Purpose of the Standard
Simplifications from full IFRS
Training Materials
Purpose of the IFRS for SMEs

» Offers small and medium businesses a simpler option in a common language of financial reporting;

» Improves access to credit via:
  • supporting lending based on financial statements
  • allowing vendors evaluate finances of buyers
  • simplifying access to foreign loans and suppliers

» Facilitates access to equity capital: non-management investors, foreign venture capital;

» Availability of education and training;

» Opening auditing efficiencies;

» Reducing burden where full IFRSs is required;
Tailored for SMEs: takes into consideration user needs, costs and SME capabilities;

Much smaller: 230 pages vs 3,000 in full IFRSs;

Standalone standard:
- the only ‘fallback’ option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs;

Organized by topic;

Released with the IFRS for SMEs:
- illustrative financial statements
- presentation and disclosure checklist.

Easier to follow maintenance & updates: once every 3 years (approx), amendments expected in H1 2015.
Key Features:

» Omits everything in IFRS if likely to be irrelevant;
» Use simpler available options;
» Make recognition and measurement more straightforward;
» Reduce disclosures (10% of full IFRS);
» Make the financial statements easier to draft;
» Where no specific guidance is included, entity may (not must) consider full IFRS requirements and guidance;
The Standard contains two types of simplification of accounting treatments:

- Accounting policy options contained in full IFRS are not permitted - the simpler SME option is generally prescribed
- Prescribed recognition and measurement provisions in full IFRS are simplified

This Presentation discusses only key simplifications.
Financial Instruments (Section 11 and 12)

- Choice allowed:
  - Application of rules in IFRS for SMEs, or
  - Full recognition & measurement principles of IAS 39

- Specifies which financial instruments are basic financial instruments (scope of Section 11)

- Use an amortised cost-impairment model
  - except fair value through profit or loss for equity investments with quoted price or whose fair value can otherwise be reliably measured

- Guidance provided on fair value and effective interest method

- Disclosure requirements will always be those from IFRS for SMEs
• Measure at lower of
  – cost
  – estimated selling price less costs to complete and sell
• Cost may be
  – specific identification in specified cases, e.g. if items are not ordinarily interchangeable
  – FIFO or weighted average for others
• May use cost model, or fair value model, or equity accounting.
• If published quotation is available, must use fair value through profit and loss
• If fair value model is impracticable, use cost
• No proportional consolidation
• Property, plant and equipment - No option of revaluation

• PPE and Intangibles - No annual review of residual value, useful life, or depreciation method: only review if indicator of change

• Investment property - at fair value only if can be measured reliably without undue cost or effort on an on going basis

• Otherwise, must treat investment property as property, plant and equipment using Section 17
• Always amortize over estimated useful lives

• Ten years if cannot estimate reliably

• Impairment review only if indicator of impairment

• No option of revaluation (Section 18)

• Internally generated intangible assets: Expense, unless forms part of another asset meeting criteria for recognition under the Standard
• Inventories – lower of cost and selling price less costs to complete and sell

• Other assets – write down to recoverable amount, if below carrying amount

• Recoverable amount = greater of fair value less costs to sell and value in use

• Section 27 does not cover specified assets:
  – e.g. deferred tax, employee benefits, financial assets (Sec’s 11 and 12), investment property & biological assets carried at fair value.
Other Notable Simplifications

- Borrowing costs - always expensed (Section 25);

- Biological assets in agriculture – use fair value if readily determinable without undue cost or effort otherwise use historical cost model (Section 34);

- Exchange differences - no recycling to profit or loss on disposal, therefore no tracking required (Section 30)
• Implementation guidance includes:
  ➢ Illustrative financial statements
  ➢ Presentation and disclosure checklist

• Statement of full compliance with the Standard required
• Must provide *at least* one year of comparatives
• Accounting Policies must include:
  ➢ Basis of preparation (including statement of compliance with IFRS for SMEs)
  ➢ Significant policies including information regarding critical judgments and key sources of estimation uncertainty
Training Materials: free self-study available

- 35 stand alone modules (1 for each section of the IFRS for SMEs)
- English, Spanish, several other languages
- Training material = +2,000 A4 pages
- Free to download
- Self study
- Each module includes explanation of the requirements
  - Full text of the requirements
  - ‘How to’ numerical examples
  - Other explanations
- Discussion of important judgments
- Comparison with full IFRSs
- Multiple choice quiz and case studies
Training Materials: free self-study available

• *IFRS for SMEs* (full standard, translations)  
  [http://go.ifrs.org/IFRSforSMEs](http://go.ifrs.org/IFRSforSMEs)
• Training materials (35 modules)  
  [http://go.ifrs.org/smetraining](http://go.ifrs.org/smetraining)
• PowerPoint training modules (20 PPTs)  
  [http://go.ifrs.org/trainingppts](http://go.ifrs.org/trainingppts)
• Board and staff presentations  
  [http://go.ifrs.org/presentations](http://go.ifrs.org/presentations)
• Update newsletter  
  [http://go.ifrs.org/smeupdate](http://go.ifrs.org/smeupdate)
• Executive briefing booklet  
  [http://go.ifrs.org/SMEguide](http://go.ifrs.org/SMEguide)