations have been substantially simplified. In most cases engaging external specialists will not be necessary in order to comply with Section 28.

  The “corridor approach” has been disallowed.

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2.5 Other areas where minor changes have been introduced or there are no substantial changes compared to Full IFRS

Section 3: Financial Statement Presentation. Section 3 does not introduce significant differences compared to Full IFRS. As is required for Full IFRS, “an entity whose financial statements comply with the IFRS for SMEs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the IFRS for SMEs unless they comply with all the requirements of this IFRS”.

Section 4: Statement of Financial Position and Section 5: Statement of Comprehensive Income and Income statement. Similar to Full IFRS, IFRS for SMEs proposes a limited number of sections, subtotals and line items in each of the required financial statements. It also proposes certain minimum items that must be disclosed, in some cases on the face of a financial statement and in other cases either on the face or in the notes. SMEs should present their statement of financial position based on liquidity if this provides information that is reliable and more relevant than a current/non-current presentation. The criteria used in Full IFRS for classifying assets and liabilities as current are retained in IFRS for SMEs.

Section 6: Statement of Changes in Equity and Statement of Income and Retained Earnings. As is required by Full IFRS, SMEs are required to include items of other comprehensive income in the statement of changes in equity. However, unlike Full IFRS, the opening balance sheet for the earliest period presented does not need to be presented in the case of restatements, reclassifications or changes in accounting policy. An “undue cost or effort” principle has not been added wherever the standard requires restatements. The exemption for “impracticability” is considered sufficient.

Section 7: Statement of Cash Flows. Section 7 is generally consistent with IAS 7, Statement of Cash Flows. SMEs can use either the indirect method or the direct method to present operating cash flows in the cash flow statement.

Section 9: Consolidated and Separate Financial Statements. Consolidation criteria and procedures are substantially the same as under Full IFRS. IFRS for SMEs introduces the option to present combined financial statements for two or more entities controlled by a single investor. The concept of combined financial statements does not exist in Full IFRS. With regard to the preparation of separate company financial statements, as an alternative to the cost method, SMEs can choose to recognise investments at fair value through profit or loss. Full IFRS allows entities to measure investments in accordance with IFRS, which in turns allows the classification as available for sale and therefore recognition of changes in fair value through comprehensive income rather than income statement.

Section 10: Accounting Policies, Estimates and Errors. In cases where IFRS for SMEs is silent as to the appropriate accounting treatment to be adopted, SMEs are not required to consider the requirements and guidance in Full IFRS or from pronouncements of other standard-setting bodies, other accounting literature or accepted industry practice. Reference is required to be made to other sections in IFRS for SMEs which deal with similar or related issues or to the general principles in Section 2, Concepts and Pervasive Principles. Although it is not mandatory, management may refer to Full IFRS in making judgments as to the appropriate accounting treatment.
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Section 13: Inventories. The requirements in Section 13 of IFRS for SMEs are substantially the same as IAS 2, Inventories. LIFO is prohibited as an inventory costing method. Inventories are measured at the lower of cost and selling price less costs to complete and sell. The techniques for measuring inventory cost, such as standard costing, retail method and the most recent purchase price if the result approximates cost have been retained. Impairment can be reversed if certain criteria are met.

Section 16: Investment Property. Unlike Full IFRS, the subsequent measurement attribute is circumstance driven rather than allowing SMEs an accounting policy choice between the cost and fair value models. In other words, if an SME can measure the fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model and account for investment property as Property, Plant and Equipment. The investment property can then be presented as a class of Property, Plant and Equipment. The “componentisation” approach similar to IAS 16, Property, Plant and Equipment has been retained.

Section 17: Property, Plant and Equipment. As already mentioned in the previous section, unlike Full IFRS, SMEs are not allowed to use the revaluation model. In addition, residual value, useful life and depreciation methods are reviewed where there are indicators that a change may be required. Full IFRS requires preparers to reassess at each reporting date whether a change is necessary, irrespective of whether indicators exist.

Section 18: Intangible Assets other than Goodwill. As mentioned previously, unlike Full IFRS, all research and development costs are recognised as an expense as incurred. Capitalisation of development costs is not an option under IFRS for SMEs. In addition, similar to the requirements for Property, Plant and Equipment, residual value, useful life and amortisation method are reviewed only where there are indicators that a change may be required. Full IFRS requires preparers to reassess at each reporting date whether a change is necessary, irrespective of whether indicators exist.

Section 19: Business Combinations and Goodwill. As noted in 2.4 above, goodwill is amortised under IFRS for SMEs. It must also be assessed for impairment using an “indicator approach”. Similar to Full IFRS, as a result of a business combination, a purchase price allocation process has to be performed and might result in recognition of various intangible assets as well as other valuation challenges. Intangible assets and contingent liabilities acquired in a business combination are separately recognised if their fair value can be measured reliably (an “undue cost or effort” exemption has not been added). Section 19 has retained most of the requirements of the previous version of IFRS 3. As is the case under Full IFRS the pooling of interests method of accounting is not permitted and combinations of entities under common control are excluded from the scope of the standard.

Section 20: Leases. As for Full IFRS, classification of a lease as either an operating or finance lease is required. For operating leases with payments which include “expected inflation” the straight-line method of expensing payments is not required.
2. IFRS for SMEs: Analysis of the project

Section 21: Provisions and Contingencies. The IASB concluded that the requirements of IFRS for SMEs for accounting for provisions do not need to be simplified. However, examples tailored to the circumstances of SMEs have been provided as implementation guidance.

Section 22: Liabilities and Equity. As is the case in Full IFRS, equity is the residual interest in the assets of an entity after deducting all of its liabilities. As a result, in terms of distinguishing liabilities from equity, the same criteria of Full IFRS apply. In addition, as with Full IFRS, any non-controlling interest in the net assets of a subsidiary is included in equity.

Section 23: Revenue. IFRS for SMEs substantially retains the approach of Full IFRS. Section 23 combines the requirements of IAS 11, Construction Contracts and IAS 18, Revenue. Revenue is categorised as being generated from (i) sale of goods, (ii) rendering of services, (iii) interest, royalties and dividends and (iv) construction contracts. The percentage of completion method is applied when recognising revenue from services and construction contracts. Additional examples addressing issues covered by IFRIC interpretations under Full IFRS have been added as implementation guidance.

Section 27: Impairment of Assets. As is the case under Full IFRS, impairment is based on a "one-step" approach. Impairment is recognised when the recoverable amount is lower than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Section 31: Hyperinflation. The requirements of Section 31 are consistent with IAS 29, Financial Reporting in Hyperinflationary Economies. SMEs must prepare general price-level adjusted financial statements and related disclosures when its financial currency is hyperinflationary – approximately greater than 100% over three years.

Section 32: Events after the End of the Reporting Period. Section 32 is consistent with IAS 10, Events after the Reporting Period. Events which occur after the end of the reporting period are classified as “adjusting” or “non-adjusting” events. Dividend distributions are accounted for as a liability only when declaration is made.

Section 33: Related Party Disclosures. Other than the simplified disclosure of key management personnel compensation as noted in 2.2 above, Section 33 is consistent with the respective Full IFRS standard (IAS 24, Related Party Disclosures).

Section 34: Specialised Activities. This section combines specific requirements found in IAS 41, Agriculture, IFRS 6, Exploration for and Evaluation of Mineral Resources and IFRIC 12, Service Concession Arrangements. Requirements for the agriculture industry are substantially the same as in Full IFRS except for the introduction of the "undue cost or effort" relief in cases where fair value is not readily determinable.

With regard to extractive industries, costs relating to the exploration for, evaluation or extraction of mineral resources are recognised as expenses as incurred, whereas entities applying Full IFRS have to develop an accounting policy and part of such costs can be capitalised when certain criteria are met.

With regard to the insurance industry, insurers hold assets in a fiduciary capacity and as a result IFRS for SMEs is not intended for, and should not be used by, insurers.

Full IFRS includes an IFRIC interpretation that deals with concession arrangements. The requirements of IFRIC 12 are applicable to SMEs as well, with a few minor adjustments.
3. A detailed analysis of major differences between IFRS for SMEs and Full IFRS

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| Section 4 – Statement of Financial Position | An entity is not required to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. | An entity is required to present a statement of financial position as at the beginning of the earliest comparative period when:  
- It applies an accounting policy retrospectively; or  
- It makes a retrospective restatement of items in its financial statements; or  
- When it reclassifies items in its financial statements. |
| Section 5 – Statement of Comprehensive Income and Income Statement | Section 5 provides SMEs with the choice of presenting expenses in the statement of comprehensive income analysed by nature or by function. The requirement in Full IFRS that an entity using the function approach must also disclose depreciation, amortisation and employee benefit expense has been eliminated, because disclosure of this information is already required by other sections of the IFRS for SMEs. | IAS 1, Presentation of Financial Statements, states that an entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. |
| Section 5 – Statement of Comprehensive Income and Income Statement | Entities have the option to present either:  
- A single statement of comprehensive income; or  
- Two separate statements: an income statement displaying components of profit or loss and a statement of comprehensive income beginning with profit or loss and displaying components of other comprehensive income (OCI).  
If an entity has no items of OCI, the statement of comprehensive income need not have a subtotal for “profit for the period”. Instead, the bottom line could be labelled “profit and comprehensive income for the period”. | According to IAS 1, an entity shall present all items of income and expense recognised in a period:  
- In a single statement of comprehensive income; or  
- In two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). |
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| Section 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings | **The statement of income and retained earnings** presents an entity’s profit or loss and changes in retained earnings for a reporting period. SMEs are permitted to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from:  
  - Profit or loss  
  - Payment of dividends  
  - Corrections of prior period errors; and  
  - Changes in accounting policy.  
SMEs that select this option, shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5, **Statement of Comprehensive Income and Income Statement**:  
  - Retained earnings at the beginning of the reporting period  
  - Dividends declared and paid or payable during the period  
  - Restatements of retained earnings for corrections of prior period errors  
  - Restatements of retained earnings for changes in accounting policy  
  - Retained earnings at the end of the reporting period. | IAS 1 does not allow a similar presentation alternative. |
| Section 9 – Consolidated and Separate Financial Statements | A parent need not present consolidated financial statements if:  
  - The parent is itself a subsidiary; and  
  - Its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with Full IFRS or with this standard. | IAS 27, **Consolidated and Separate Financial Statements**, a parent need not present consolidated financial statements if and only if:  
  - The parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements  
  - The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRS. |
## 3. A detailed analysis of major differences between IFRS for SMEs and Full IFRS

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| Section 9 – Consolidated and Separate Financial Statements | In the light of the decision to eliminate the “held for sale” classification Section 9 introduces an **exemption from consolidation** similar to IAS 27.  
In an acquisition where there is evidence that control is intended to be temporary (i.e. there is an intention to dispose of the subsidiary within twelve months and management is actively seeking a buyer), the subsidiary is not consolidated.  
The investor needs to provide specified disclosure. | IAS 27 has a footnote to paragraph 12 that states: “If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5, **Non-current Assets Held for Sale and Discontinued Operations**, it shall be accounted for in accordance with that IFRS.”  
In substance, this represents the only consolidation scope exclusion in Full IFRS. |
| Section 9 – Consolidated and Separate Financial Statements | **Combined financial statements** are a single set of financial statements of two or more entities controlled by a single investor.  
IFRS for SMEs does not require combined financial statements, however, permits the controlling investor to prepare “combined financial statements” because the affiliated entities have common objectives and economic interests and are managed jointly.  
If an entity prepares combined financial statements and describes them as conforming to the IFRS for SMEs, those statements shall comply with all of the requirements of the IFRS for SMEs. | Neither the **Framework** nor IAS 27 include any guidance on combined financial statements. |
| Section 9 – Consolidated and Separate Financial Statements | **Separate company financial statements** are not required.  
When an investor prepares separate statements, it should measure its investments in subsidiaries, associates and jointly controlled entities at either:  
- Cost; or  
- Fair value through profit or loss.  
This election is available for each different class of investment (e.g. different policies could be adopted for associates and for subsidiaries). | Separate company financial statements are not required.  
When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:  
- Cost; or  
- In accordance with IAS 39.  
This election is available for each different category of investment (e.g. different policies could be adopted for associates and for subsidiaries). |
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| Section 9 – Consolidated and Separate Financial Statements | If an entity ceases to be a subsidiary but the investor (former parent) continues to hold an investment in the former subsidiary, that investment shall be accounted for:  
- As a financial asset in accordance with Section 11 or Section 12 from the date the entity ceases to be a subsidiary; or  
- As an associate (in which case Section 14 applies); or  
- As a jointly controlled entity (in which case Section 15 applies).  
In any case, the **carrying amount of the investment at the date that the entity ceases to be a subsidiary** shall be regarded as the cost on initial measurement of the financial asset. | If a parent loses control of a subsidiary, it recognises any investment retained in the former subsidiary at its fair value at the date when control is lost.  
On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other IFRSs from the date when control is lost.  
The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IAS 39, Financial Instruments: Recognition and Measurement or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity. |
| Section 10 – Accounting Policies, Estimates and Errors | In cases where IFRS for SMEs does not specifically address a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is (i) relevant to the economic decision-making needs of users and (ii) reliable.  
In making the judgment management shall refer to, and consider the applicability of, the following sources in descending order (GAAP hierarchy):  
- The requirements and guidance in IFRS for SMEs standard dealing with similar and related issues; and  
- The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2, Concepts and Pervasive Principles.  
Management may, but is not required to, consider the requirements and guidance in Full IFRS.  
The hierarchy of IFRS for SMEs does not include reference to recent pronouncements of other standard-setting bodies, other accounting literature or accepted industry practice. | IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors states that in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is (i) relevant to the economic decision-making needs of users and (ii) reliable.  
In making the judgment management shall refer to, and consider the applicability of, the following sources in descending order:  
- The requirements in IFRS dealing with similar and related issues; and  
- The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.  
In making the judgment described above management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources specified above. |
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| Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues | **General considerations:**  
- Section 11 deals with the simple payables and receivables and other basic financial instruments  
- Section 12 deals with the more complex instruments and transactions  
- Section 11, by giving examples of the types of financial instruments that SMEs are likely to have, clarifies that the cost model will be appropriate for the significant majority of financial instruments of SMEs. An SME with no complex financial instruments would then not need to consider Section 12  
- An SME could apply either Section 11 and 12 of the IFRS for SMEs or all requirements of Full IFRS – the three financial instrument standards (IAS 32, Financial Instruments: Presentation, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures), and related interpretations. The option to use Full IFRS is available by cross-reference. This is the only cross-reference to Full IFRS available in IFRS for SMEs.  

The main reason for allowing the fallback to Full IFRS for financial instruments is to allow private entities who have more sophisticated instruments and want to use sophisticated accounting to do so provided they comply with IAS 39 in its entirety. | IFRS standards which deal with financial instruments are: IFRS 7, Financial Instruments: Disclosures, IAS 32, Financial Instruments: Presentation and IAS 39, Financial Instruments: Recognition and Measurement.  
Depending on their characteristics, financial assets can be classified as one of the following categories: fair value through profit or loss, available for sale, held to maturity, loans and receivables.  
Financial liabilities can be classified as fair value through profit or loss or other liabilities.  
For both financial assets and liabilities, the classification drives subsequent measurement. |
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<td>Section 11 – Basic Financial Instruments</td>
<td>The approach taken in Section 11 is to eliminate rules by classifying financial instruments according to their cash flow characteristics. This avoids the need to define such instruments as derivatives and embedded derivatives, held to maturity, and available for sale. On initial recognition financial instruments are categorised as follows:</td>
<td>Financial assets are classified in four categories:</td>
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<td>• Basic financial instruments: these are financial assets and liabilities that on initial recognition meet the criteria of basic financial instruments included in Section 11</td>
<td>• Fair value through profit or loss (FVTPL)</td>
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<td>• All other financial instruments.</td>
<td>• Held to maturity (HTM)</td>
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<td>As a result of the approach illustrated above, available for sale and held to maturity classifications are not available.</td>
<td>• Loan and receivable (L&amp;R)</td>
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<td>• Available for sale (AFS).</td>
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<td>Under IAS 39, an instrument that otherwise would meet the definition of HTM or FVTPL (unless classified as held for trading) can optionally be designated to be AFS.</td>
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<td>Under IAS 39, available for sale is a somewhat arbitrary category of financial assets. In substance it represents a default for financial assets that do not fit one of the three other categories.</td>
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<td>Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues</td>
<td>An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument. Section 11 and 12 do not distinguish between trade date accounting and settlement date accounting for regular way purchases or sales of financial assets.</td>
<td>An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument. With regard to regular way purchases or sales of financial assets, IAS 39 provides the option to recognise and derecognise such financial assets using either trade date accounting or settlement date accounting.</td>
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<tr>
<td>Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues</td>
<td>In terms of <strong>measurement</strong> IFRS for SMEs states that:</td>
<td>Initial measurement:</td>
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<td>- Basic financial instruments:</td>
<td>• Assets/Liabilities at fair value through profit or loss: fair value (transaction costs are expensed)</td>
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<td>• Other liabilities, loans and receivables, held to maturity, available for sale: fair value plus transaction costs that are directly attributable</td>
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<td>• Other liabilities, loans and receivables, held to maturity: amortised cost</td>
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<td>• Available for sale: at fair value through equity.</td>
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<td>Subsequent measurements:</td>
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<td>- Initial measurement: at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction</td>
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<td>- Subsequent measurement: amortised cost less impairment</td>
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<td>- Other financial instruments:</td>
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<td>• Initial measurement: at fair value, which is normally the transaction price</td>
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<td>• Subsequent measurement:</td>
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<td>- Equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment</td>
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<td>- All others are remeasured at fair value with changes in fair value through profit or loss.</td>
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| **Section 12 – Other Financial Instruments Issues** | The **hedging documentation** requirements are minimal and general. They include:  
- Identify the risk being hedged  
- The hedged item; and  
- The hedging instrument.  
Although not specifically indicated as a documentation requirement, hedge accounting can be applied only if the hedging instrument is highly effective in offsetting the designated hedged risk.  
Section 12 is silent on when such documentation has to be produced. | The documentation requirements include:  
- Hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge  
- The hedged item  
- The hedging instrument; and  
- The nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.  
IAS 39 specifically states that this documentation has to be in place at the inception of the hedging relationship. |
| **Section 12 – Other Financial Instruments Issues** | The **effectiveness of a hedge** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. | A hedge is regarded as highly effective only if both of the following conditions are met:  
- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated  
- The actual results of the hedge are within a range of 80–125 per cent. |
In terms of risks that can be hedged, IFRS for SMEs permits hedge accounting only for the following specific risks:

- Interest rate risk of a debt instrument measured at amortised cost
- Foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction
- Price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity, or
- Foreign exchange risk in a net investment in a foreign operation.

As a result, certain types of risks are not eligible for hedge accounting (i.e. price risk in equity shares, all interest rate risk, all foreign exchange risk, combinations of interest rate and foreign exchange risk – hedged with a cross-currency swap, foreign exchange risk of a debt instrument measured at amortised cost, all commodity price risk, etc.).

Does not define financial risks. A hedged item can be:

- A recognised asset or liability
- An unrecognised firm commitment
- A highly probable forecast transaction
- A net investment in a foreign operation.

The hedged item can be:

- A single asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation
- A group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics
- In portfolio hedge of interest rate risk only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

A held to maturity investment cannot be a hedged item with respect to interest rate risk or prepayment risk because designation of an investment as held to maturity requires an intention to hold the investment until maturity without regard to changes in the fair value or cash flows of such an investment attributable to changes in interest rates. However, a held to maturity investment can be a hedged item with respect to risks from changes in foreign currency exchange rates and credit risk.
### Section 12 – Other Financial Instruments Issues

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<tr>
<th></th>
<th>IFRS for SMEs permits hedge accounting only if the <strong>hedging instrument</strong> has all of following terms and conditions:</th>
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<tbody>
<tr>
<td></td>
<td><strong>i.</strong> It is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified that is designated as being the hedged risk</td>
<td>Certain written options cannot be hedging instruments. A non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument only for a hedge of a foreign currency risk. Only instruments that involve a party external to the reporting entity or individual entity that is being reported on can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group provided that they are external to the individual entity that is being reported on.</td>
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<td></td>
<td><strong>ii.</strong> It involves a party external to the reporting entity (i.e. external to the group, segment or individual entity being reported on)</td>
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<td><strong>iii.</strong> Its notional amount is equal to the designated amount of the principal or notional amount of the hedged item</td>
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<td><strong>iv.</strong> It has a specified maturity date not later than</td>
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<td>The maturity of the financial instrument being hedged</td>
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<td>The expected settlement of the commodity purchase commitment; or</td>
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<td>The occurrence of the highly probable forecast foreign currency or commodity transaction being hedged</td>
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<td><strong>v.</strong> It has no prepayment, early termination or extension features.</td>
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| | Purchased options are **not permitted as hedging instruments**. This decision does not prevent private entities from using purchased options to hedge risks or from disclosing the effect of doing so; it only prohibits hedge accounting for those transactions. Hedging with options involves incurring a cost. SMEs are more likely to use forward contracts as hedging instruments than options. | |
| | | Purchased options can be designated as hedging instruments provided general hedging criteria are met. |

| | Hedge accounting cannot be achieved by using debt instruments (**"cash instruments"**) as hedging instruments. | IAS 39 permits this for a hedge of a foreign currency risk. |
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<td>Section 12 – Other Financial Instruments Issues</td>
<td><strong>Hedge accounting for portfolios</strong> is not permitted. Hedging portfolios adds considerable accounting complexity because of the need to remeasure all of the hedged items individually at fair value to ensure that the appropriate amounts are derecognised when the instrument is sold and to ensure that the amortisation is appropriate when an instrument is no longer being hedged.</td>
<td>Hedge accounting for portfolios is permitted if certain criteria are met.</td>
</tr>
</tbody>
</table>
| Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues | There is no specific guidance on **derivatives and embedded derivatives**. Implicitly, derivatives are measured at fair value with changes recognised in profit or loss. The Basis for Conclusions explains that even though the IFRS for SMEs does not require separate accounting for embedded derivatives, non-financial contracts that include an embedded derivative with economic characteristics not closely related to the host contract are accounted for in their entirety at fair value. | IAS 39 includes detailed guidance on derivatives:  
- Definition of derivatives and embedded derivatives  
- It states that all derivatives are initially and subsequently measured at fair value  
- Includes guidance on if, when and how embedded derivatives have to be bifurcated. |
| Section 11 – Basic Financial Instruments | Section 11 includes a list of **indicators in order to assess whether there is objective evidence of impairment** of any financial assets that are measured at cost or amortised cost. Such indicators apply to all financial assets measured at cost or amortised cost. | In addition to the types of events in paragraph 59 of IAS 39 (similar to IFRS for SMEs), objective evidence of impairment for an investment in an equity instrument includes:  
- Information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered  
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. |
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<td>Section 11 – Basic Financial Instruments</td>
<td><strong>Impairment loss for an equity instrument</strong> carried at cost (because its fair value cannot be measured reliably) is the difference between the asset’s carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold. Impairment losses can be reversed if certain criteria are met.</td>
<td>For unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. In determining the present value, estimated cash flows are discounted at the financial asset’s original effective interest rate. Such impairment losses shall not be reversed.</td>
</tr>
<tr>
<td>Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instruments Issues</td>
<td>Section 3, <em>Financial statement presentation</em> includes some general provisions in terms of reclassifications. Sections 11 and 12 do not include any specific reclassification provisions for financial instruments.</td>
<td>IAS 39 includes specific guidance on reclassifications of financial instruments.</td>
</tr>
<tr>
<td>Section 11 – Basic Financial Instruments</td>
<td>Section 11 introduces a <strong>simplified derecognition model</strong> for financial assets. The derecognition model is based on firstly a “risk and rewards” retention test and secondly on a “control test”. The “risk and rewards” retention test does not include specific “pass-through arrangements” provisions. After the control test has been performed, the model does not include the continuing involvement (i.e. partial derecognition) approach. Specific guidance for <strong>factoring transactions</strong> has been introduced.</td>
<td>The derecognition model for financial assets is based on firstly a “risk and rewards” retention test and secondly on a “control test”. The “risk and rewards” retention test includes specific provisions for “pass-through arrangements”. Where an entity neither transfers nor retains substantially all of the risks and rewards of ownership of a financial asset and retains control of an asset, the entity continues to recognise the asset to the extent of its continuing involvement. Factoring transactions are not specifically addressed. General derecognition criteria apply.</td>
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<td>Section 11 – Basic Financial Instruments</td>
<td>With regard to the derecognition of a liability, Section 11 does not include any numerical test in order to assess in cases where an existing borrower and lender exchange financial instruments with “substantially different terms”.</td>
<td>IAS 39 states that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.</td>
</tr>
<tr>
<td>Section 13 – Inventories</td>
<td>An entity shall measure inventories at the lower of cost and selling price less costs to complete and sell.</td>
<td>According to IAS 2, Inventories, inventories shall be measured at the lower of cost and net realisable value.</td>
</tr>
<tr>
<td>Section 13 – Inventories</td>
<td>SMEs can use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost.</td>
<td>Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost.</td>
</tr>
</tbody>
</table>
| Section 14 – Investments in Associates | The accounting policy for measuring an investment in an associate can be selected from:  
  - The cost model  
  - Equity method; and  
  - Fair value through profit or loss model.  
  There is one exception to this - the cost model is not permitted for an investment in an associate that has a published price quotation. The investor may still apply the cost model to its other investments in associates.  
  In applying the equity method, if there is a difference between the reporting date of the financial statements of the associate/jointly-controlled entity and those of the investor the most current information should be used. | According to IAS 28, Investments in Associates, only the equity method is allowed.  
  When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor’s financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months. |
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| **Section 14 – Investments in Associates** | If an investor **loses significant influence for reasons other than a partial disposal of its investment**, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 and 12, as appropriate. | IAS 28 does not include specific provisions when an investor loses significant influence for reasons other than a partial disposal of its investment.  
When an investment ceases to be an associate and is accounted for in accordance with IAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. |
| **Section 15 – Investments in Joint Ventures** | The **accounting policy for all jointly-controlled arrangements** (JCA) can be selected from:  
- The cost model  
- Fair value through profit or loss model  
- Equity method.  
There is one exception to this - the cost model is not permitted for an investment in a JCA that has a published price quotation. | In respect of its interests in **jointly-controlled operations**, IAS 31, *Interests in Joint Ventures* states that a venturer shall recognise in its financial statements:  
- The assets that it controls and the liabilities that it incurs; and  
- The expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.  
In respect of its interest in **jointly-controlled assets**, a venturer shall recognise in its financial statements:  
- Its share of the jointly controlled assets, classified according to the nature of the assets  
- Any liabilities that it has incurred  
- Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture  
- Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and  
- Any expenses that it has incurred in respect of its interest in the joint venture.  
A venturer shall recognise its interest in a **jointly controlled entity** using the proportionate consolidation or equity model. |
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<td>Section 15 – Investments in Joint Ventures</td>
<td>If a venturer <em>loses joint control for reasons other than a partial disposal of its investment</em>, the venturer shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 and 12 or Section 14, as appropriate.</td>
<td>From the date when a jointly-controlled entity becomes an associate or an investment under IAS 39, the investor shall measure at fair value any investment the investor retains in the former jointly-controlled entity.</td>
</tr>
<tr>
<td>Section 16 – Investment Property</td>
<td><strong>Subsequent measurement of investment property</strong> is circumstance driven rather than allowing SMEs an accounting policy choice between the cost and fair value models. If an SME can measure the fair value of an item of investment property reliably <em>without undue cost or effort</em>, it must use the fair value model. Otherwise, it must use the cost model and account for the item as Property, Plant and Equipment in accordance with Section 17.</td>
<td>IAS 40, <em>Investment property</em>, states that in terms of subsequent measurement, an entity can choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all of its investment property. After initial recognition, transfers to, or from, investment property shall be made when, and only when, there is a change in use.</td>
</tr>
<tr>
<td>Section 16 – Investment Property</td>
<td>An entity should <strong>reassess residual value</strong>, useful life and depreciation method of an asset only if there is an indication of change since the last reporting date. Section 16 provides examples of indicators that could trigger such a reassessment.</td>
<td>The residual value, useful life and depreciation method of an asset shall be reviewed at least at each financial year end.</td>
</tr>
<tr>
<td>Section 16 – Investment Property</td>
<td><strong>Mixed use property</strong> shall be separated between investment property and Property, Plant and Equipment. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as Property, Plant and Equipment in accordance with Section 17.</td>
<td>Some properties comprise a portion that is held to earn rentals or for capital appreciation (investment property portion) and another portion that is held for use in the production or supply of goods or services for administrative purposes (Property, Plant and Equipment portion). If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.</td>
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<td>Section 16 – Investment Property</td>
<td>If a <strong>reliable measure of fair value is no longer available</strong> without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item as Property, Plant and Equipment using the cost method until a reliable measure of fair value becomes available. The carrying amount of the investment property on that date becomes its cost. The transfer is considered a change of circumstances and not a change in accounting policy.</td>
<td>There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably.</td>
</tr>
</tbody>
</table>
| Section 16 – Investment Property | If the cost model is applied, SMEs are not required to provide any **disclosure of fair value**. | When the cost model is chosen as accounting policy, nevertheless, the entity shall disclose the fair value of investment property. In the exceptional cases when an entity cannot determine the fair value of the investment property reliably, it shall disclose:  
  - A description of the investment property  
  - An explanation of why fair value cannot be determined reliably; and  
  - If possible, the range of estimates within which fair value is highly likely to lie. |
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<tr>
<td>Section 16 – Investment Property</td>
<td>A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.</td>
<td>IAS 40 permits a property interest held by a lessee under an operating lease to qualify as investment property under specified conditions. Those conditions include requirements that the property must otherwise meet the definition of an investment property, and that the lessee must account for the lease as if it were a finance lease and measure the resulting lease asset using the fair value model. If an entity applies the fair value model, it must do so for all of its investment property. However, this does not mean that all eligible operating leases must be classified as investment properties.</td>
</tr>
<tr>
<td>Section 17 – Property, Plant and Equipment</td>
<td>The revaluation model is not allowed.</td>
<td>IAS 16, Property, Plant and Equipment allows entities to choose between the cost model and the revaluation model.</td>
</tr>
<tr>
<td>Section 17 – Property, Plant and Equipment</td>
<td>There is no “held for sale” classification for non-financial assets, or groups of assets and liabilities, as is required by IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Instead, the plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset’s recoverable amount for the purpose of determining whether the asset is impaired.</td>
<td>IFRS 5, Non-current Assets Held for Sale and Discontinued Operations includes specific presentation and measurement requirements for assets classified as held for sale.</td>
</tr>
<tr>
<td>Section 18 – Intangible Assets Other than Goodwill</td>
<td>The revaluation model is not allowed in any circumstances.</td>
<td>According to IAS 38, Intangible Assets, after initial recognition, an intangible asset shall be carried at a revalued amount only if fair value can be determined by reference to an active market.</td>
</tr>
<tr>
<td>Section 18 – Intangible Assets Other than Goodwill</td>
<td>All research and development costs should be recognised as an expense. Capitalisation of development costs is not an option.</td>
<td>Research costs are expensed as incurred. Development costs are capitalised where certain conditions are met.</td>
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<td>Section 19 – Business Combinations and Goodwill</td>
<td>For cost-benefit reasons, rather than conceptual reasons, <strong>goodwill and other indefinite life intangible assets</strong> should be considered to have finite lives. Therefore, such assets should be amortised over their estimated useful lives. Useful life is presumed to be 10 years where no reliable estimate is available. The assets must also be assessed for impairment using the “indicator approach”.</td>
<td>Goodwill is an indefinite life intangible asset. Goodwill and other indefinite life intangible assets are not amortised. Irrespective of whether there is any indication of impairment, an entity shall test intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill for impairment at least annually.</td>
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<tr>
<td>Section 19 – Business Combinations and Goodwill</td>
<td><strong>Business</strong>: an integrated set of activities and assets conducted and managed for the purpose of providing:  - Return to investors; or  - Lower costs or other economic benefits directly and proportionately to policyholders or participants  A business generally consists of inputs, processes applied to those inputs and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business  <strong>Business combination</strong>: the bringing together of separate entities or businesses into one reporting entity.</td>
<td><strong>Business</strong>: an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants  <strong>Business combination</strong>: a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as “true mergers” or “mergers of equals” are also business combinations as that term is used in this IFRS.</td>
</tr>
<tr>
<td>Section 19 – Business Combinations and Goodwill</td>
<td>The <strong>cost of the business combination</strong> includes any costs directly attributable to the business combination.</td>
<td>IFRS 3 states that the acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with IAS 32 and IAS 39.</td>
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| Section 19 – Business Combinations and Goodwill | The acquirer shall recognise separately the **acquiree’s identifiable intangible assets** if the following two criteria are satisfied:  
- It is probable that any associated future economic benefits will flow to the acquirer (probability recognition criterion); and  
- Its fair value can be measured reliably (reliable measurement criterion). | In accordance with IFRS 3 the fair value of an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore:  
- The probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations  
- If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion is always considered to be satisfied for intangible assets acquired in business combinations. |
| Section 19 – Business Combinations and Goodwill | In terms of **adjustments to the cost of a business combination contingent on future events**, adjustments to contingent consideration that subsequently become probable and can be measured reliably are treated as an adjustment to the cost of the combination. | Changes in the fair value of contingent consideration resulting from events after the acquisition date are accounted for as follows:  
- Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity  
- Contingent consideration classified as an asset or a liability that:  
  - Is a financial instrument and is within the scope of IAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that IFRS  
  - Is not within the scope of IAS 39 shall be accounted for in accordance with IAS 37 or other IFRSs as appropriate. |
| Section 19 – Business Combinations and Goodwill | Goodwill is recognised using the **purchased-goodwill approach**. | An entity can elect to account for goodwill using either the purchased-goodwill approach or the full-goodwill approach. This option is available on a transaction-by-transaction basis. |
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<td><strong>Section 20 – Leases</strong></td>
<td>A lessee shall recognise lease payments under <strong>operating leases</strong> (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless either (a) another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on that basis; or (b) the payments to the lessor are structured to increase in line with expected inflation. If payments to the lessor vary due to factors other than inflation, then condition (b) is not met. The Basis of Conclusions clarifies that “expected inflation” means changes in general purchasing power based on published statistics, rather than a general estimate of the lessor’s future cost increases.</td>
<td>Under IAS 17, <strong>Leases</strong>, with regard to operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on that basis.</td>
</tr>
<tr>
<td><strong>Section 21 – Provisions and Contingencies</strong></td>
<td>In addition to disclosing a description of the nature of the contingent assets at the end of the reporting period, SMEs shall, when practicable <strong>without undue cost or effort</strong>, provide an estimate of their financial effect, measured using the principles set out in Section 21. If it is impracticable to make this disclosure, that fact shall be stated.</td>
<td>Entities shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in IAS 37, <strong>Provisions, Contingent Liabilities and Contingent Assets</strong>.</td>
</tr>
<tr>
<td><strong>Section 23 – Revenue</strong></td>
<td>With regard to <strong>revenue recognition in the real estate business</strong>, the Appendix to Section 23 states that if the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the agreement shall be accounted for as the sale of goods. In this case, the agreement does not transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Rather, the transfer occurs only on delivery of the real estate to the buyer.</td>
<td>IFRIC 15, <strong>Agreements for the Construction of Real Estate</strong> states that if the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is an agreement for the sale of goods and the criteria for recognition of revenue set out in paragraph 14 of IAS 18, <strong>Revenue</strong> apply. The entity may transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. In this case, if all the criteria in paragraph 14 of IAS 18 are met continuously as construction progresses, the entity shall recognise revenue by reference to the stage of completion using the percentage of completion method. The requirements of IAS 11, <strong>Construction Contracts</strong> are generally applicable to the recognition of revenue and the associated expenses for such a transaction.</td>
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<td>Section 24 – Government grants</td>
<td><strong>The IFRS for SMEs model for government grants</strong> is based on the model in IAS 41 for government grants related to biological assets. IAS 41 distinguishes between unconditional and conditional grants. An unconditional grant is recognised as income when the grant becomes receivable; a conditional grant when the condition is satisfied.</td>
<td>A dual model: IAS 20, Accounting for Government Grants and Disclosure of Government Assistance and IAS 41, Agriculture applies.</td>
</tr>
<tr>
<td>Section 24 – Government Grants</td>
<td><strong>Government loans at a below-market rate</strong> are considered government assistance and therefore SMEs are required to provide disclosures of the transaction.</td>
<td>The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with IAS 39. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received. The benefit is accounted for in accordance with IAS 20.</td>
</tr>
<tr>
<td>Section 25 – Borrowing Costs</td>
<td>All <strong>borrowing costs</strong> are recognised as an expense as incurred. The capitalisation model is not an option.</td>
<td>IAS 23, Borrowing Costs allows only the capitalisation model.</td>
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| Section 26 – Shared-based Payment | Section 26 provides some simplifications in terms of fair value measurement of *equity-settled share-based payments* (SBPs). For equity-settled SBPs the expense should be measured on the basis of observable market prices, if available or, if not, using the directors’ best estimate of the fair value of the equity-settled SBPs. For SBP transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments, the entity should account for the transaction as a cash-settled SBP transaction unless either:  
- The entity has a past practice of issuing equity instruments; or  
- The option to settle in cash has no commercial substance.  
In the latter two circumstances, the transaction should be treated as equity settled. | Equity-settled SBPs are measured at fair value. If, in rare cases, the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, the entity is allowed to use the intrinsic value method. IFRS 2, *Share-based payments* distinguishes between SBP transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments. For SBP transactions that give the counterparty a choice of settlement in cash or equity instruments the entity has granted a compound financial instrument, which includes a debt component and an equity component. Split accounting applies. For SBP transactions that give the entity a choice of settlement in cash or equity instruments the entity should account for the transaction as a cash-settled SBP transaction unless either:  
- The entity has a past practice of issuing equity instruments; or  
- The option to settle in cash has no commercial substance.  
In the latter two circumstances, the transaction should be treated as equity settled. |
| Section 26 – Shared-based Payment | With regard to *group plans*, if a share-based payment award is granted by a parent entity to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either the IFRS for SMEs or full IFRSs, such subsidiaries are permitted to recognise and measure share-based payment expense (and the related capital contribution by the parent) on the basis of a reasonable allocation of the expense recognised for the group. Section 26 does not distinguish between cash-settled and equity-settled and if the awards have been granted by the parent or the subsidiary. | Each subsidiary shall measure the services received from the employee by reference to the fair value of the equity instruments at the date those rights to equity instruments were originally granted by the parent and the proportion of the vesting period served by the employee with each subsidiary. IFRIC 11, IFRS 2, *Group and Treasury Share Transactions*, provides detailed guidance based on whether the group awards have been granted by the parent or by the entity and whether they are cash-settled or equity-settled. |
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<td>Section 27 – Impairment of Assets</td>
<td>Section 27 includes a specific paragraph whose purpose is to provide additional relief to SMEs that cannot allocate goodwill to cash generating units (CGUs) on a non-arbitrary basis. In such cases, SMEs will have to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. For the purposes of testing goodwill the recoverable amount is determined considering: * The acquired entity in its entirety if the goodwill relates to an acquired entity which has not been integrated. Integrated means the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries * The entire group of entities, excluding any entities that have not been integrated if the goodwill relates to an entity which has been integrated.</td>
<td>Each unit or group of units to which the goodwill is so allocated shall: * Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and * Not be larger than an operating segment determined in accordance with IFRS 8, Operating Segments. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated.</td>
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<td>Section 28 – Employee Benefits</td>
<td>Section 28 introduces significant simplification with regard to how the calculation of defined benefit obligations have to be performed: * If information based on IAS 19 (projected unit credit method) is already available or can be obtained without undue cost or effort, an SME should use that method * If information based on IAS 19 is not available and cannot be obtained without undue cost or effort, SMEs apply an approach that is based on IAS 19 but does not consider future salary progression, future service, or possible mortality during an employee’s period of service. This approach still takes into account life expectancy of employees after retirement age. The resulting defined benefit pension obligation reflects both vested and unvested benefits.</td>
<td>Under IAS 19, Employee Benefits, defined benefit obligations are measured using the projected unit credit method. This method is fed with a series of assumptions, which, amongst others, comprise demographic assumptions, mortality assumptions, both during and after employment, rates of employee turnover, disability and early retirement, future salary and benefit levels, etc. Full actuarial valuation is not required at the balance sheet date, provided that an entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.</td>
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<td>Section 28 – Employee Benefits</td>
<td>All past service costs are recognised immediately in profit or loss.</td>
<td>Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.</td>
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<td>To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognise past service costs immediately.</td>
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<td>Section 28 – Employee Benefits</td>
<td>Section 28 allows two methods for recognising actuarial gains and losses:</td>
<td>Actuarial gains and losses can be recognised according to one of the following alternatives:</td>
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<td>• Immediate recognition in profit or loss; or</td>
<td>• “Corridor approach”</td>
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<td>• Immediate recognition in other comprehensive income without recycling.</td>
<td>• Use any systematic method that results in faster recognition of actuarial gains and losses in profit or loss</td>
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<td>• Recognise actuarial gains and losses in other comprehensive income in the period in which they occur.</td>
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<tr>
<td>Section 28 – Employee Benefits</td>
<td>Section 28 does not require entities to divide the return on assets into an expected return and an actuarial gain or loss.</td>
<td>IAS 19 expressly requires disclosing not just the expected return on plan assets but also the actual return on plan assets.</td>
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<tr>
<td>Section 28 – Employee Benefits</td>
<td>With regard to group plans, subsidiaries are permitted to recognise a charge based on a reasonable allocation of the group charge if the parent presents consolidated financial statements under both IFRS for SMEs or Full IFRS.</td>
<td>IAS 19 states that if sufficient information is available about a multi-employer plan which is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan.</td>
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<td>If the entity is not able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, the entity accounts for the plan as if it were a defined contribution plan. In cases where there is a contractual agreement between the multi-employer plan and its participants the participant in a multi-employer plan that accounts for the plan as a defined contribution plan because of lack of information, shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.</td>
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<td>Section 29 – Income Tax</td>
<td>Section 29 uses the approach set out in the Board’s exposure draft Income Tax, published in March 2009, which proposes a simplified replacement for IAS 12. Section 29 is based on the temporary difference approach. All deferred tax assets and liabilities to be classified as non-current.</td>
<td>IAS 12, <em>Income Taxes</em> is based on the temporary difference approach. All deferred tax assets and liabilities to be classified as non-current.</td>
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<tr>
<td>Section 29 – Income Tax</td>
<td>With regard to deferred tax assets, all such assets should be recognised and then a <em>valuation allowance</em> is used, if necessary.</td>
<td>Under IAS 12, a deferred tax asset is not recognised unless it is “probable” that it will be realised.</td>
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<tr>
<td>Section 29 – Income Tax</td>
<td>Section 29 requires that the tax basis of an asset represents the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period.</td>
<td>IAS 12 requires that the measurement of deferred tax liabilities and deferred tax assets (which would include determination of the tax base) reflects the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset.</td>
</tr>
<tr>
<td>Section 29 – Income Tax</td>
<td>The following are <em>exceptions to the general temporary difference principle</em>:  - An SME shall not recognise a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future  - The initial recognition of goodwill. Section 29 is silent on how deferred tax arising on the initial recognition of an asset or liability should be accounted for.</td>
<td>IAS 12 includes the following as exceptions to the general temporary difference principle:  - An entity shall not recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, provided that both of the following conditions are satisfied:  - The parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and  - It is probable that the temporary difference will not reverse in the foreseeable future.  - The initial recognition of goodwill  - The initial recognition of an asset or liability in a transaction which:  - Is not a business combination; and  - At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</td>
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<td>Section 29 – Income Tax</td>
<td><strong>Uncertainty</strong> about whether the tax authorities will accept the amounts reported to them by the entity affects the amount of current tax and deferred tax. An entity shall measure current and deferred tax assets and liabilities using the probability-weighted average amount of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information.</td>
<td>IAS 12 is silent.</td>
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<td>Section 30 – Foreign Currency Translation</td>
<td>SMEs are prohibited from recycling through profit or loss any <strong>cumulative exchange differences</strong> that were previously recognised in other comprehensive income, as a component of equity on disposal of a foreign operation.</td>
<td>Under IAS 21, <em>The Effects of Changes in Foreign Currency Rates</em>, on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised.</td>
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<td>Section 34 – Specialised Activities, Agriculture</td>
<td>An entity that is engaged in <strong>agricultural activity</strong> shall determine, for each of its biological assets, whether the fair value of that biological asset is <strong>readily determinable without undue cost or effort</strong>. If not, the entity shall apply the cost model for that asset.</td>
<td>IAS 41, <em>Agriculture</em> states that a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described below. There is a presumption that fair value can be <strong>measured reliably</strong> for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes <strong>reliably measurable</strong>, an entity shall measure it at its fair value less costs to sell.</td>
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| **Section 34** – Specialised Activities, Extractive Industries | An SME that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall account for expenditure on the **acquisition or development of tangible or intangible assets for use in extractive activities** by applying Section 17, *Property, Plant and Equipment* and Section 18, *Intangible Assets other than Goodwill*, respectively. | IFRS 6, *Exploration for and Evaluation of Mineral Resources* states that an entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):  
  - Acquisition of rights to explore  
  - Topographical, geological, geochemical and geophysical studies  
  - Exploratory drilling  
  - Trenching  
  - Sampling; and  
  - Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. |
| **Section 34** – Specialised Activities, Insurance | Section 34 explains that insurers hold assets in a fiduciary capacity for a broad group of outsiders. They have public accountability and, therefore, they are not included within the definition of SMEs. Consequently, IFRS for SMEs is not intended for, and should not be used by, insurers. | IFRS 4, *Insurance contracts* includes specific guidance that deals with the accounting treatment of insurance contracts. |
| **Section 35** – Transition to the IFRS for SMEs | An entity is not allowed to benefit more than once from the special **measurement and restatement exemptions** available under Section 35, for example, if the entity stops using the IFRS for SMEs for a time and then is required, or chooses, to adopt it again later. | IFRS 1, *First time adoption of IFRS* does not include a similar provision and therefore does not preclude re-using the exemptions of IFRS 1 if criteria set out in IFRS 1 are met again. |
| **Section 35** – Transition to the IFRS for SMEs | On first time adoption of this IFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for **discontinued operations**. | IFRS 1 does not allow any mandatory exception or optional exemption for the presentation of discontinued operations. |
About RSM International

RSM International is a global network of independently owned and managed professional service firms, united by a common desire to provide the highest quality of services to their clients. We exist to make a positive difference to their futures. High standards, common work ethic and clear focus make our members valuable partners for a varied client base worldwide.

Vision

For our members to be the provider of choice to internationally active growing organisations who are looking for accounting, tax, consulting and specialist advisory services that will create lasting success and help them reach their goals.

Purpose

The RSM difference lies in the close and enduring relationships between our member firms, and is grounded on the quality and commitment of our people. RSM member firms share a common belief that it is through constantly striving for excellence and by working closely together that lasting success is generated.

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