

New IFRS for SMEs amendments

Following the first revision since the inaugural IFRS for SMEs was issued in 2009, a revised standard was issued in May 2015.

The revised standard is effective for periods **beginning on or after 1 January 2017**, but early adoption of all amendments is permitted.

Application is **retrospective**, unless otherwise indicated.

The **tax requirements may be applied prospectively**.

All amendments relating to **revaluations of PPE** are to be applied **prospectively** from the effective date.

The following table reflects a **summary** of the amendments which have been effected.

<i>Area amended</i>	<i>Amendment</i>
SME definition	<ul style="list-style-type: none"> • For consolidated AFSs a group may not apply IFSR for SMEs if any of the group companies does not meet the definition of an SME. • For separate AFSs, an entity is permitted to apply IFRS for SMEs if it meets the definition of an SME regardless of whether or not its parents/subsidiaries meet the definition. • Consolidated AFSs must be prepared using financial information prepared based on the same accounting policies for all group companies.
Principle of “Undue Cost or Effort”	<ul style="list-style-type: none"> • The exemption for “undue cost or effort” is NOT to be applied as a general principle. • Whether it applies or not depends on specific circumstances of the entity and management’s judgement of the costs and benefits: <ul style="list-style-type: none"> - Consideration of the <i>cost and/or effort</i> is from the entity’s perspective, whereas consideration of the <i>benefits</i> is from the perspective of potential users. - Assessment is made at initial recognition and at each subsequent reporting date. • If an entity has applied this exemption, it must disclose the reasons why it was applied.

Consolidated and Separate Financial Statements

- If a subsidiary is **acquired for disposal** within 12 months of acquisition date, it must be measured in terms of Section 11 (Financial Instruments):
 - If the entity still controls the subsidiary after 12 months, it must consolidate the subsidiary from the original acquisition date and must restate prior period AFSs.
 - However, if it still controls the subsidiary but remains committed to disposing of it and the delay has been caused by circumstances outside its control, it will continue to apply the Section 11 accounting treatment.
- Financial information of the parent and subsidiaries used for the preparation of consolidated AFSs shall be prepared as of the same date **unless it is impracticable** to do so. In which case the most recent financial *information* (not necessarily financial *statements*) is used with adjustments for subsequent significant transactions.
- In separate AFSs, a parent may use the following accounting policies with respect to investments in subsidiaries, associates and jointly-controlled entities:
 - Fair value
 - Cost
 - Equity method

Financial instruments

- **Until** IFRS 9 becomes effective, an SME electing to apply IAS 39 is required to apply the **latest version** of that standard that is effective at its reporting date.
- **After** IFRS 9 becomes effective an SME electing to apply IAS 39 must apply the **last approved version** of that standard which will be “frozen”.
- There will be **no option to adopt IFRS 9** for entities applying IFRS for SMEs.
- The general measurement basis for **basic** financial instruments is at cost except for preference shares/ordinary shares which are publicly traded or whose fair value can be measured reliably without “undue cost of effort”.
- **Basic** financial instruments may now contain early settlement provisions contingent on future events.
- **Basic** financial instruments are measured initially at transaction price including transaction costs (for instruments at fair value, exclude transaction costs) **UNLESS** the arrangement is in effect a **financing transaction**, in which case the basic financial instrument shall be measured at the *present value of the future cash flows discounted at the market rate for a similar debt instrument*.
 - A financing transaction may take place if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate, **including** interest free loans.

	<ul style="list-style-type: none"> • A price quoted in an active market is best evidence of fair value. • Cost may be used when the fair value (on an equity instrument) is not reliably measurable without “undue cost or effort”. • Other financial instruments are initially measured at fair value, which is normally the <i>transaction price</i>. • Other financial instruments are subsequently measured at fair value through profit or loss except equity instruments that are not publicly traded and whose fair value cannot be reliably measured without “undue cost or effort”, which are measured at cost less impairment.
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Associates and Joint Ventures</p>	<ul style="list-style-type: none"> • An investment in associate or jointly controlled entity is measured by using one of the following: <ul style="list-style-type: none"> - Cost - Fair value - Equity accounting • When using the fair value model, subsequent measurement occurs at fair value at each reporting date, with changes to profit and loss, unless fair value cannot be determined without “undue cost or effort”.
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Investment Property</p>	<ul style="list-style-type: none"> • Investment property that is carried at cost less accumulated depreciation and impairment is separately presented on the face of the Statement of Financial Position. <i>Previously</i> such items were presented as part of Property, Plant and Equipment. • A reconciliation of the opening and closing carrying amounts of Investment Property must be disclosed, which must now also include transfers to and from Investment Property carried at cost less accumulated depreciation and amortisation.

Property, Plant and Equipment

- An entity may elect to measure PPE using **either** the Cost or Revaluation models.
- The selected policy is to be applied to the entire class of PPE.
- **Revaluation** surpluses/deficits arising from PPE must be recognised outside of profit and loss in **Other Comprehensive Income**.
- Items of Other Comprehensive Income are presented by separately disclosing those items that will be reclassified in future periods and those that will not:
 - Changes in foreign currency translation reserves (FCTR);
 - Actuarial gains/losses on defined benefit plans;
 - Cash flow hedge gains or losses;
 - Revaluation surpluses/deficits arising from PPE.
- Spare parts, stand-by equipment and servicing equipment are carried as PPE if they meet the definition. Where these items do not meet the definition, they are classified as inventory.
- The carrying amount of a replacement part (parts which add incremental benefit to an asset) is **derecognised** from the item of PPE irrespective of whether it was separately depreciated or not.
- The carrying amount of the replaced item may be **estimated by using the cost of the new item as an estimate** of the original item's cost.
- The following items must be **disclosed**:
 - The effective date of any revaluations
 - Whether independent valuers were used
 - Methods and significant valuation assumptions applied
 - What the carrying amount of revalued items would have been if the cost model had been applied
 - The revaluation surplus and any restrictions on the distribution of the surplus.

Intangible assets
(other than goodwill)

- Intangible assets may now also be *acquired* via **business combinations**.
- Where an intangible asset is acquired through a business combination, initial measurement is at fair value **unless** the fair value cannot be reliably measured without "undue cost or effort".
- All intangible assets are deemed to have a finite life, but if the useful life cannot be established reliably, the useful life should be based on management's best estimate **not exceeding 10 years**.

Business Combinations and Goodwill

- The requirements of this section **do not** apply to entities under the common control of the same party/parties both before and after the business combination.
- Develop **entity-specific** accounting policy for commonly controlled business combinations using guidance in the Accounting Policy section.
- For goodwill recognised on any business combinations completed during the year, an entity must disclose a **qualitative description** of the factors that make up goodwill.
- If the useful life of goodwill cannot be established reliably, the useful life must be based on management's best estimate **not exceeding 10 years**.
- An entity must **disclose** the useful life of its goodwill.
- Net assets acquired in a business combination must be measured at fair value **except**:
 - Deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in a business combination (*recognised and measured in accordance with Section 29: Income Tax*)
 - Liabilities related to the acquiree's employee benefit arrangements (*recognised in accordance with Section 28: Employee Benefits*)
- Non-controlling interests in an acquiree are measured at the non-controlling interest's proportionate share of the acquiree's **net assets**.

Liabilities and Equity

- An entity shall classify a financial instrument as a financial liability or as equity in accordance with the substance of the contractual arrangement, **not merely its legal form**, and in accordance with the definitions of a financial liability and an equity instrument. Unless an entity has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity instruments in accordance with paragraph 22.4.
- Some financial instruments that meet the definition of a liability are classified as equity as they represent a residual interest in the net assets of the entity.
- An entity measures equity instruments issued (other than in a business combination) at the fair value of the consideration receivable net of transaction costs:
 - If payment is deferred and the time value of money is material, the initial measurement is at the present value of the amounts receivable.

- An entity may renegotiate terms with creditors resulting in the extinguishment of liabilities, fully or partially, by issuing equity instruments:
 - The difference between the fair value of the equity instruments and carrying amount of the extinguished liability is recognised in profit or loss.
 - If the fair value of the equity instrument cannot be measured reliably without “undue cost or effort”, it is assumed to equal the fair value of the liability.
- Where an entity distributes non-cash assets to shareholders, it recognises a liability for the dividends payable at the fair value of the non-cash assets with a corresponding debit to equity:
 - Where the fair value of the assets cannot be determined reliably without “undue cost or effort” the liability is measured at the carrying amount of the non-cash assets.
 - If subsequently the fair value becomes determinable, the liability and amount in equity is adjusted accordingly.
 - On settlement the difference between the fair value of the liability and the carrying amount of the non-cash assets distributed is recognised in profit or loss.

Share-based Payment

- If the identifiable consideration received appears to be **less** than the fair value of the equity instruments granted or the liability incurred, this may indicate that **other** consideration (ie unidentifiable goods or services) has been or will be received.
- An entity applies this IFRS in accounting for **all** share-based payment transactions, *whether or not* the entity can identify specifically some or all of the goods or services received.
- For group share-based payment arrangements, group entities may measure the share-based payment on the basis of the **consolidated group expense** allocated on a reasonable basis.

Income Tax

- This section has been aligned with the taxation standard in full IFRS.
- The **tax base of an asset** is the amount attributed to that asset for tax purposes:
 - The amount that will be *deductible* for tax purposes against any *taxable economic benefits* that will flow to the entity when it *recovers* the carrying amount of the asset.
- The **tax base of a liability** is the amount attributed to that liability for tax purposes:
 - The *carrying amount*, **less** any amount that will be *deductible for tax purposes* in respect of that liability in future periods.
- In the case of **revenue received in advance**, the tax base of the resulting liability is its *carrying amount less* any amount of the revenue that will *not be taxable* in future periods.
- **Deferred tax liabilities** are amounts of income taxes payable in future periods in respect of *taxable* temporary differences (carrying amount > tax base).
- **Deferred tax assets** are amounts of income taxes payable in future periods in respect of *deductible* temporary differences (carrying amount < tax base)
- As a general principle, deferred tax assets are **only** recognised **if** there is a reasonable expectation of their recovery or utilisation.
- Deferred tax assets/liabilities should not be discounted.
- Deferred tax assets for tax losses or unused tax credits should only be recognised to the **extent that it is probable** that future taxable profits will be available against which to utilise it (***the impairment allowance on deferred tax assets is no longer in the Standard***).
- If a deferred tax liability/asset arises from a **non-depreciable asset**, the measurement of the deferred tax liability/asset reflects the tax consequences of recovering the carrying amount of the asset through sale.
- The following offsets are permissible:
 - Current tax assets and current tax liabilities
 - Deferred tax assets and deferred tax liabilities

Basic Procedures

- **If and only if** the entity has a legally enforceable right to set off the amounts **and** it can be demonstrated without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.
- If an entity **does not offset** tax assets and liabilities because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, then it is required to disclose:
 - The amounts that have not been offset and
 - The reasons why applying the requirement would involve undue cost or effort.
- Upon applying IFRS for SMEs for the first time:
 - Recognise all assets & liabilities in terms of the IFRS Standard
 - Derecognise any assets & liabilities not required by the standard
 - Reclassify items that need reclassification in terms of the standard
 - Apply the measurement principles of the IFRS for SMEs to all recognised assets & liabilities

New Requirements

- An entity can be a first-time adopter of IFRS for SMEs **more than once**, provided its last set of financial statements were prepared on some other framework.
- Any government loans (usually below market) are to be accounted for in terms of Basic/Other Financial Instruments and Government Grants prospectively at the date of transition.
- An entity may use event-driven fair value measurement at transition as deemed cost. The event may be:
 - At or before transition to the Standard
 - After the date of transition but during the periods covered by the first financial statements under the Standard.
- If an entity has operations that are subject to rate regulation, it may elect to measure its PPE and Intangible Assets that are related to those operations at the previous GAAP carrying amount:
 - If applied, this option need not be applied to all other assets owned
 - An impairment test on the assets will be required at date of transition.
- If an entity uses a currency that was subject to severe hyperinflation:
 - May elect to measure all assets & liabilities at fair value if the date of transition is on or after the functional currency normalisation date
 - If the functional currency normalisation date falls within a twelve month comparative period, may use a comparative period of less than twelve months, provided that a complete set of financial statements is provided for that shorter period.

Additional Disclosure

- Where an entity that has applied the Standard in a previous period moves off it and readopts it, it should disclose:
 - The reason it stopped applying the Standard,
 - The reason it is resuming its application,
 - Whether it has gone through first-time adoption or has applied the Standard retrospectively.