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IFRS for SMEs (proposals)

Pocket Guide 2007

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IFRS for SMEs (proposals)

Pocket guide 2007

This pocket guide provides a summary of the recognition and measurement requirements in the proposed 'IFRS for Small and Medium-Sized Entities' published by the International Accounting Standards Board in February 2007.

The information in this guide is arranged into nine sections:

1. Accounting framework of the IFRS for SMEs
2. Financial statements
3. Assets and liabilities
4. Business combinations, consolidated financial statements, and investments in associates and joint ventures
5. Equity
6. Income and expenses
7. Currencies
8. Topics cross-referenced to full IFRS
9. Transition to the IFRS for SMEs

Introduction

This pocket guide has been produced for potential users of International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs). An IFRS for SMEs has clear benefits for investors, lenders and those seeking to raise finance through the transparency afforded by a consistently applied, global set of financial reporting standards. Such benefits are not confined to the financial statements of entities with securities traded on public capital markets.

The exposure draft of the IFRS for SMEs was published in February 2007. The deadline for comments is 1 October 2007. It ultimately will be a matter for authorities in each territory to decide which entities are permitted or even required to apply IFRS for SMEs.

One aim of the IFRS for SMEs is to provide a standard for entities in countries that have no national GAAP. IFRS for SMEs will provide an accounting framework in such countries for entities that are not of the size nor have the resources to adopt full IFRS.

A second aim is to provide countries that already have an established national GAAP with an alternative, IFRS-based set of standards that will be recognised and understood across different territories. This will ease transition to full IFRS for growing entities once they become publicly accountable.

The volume of accounting guidance has been reduced by more than 85% compared with the full set of IFRSs. The material omitted from full IFRS includes much of the implementation guidance. Also omitted are the detailed explanation and requirements relating to the more complex circumstances not usually applicable to SMEs. The IFRS for SMEs does not just reduce disclosure requirements; it simplifies recognition and measurement requirements as well.

'Small and medium-sized entities' has different meanings in different territories. The definition in the context of the IFRS for SMEs is entities that do not have public accountability but that publish general purpose financial statements. Every entity has some form of accountability, if only to its owners and the local tax authorities. Public accountability is defined to cover entities with or seeking to have securities traded in a public market or that hold assets in a fiduciary capacity. The definition is therefore based on the nature of an entity rather than on its size.

It is generally assumed that SMEs will not have particularly complex transactions; some of the topics in full IFRS are therefore omitted. When there is a policy choice, the IFRS for SMEs generally adopts the simpler option. The other options are permitted by cross-reference to full IFRS and are available to SMEs as an accounting policy option.

Where a transaction is not addressed by the IFRS for SMEs, entities are expected to use judgement in deciding what policy to adopt. If such a transaction is covered in full IFRS, they may refer to the appropriate international standard if they wish but are not required to do so by the IFRS for SMEs.

This pocket book looks at the key areas covered by the IFRS for SMEs and explains, as simply as possible, the basic requirements. It is written primarily for those who have little or no knowledge of full IFRS, but who have a reasonable understanding of basic accounting concepts and terminology.

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1. Accounting framework of the IFRS for SMEs

1.1 Scope

Any entity that publishes general purpose financial statements for external users and does not have public accountability can use the IFRS for SMEs. An entity has 'public accountability' if it files or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders. Banks, insurance entities, securities brokers and dealers and pension funds would be examples of entities that hold assets in a fiduciary capacity for a broad group of outsiders.

1.2 Historical cost

Historical cost is the main accounting convention. Items are usually accounted for at their historical cost. However, the IFRS for SMEs permits the revaluation of intangible assets, property, plant and equipment, and investment property to fair value. IFRS for SMEs also requires certain categories of financial instrument and other biological assets to be valued at fair value. All items, other than those carried at fair value through profit or loss, are subject to impairment.

1.3 Concepts

Financial statements are prepared on an accruals basis and on the assumption that the entity is a going concern and will continue in operation in the foreseeable future (which is at least, but is not limited to, 12 months from the balance sheet date).

The principal qualitative characteristics that make the information provided in financial statements useful to users are understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and achieving a balance between benefit and cost.

Information is material if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size of the omission or misstatement judged in the particular circumstances.

1.4 Fair presentation

Financial statements should show a true and fair view, or present fairly the financial position, of an entity's performance and changes in financial position. This is achieved by applying the appropriate IFRS for SMEs and the principal qualitative characteristics outlined in Section 1.3 above.

Entities are permitted to depart from the IFRS for SMEs only if management concludes that compliance with one of the requirements would be so misleading as to conflict with the objective of the financial statements. The nature, reason and financial impact of the departure should be explained in the financial statements. The override does not apply where there is a conflict between local company law and the IFRS for SMEs.

1.5 First-time adoption

The first-time adopter of the IFRS for SMEs is an entity that presents its first annual financial statements that conform to the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRS or another set of generally accepted accounting principles.

First-time adoption requires full retrospective application of the IFRS for SMEs effective at the reporting date for an entity's first IFRS financial statements. There are six specific exemptions, one general exemption and four exceptions to the requirement for retrospective application.

A first-time adopter of the IFRS for SMEs does not change the accounting that it followed previously for derecognition of financial assets and financial liabilities, hedge accounting, estimates and assets classified as held for sale and discontinued operations.

The six optional exemptions are to the requirement for retrospective application. The exemptions relate to business combinations; fair value as deemed cost for property, plant and equipment; cumulative translation differences; compound financial instruments; share-based payment transactions; and deferred income taxes.

The general exemption is on grounds of impracticability. 'Impracticable' is defined in the glossary to be 'when the entity cannot apply it after making every reasonable effort to do so'.

Comparative information is prepared and presented on the basis of the IFRS for SMEs. Adjustments arising from the first-time application of the IFRS for SMEs are recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to the IFRS for SMEs.

1.6 Selection of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Where the IFRS for SMEs does not specifically address a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy. This information must be relevant to the users' needs and reliable. 'Reliability' means that the financial statements represent faithfully the financial position, financial performance and cash flows of the entity, reflect the economic substance of transactions, and are neutral, prudent and complete in all material respects (See Section 2.6).

2. Financial statements

The objective of financial statements is to provide information for economic decisions. A complete set of financial statements comprises a balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes (including accounting policies).

There is no prescribed format for the financial statements. However, the Implementation Guidance for the IFRS for SMEs includes a full illustrative set of financial statements and a disclosure checklist. There are minimum disclosures to be made on the face of the financial statements as well as in the notes.

Financial statements disclose corresponding information for the preceding period ('comparatives'), unless there are other specific requirements.

2.1 Balance sheet

The balance sheet presents an entity's financial position at a specific time.

Items presented on the face of the balance sheet

The following items, as a minimum, are presented on the face of the balance sheet.

Assets – Property, plant and equipment (PPE); intangible assets; financial assets; investments accounted for using the equity method; biological assets; deferred tax assets; current tax assets; inventories; trade and other receivables; and cash and cash equivalents.

Equity – Equity attributably to shareholders of the parent; and minority interest presented separately from parent shareholder equity interests.

Liabilities – Deferred tax liabilities; current tax liabilities; financial liabilities; provisions; and trade and other payables.

Assets and liabilities held for sale – The total of assets classified as held for sale and assets included in disposal groups classified as held for sale; and liabilities included in disposal groups classified as held for sale (see Section 3.8).

Current/non-current distinction

Current and non-current assets and current and non-current liabilities are presented as separate classifications on the face of the balance sheet, unless presentation based on liquidity provides reliable and more relevant information.

An asset is classified as current if it is expected to be realised, sold or consumed in the entity's normal operating cycle (irrespective of length); primarily held for the purpose of being traded; expected to be realised within 12 months after the balance sheet date; or cash and cash equivalent (without restrictions beyond 12 months after the balance sheet date).

A liability is classified as current if it is expected to be settled in the entity's normal operating cycle; primarily held for the purpose of being traded; due to be settled within 12 months after the balance sheet date; or the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.2 Income statement

The income statement presents an entity's income and expenses over a specific period of time.

Items to be presented on the face of the income statement

The following items, as a minimum, are presented on the face of the income statement: revenue; finance costs; share of the profit or loss of associates and joint ventures accounted for using the equity method; tax expense; a single item comprising the total of (1) the post-tax profit or loss of discontinued operations, and (2) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and profit or loss for the period.

Profit or loss for the period is allocated on the face of the income statement to the amount attributable to minority interest and to the parent's equity holders.

Additional line items or subheadings are presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.

An analysis of total expenses is presented either on the face of the income statement or in the notes, using a classification based on either the nature or function of expenses.

Exceptional and extraordinary items

The IFRS for SMEs does not use the term 'exceptional items'. However, it requires the separate disclosure of items of income and expenses that are material. Disclosure may be on the face of the income statement or in the notes. Such income and expenses may include restructuring costs; write-downs of inventories or PPE; discontinued operations; litigation settlements; reversals of provisions; and gains or losses on disposals of PPE and investments.

Extraordinary items are not permitted.

2.3 Statement of changes in equity

The statement of changes in equity presents a reconciliation of equity items between the beginning and end of the period.

The following items are presented on the face of the statement of changes in equity:

(a) profit or loss for the period;
(b) each item of income or expense recognised directly in equity (for example, revaluation gains on PPE, currency translation differences arising on the translation of the financial statements from the functional to the presentation currency) and their total;
(c) total income and expense for the period (the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and
(d) for each component of equity, the effects of changes in accounting policies and corrections of material prior-period errors.

Details of distributions, the balance of retained earnings and a reconciliation of the carrying amount of each class of equity and each item recognised directly in equity are presented either on the face of the statement of changes in equity or in the notes to the financial statements.

2.4 Statement of income and retained earnings

If the only changes to the equity of an entity during the period are a result of profit or loss, payment of dividends, correction of prior-period errors or changes in accounting policy, the entity is permitted to present a statement of income and retained earnings in place of both an income statement and a statement of changes in equity.

The following items must be presented on the face of the statement of income and retained earnings:

- retained earnings at the start of the period;
- dividends declared and paid or payable during the period;
- restatement of retained earnings for correction of prior-period errors;
- restatement of retained earnings for changes in accounting policy; and
- retained earnings at the end of the period.

2.5 Cash flow statement

The cash flow statement presents the generation and use of cash by category (operating, investing and finance) over a specific period of time.

Operating activities are the entity's revenue-producing activities. Investing activities are the acquisition and disposal of non-current assets (including business combinations) and investments. Financing activities are changes in the equity and borrowings.

Entities may present their operating cash flows by using either the direct method (gross cash receipts and payments) or the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital).

Non-cash transactions include impairment losses or reversals, depreciation, amortisation, unrealised fair value gains and losses, and income statement charges for provisions.

Cash flows from investing and financing activities are reported separately gross (ie, gross cash receipts and gross cash payments).

2.6 Accounting policies, estimates and errors

Where the IFRS for SMEs does not address a transaction, other event or condition, management should use its judgement in developing and applying an accounting policy that results in information that meets the qualitative characteristics outlined in Section 1. If there is no relevant guidance, management should consider the applicability of the following sources, in descending order: the requirements and guidance in the IFRS for SMEs on similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in Section 2. Management may also consider full IFRS, the most recent pronouncements of other standard-setting bodies, other accounting literature and accepted industry practices to the extent that these do not conflict with the concepts in the IFRS for SMEs and its Framework.

Management should choose and apply consistently one of the available accounting policies. Accounting policies are applied consistently to similar transactions and events.

Changes in accounting policies

Changes in accounting policies as a result of an amendment to the IFRS for SMEs standard are accounted for in accordance with the transition provisions of that amendment. If specific transition provisions do not exist, management follows the same procedures as for correction of prior-period errors explained below.

If the IFRS for SMEs provides a choice of accounting policy for a specific transaction, and an entity changes its choice, this is a change of accounting policy.

Critical accounting estimates and judgements

An entity discloses the nature and carrying amount of those assets and liabilities in which judgements, estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts within the next financial period.

Changes in accounting estimates

Changes in accounting estimates are recognised prospectively by including the effects in profit or loss in the period that is affected (ie, the period of the change and future periods) except if the change in estimate gives rise to changes in assets, liabilities or equity. In this case, it is recognised by adjusting the carrying amount of the related asset, liability or equity in the period of the change.

Corrections of prior-period errors

Errors may arise from mistakes and oversights or misinterpretation of available information.

Material prior-period errors are adjusted retrospectively (ie, by adjusting opening retained earnings and the related comparatives). There is an exception when it is impracticable to determine either the period-specific effects or the cumulative effect of the error. In the latter case, management corrects such errors prospectively from the earliest date practicable.

The error and effect of its correction on the financial statements are disclosed.

2.7 Notes to the financial statements

The notes are an integral part of the financial statements. Information presented in an entity's balance sheet, income statements, statement of changes in equity (or statement of income and retained earnings) and cash flow statement are cross-referenced to the relevant notes where possible.

Notes provide additional information to the amounts disclosed on the face of the primary statements. The following disclosures are included, as a minimum, within the notes to the financial statements:

- a statement of compliance with the IFRS for SMEs;
- accounting policies;
- critical accounting estimates and judgements;
- and information not presented in the primary statements but required by the IFRS for SMEs.

Entities also disclose, where applicable, changes in accounting policies, changes in accounting estimates and information about externally imposed capital requirements.

An entity is permitted to provide additional information that is not explicitly required by the IFRS for SMEs in the notes provided it is relevant to an understanding of the financial statements.

2.8 Related parties

Related parties include:
- subsidiaries;
- fellow subsidiaries;
- associates;
- joint ventures,
- key personnel of the entity and its parent (which include close members of their families);
- parties with control or joint control or significant influence over the entity (which include close members of their families, where applicable); and
- post-employment benefit plans.

Related parties exclude, for example, finance providers and governments in the course of their normal dealings with the entity.

The names of the immediate parent and the ultimate controlling parties (which could be an individual or a group of individuals) are disclosed irrespective of whether there have been transactions with those related parties.

Where there have been related-party transactions, disclosure is made of the nature of the relationship, the amount of transactions, and outstanding balances and other elements necessary for a clear understanding of the financial statements (for example, volume and amounts of transactions, amounts outstanding and pricing policies). The disclosure is made by certain categories of related party and by major types of transaction. Items of a similar nature may be disclosed in aggregate (for example, short-term employee benefits) except when separate disclosure is necessary for an understanding of the effects of related-party transactions on the reporting entity's financial statements.

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

2.9 Events after the end of the reporting period

Events after the end of the reporting period may qualify as adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the end of the reporting period. Non-adjusting events relate to conditions that arose after the end of the reporting period.

Dividends proposed or declared after the end of the reporting period are not recognised as a liability at the balance sheet date.

Management discloses the date on which the financial statements were authorised for issue and who gave that authorisation. If the owners or other persons have the power to amend the financial statements after issue, this fact is also disclosed.

3. Assets and liabilities

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The recognition of an asset or a liability depends on whether it is probable that any future economic benefit associated with the item will flow to or from the entity, and whether the item has a cost or value that can be measured reliably.

3.1 Non-financial assets

Inventories

Inventories are initially recognised at cost. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and conditions.

Cost of purchase of inventories includes the purchase price, import duties, non-refundable taxes, transport and handling costs and any other directly attributable costs less trade discounts, rebates and similar items.

Subsequently inventories are valued at the lower of cost and selling price, less costs to complete and sell.

The cost of inventories used is assigned by using either the first-in, first-out (FIFO) or weighted average cost formula. Last-in, first-out (LIFO) is not permitted. The same cost formula is used for all inventories that have a similar nature and use to the entity. Where inventories have a different nature or use, different cost formulas may be justified.

Investment property

Investment property is a property (land or a building, or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. A property interest held for use in the production or supply of goods or services or for administrative purposes is not an investment property; nor is an interest held for sale in the ordinary course of business.

Initial measurement

The cost of a purchased investment property is its purchase price plus any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs.

Subsequent measurement

An entity may choose, as its accounting policy, to carry all its investment properties at fair value or at cost. However, when an investment property is held by a lessee under an operating lease, the entity follows the fair value model for all its investment properties.

The fair value model requires measurement of all of the investment properties at fair value. The entity then has to apply IAS 40, Investment Property, in full in respect of these properties.

The cost model is consistent with the treatment of PPE (see below). Under this model, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

Transfers to or from investment property apply when the property meets or ceases to meet the definition of an investment property.

Property, plant and equipment

Property, plant and equipment (PPE) are tangible assets that (a) are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.

Initial measurement

PPE is measured initially at cost. Cost includes: (a) purchase price, including legal and brokerage fees, import duties and other non-refundable taxes (net of discounts and rebates); (b) any directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which its is located.

Subsequent measurement

Classes of PPE are carried at cost less accumulated depreciation and any accumulated impairment losses (the cost model), or at a revalued amount less any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model). The depreciable amount of an item of PPE (being the gross carrying value less the estimated residual value) is depreciated on a systematic basis over its useful life.

PPE may have significant parts with different useful lives. Depreciation is calculated based on each individual part's life. Significant parts that have the same useful life and depreciation method may be grouped in determining the depreciation charge.

The cost of a major inspection or replacement of parts of an item occurring at regular intervals over its useful life is capitalised to the extent that it meets the recognition criteria of an asset. The carrying amount of the previous inspection or parts replaced is derecognised.

Revaluation

Entities using the revaluation model should refer to IAS 16, Property, Plant and Equipment, for the detailed requirements.

Intangible assets other than goodwill

An intangible asset is an identifiable non-monetary asset without physical substance. The identifiability criterion is met when the intangible asset is separable (ie, it can be sold, transferred, licensed, rented or exchanged), or where it arises from contractual or other legal rights.

Recognition

Expenditure on intangibles is recognised as an asset when it meets the recognition criteria of an asset.

Initial measurement of separately acquired intangible assets

Intangible assets are measured initially at cost. Cost includes (a) the purchase price (including import duties and non-refundable purchase taxes, net of trade discounts and rebates), and (b) any costs directly attributable to preparing the assets for its intended use.

Internally generated intangible assets

Intangible assets arising from the research phase of an internal project are not recognised. Intangible assets arising from the development phase of an internal project after specified criteria are met may be recognised. An entity has an accounting policy choice between the expense model and the capitalisation model for such development costs.

Entities choosing the capitalisation model follow the requirements of IAS 38, Intangible Assets. The recognition criteria are strict. This means that most costs relating to internally generated intangible items cannot be capitalised and are therefore recognised as an expense as incurred. Examples of such costs include start-up costs, training, advertising and relocation costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles and items similar in substance are not recognised as assets.

Subsequent measurement

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (the cost model), or at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated amortisation and impairment losses (the revaluation model). The revaluation model requires entities to follow IAS 38.

Intangible assets (including those that are revalued) are amortised unless they have an indefinite useful life. Indefinite does not necessarily mean infinite. Amortisation is carried out on a systematic basis over the useful lives of the intangibles. The residual value of such assets at the end of their useful lives must be assumed to be zero, unless there is either a commitment by a third party to purchase the asset or there is an active market for the asset.

3.2 Financial instruments

An entity has a choice of either applying the provisions of paragraph 11 of the IFRS for SMEs or IAS 39, Financial Instruments: Recognition and Measurement.

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial instrument is recognised when the entity becomes a party to its contractual provisions.

All financial instruments are measured at fair value through profit or loss, unless they meet certain tightly defined criteria – for example, (1) a specified maturity date or due on demand, (2) a return is a fixed amount, or fixed rate or a variable rate observable on the market, and (3) there is no prepayment option. If the financial instruments meet all the criteria listed plus certain others listed in the IFRS for SMEs, they are measured at cost or amortised cost, less impairment.

Financial instruments at amortised cost are measured using the effective interest method and include transaction costs and any premium and discount. At the end of each reporting period, financial instruments measured at cost or amortised cost are reviewed for objective evidence of impairment. Impairment losses are recognised in profit or loss. If the objective evidence reverses in a subsequent period, impairment losses are reversed in the profit or loss of subsequent periods.

The best evidence of fair value is a quoted price in an active market. If the market for a financial instrument is not active, an entity estimates fair value by using a valuation technique. Such techniques are discussed in paragraph 11.14 and Appendix B of the IFRS for SMEs.

For the purpose of applying the principles of measurement of the IFRS for SMEs to a compound financial instrument, an entity first separates the liability component.

Derecognition of financial assets

An entity only derecognises a financial asset when:

- the rights to the cash flows from the assets have expired or are settled;
- the entity has transferred substantially all the risks and rewards relating to the financial asset; or
- it has retained some significant risks and rewards but has transferred control of the asset to another party. In this case, the asset is derecognised, and any rights and obligation created or retained are recognised.

Similar requirements apply to non-cash collateral.

Derecognition of financial liabilities

Financial liabilities are derecognised only when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Hedge accounting

An entity may establish a hedging relationship, designating a hedging instrument and a hedged item in such a way that the criteria below are met. The entity may use hedge accounting in such cases. This means that the gain or loss related to the hedged risks on the hedging instrument and on the hedged item are recognised in profit or loss at the same time.

To qualify for hedge accounting, an entity:

- documents at the inception of the hedge the relationship between designated hedging instruments and hedged items;
- identifies the risk hedged as:
  - an interest rate risk; or
  - a foreign exchange rate in a firm commitment or a highly probable forecast transaction, or in a net investment in a foreign operation; or
  - a price risk of a commodity; and
- selects the hedging instrument within a narrow range of derivative financial instruments which meet tight conditions, including being issued by an external party, having their notional amount equalling the designated amount of the hedged item, a specified maturity date and no prepayment, early termination or extension features.

The entity documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting can be applied as long as the hedge is tested to be highly effective. Gains and losses on instruments qualifying as cash flow hedges (hedges of variable interest rate risk or foreign exchange risk, or hedge of a net investment in a foreign operation) are included in equity and recycled to the income statement when the hedged item affects the income statement, or are used to adjust the carrying amount of an asset or liability at acquisition.

For a fair value hedge (hedge of fixed interest risk or of commodity price risk of a commodity held), the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the income statement to offset the impact of the hedging instrument.

3.3 Impairment of non-financial assets

Assets are subject to an impairment test according to the requirements outlined below, with the following exceptions: deferred tax assets, employee benefit assets, financial assets, investment properties carried at fair value, and biological assets carried at fair value less point of sale costs.

Impairment of inventories
Inventories are assessed for impairment at each reporting date by comparing the carrying amount with the selling price less costs to complete and sell. An entity then reassesses the selling price, less costs to complete and sell in each subsequent period, to determine if the impairment loss previously recognised should be reversed.

Impairment of assets other than inventories
An asset is impaired when its fair value less costs to sell is less than its carrying amount.

Assets (including goodwill) are tested for impairment where there is an indication that the asset may be impaired. Existence of impairment indicators is assessed at each reporting date.

External indications of impairment include a decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment, increases in market interest rates, or when the entity's net asset value is above its market capitalisation.

Internal indications include evidence of obsolescence or physical damage of an asset, changes in the way an asset is used (for example, due to restructuring or discontinued operations) or evidence from internal reporting that the economic performance of an asset is, or will be, worse than expected.

There are additional impairment indicators that are considered for goodwill.

These are where the acquired entity to which the goodwill relates has performed significantly worse than expected since acquisition, or it is being restructured, is held for sale or has been abandoned or has suffered significant impairment of its other assets.

When performing the impairment test of an asset, the entity estimates the fair value less costs to sell based on a hierarchy of reliability of evidence:
(a) a price in a binding sale agreement in an arm's length transaction, less costs of disposal;
(b) value in an active market;
(c) price of most recent transactions;
(d) best available information to reflect the amount that an entity could obtain at the reporting period end from disposal of the asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

If an entity cannot estimate the fair value for an individual asset, the entity measures the fair value less costs to sell for the smallest identifiable group of assets to which the asset belongs and whose fair value less costs to sell can be estimated.

The fair value of goodwill is derived from measurement of the fair value of the larger group of assets to which the goodwill belonged.

Management follows a two-step process in the recognition of goodwill impairment. First it allocates the goodwill to the component(s) of the entity that benefit from the goodwill and compares the fair value of each component, (including the goodwill) with its carrying amount. Any excess of the carrying amount over the fair value is then recognised as impairment loss in profit or loss immediately. The impairment loss is first charged against goodwill, with any remaining balance allocated to the component's identifiable non-cash assets and liabilities including contingent liabilities, based on their relative fair values.

At each reporting date after recognition of the impairment loss, an entity assesses whether there is any indication that an impairment loss may have decreased or may no longer exist. The impairment loss, other than goodwill, is reversed if the fair value less cost to sell of an asset exceeds its carrying amount. The amount of the reversal is subject to certain limitations. Goodwill impairment can never be reversed.

3.4 Provisions and contingencies

Recognition and initial measurement

A provision is recognised only when: the entity has a present obligation to transfer economic benefits as a result of a past event; it is probable (more likely than not) that an entity will be required to transfer economic benefits in settlement of the obligation; and the amount of the obligation can be estimated reliably.

The amount recognised as a provision is the best estimate of the amount required to settle the obligation at the reporting date. Where material, the amount of the provision is the present value of the amount expected to be required to settle the obligation.

A present obligation arising from a past event may take the form either of a legal obligation or of a constructive obligation. An obligating event leaves the entity no realistic alternative to settling the obligation. If the entity can avoid the future expenditure by its future actions, it has no present obligation, and no provision is required. For example, an entity cannot recognise a provision based solely on the intent to incur expenditure at some future date.

When some or all of the amount required to settle a provision is reimbursed by another party, the entity recognises the reimbursement as a separate asset only when it is virtually certain that it will receive the reimbursement on settlement of the obligation. The reimbursement receivable is presented on the balance sheet as an asset and is not offset against the provision. The amount of any expected reimbursement is disclosed. Net presentation is permitted in the income statement.

An entity reviews provisions at each reporting date and adjusts them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date.

Contingent liabilities

A contingent liability is either a possible but uncertain obligation, or a present obligation that is not recognised as a liability because either it is not probable an outflow will occur or the amount cannot be measured reliably. An entity does not recognise a contingent liability as a liability unless it has been acquired in a business combination.

Contingent assets

Contingent assets are not recognised. When the realisation of benefits is virtually certain, the related asset is not a contingent asset, and it is recognised as an asset.

3.5 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by its employees. These benefits include salary-related benefits (such as wages, salaries, profit-sharing, bonuses, long-service leave and share-based payments), termination benefits (such as severance and redundancy pay) and post-employment benefits (such as retirement benefit plans).

Post-employment benefits include pensions, termination indemnity, and post-employment life insurance and post-employment medical care. Pensions and termination indemnities are provided to employees either through defined contribution plans or defined benefit plans.

Whether an arrangement is a defined contribution plan or a defined benefit plan depends on the substance of the transaction rather than the form of the agreement. For example, a termination indemnity scheme, whereby employee benefits are payable regardless of the reason for the employee's departure, is accounted for as a defined benefit plan. Special consideration needs to be given to multi-employer plans.

A defined contribution plan is a pension plan under which the reporting entity pays fixed contributions into a separate entity. The reporting entity has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Recognition and measurement

Recognition and measurement of many of these short-term benefits is straightforward. However long-term benefits, particularly post-employment benefits, give rise to more complicated measurement issues.

Defined contribution plans
The cost of defined contribution plans is the contribution payable by the employer for that accounting period.

Defined benefit plans
The use of an accrued benefit valuation method (the projected unit credit method) is required for calculating defined benefit obligations. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The defined benefit obligation is recorded at present values using a discount rate derived from high-quality corporate bonds with a maturity consistent with the expected maturity of the obligations. In countries where no deep market in high-quality corporate bonds exists, the interest rate on government bonds is used.

Plan assets represent assets held by a long-term employee benefit fund and qualifying insurance policies. These plan assets are subtracted from the defined benefit obligation to determine the net defined benefit liability. If this results in a net asset (surplus), this surplus can only be recognised to the extent that an entity is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

All costs relating to defined benefit schemes are recognised in profit or loss.

Gains and losses on the curtailment or settlement of a defined benefit plan are recognised in the income statement when the curtailment or settlement occurs.

Other long-term benefits
The IFRS for SMEs also covers other long-term benefits, including long-service or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and compensation and bonus payments paid after 12 months or more after the end of the period in which they are earned.

3.6 Income taxes

Deferred tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for the following: (a) initial recognition of goodwill; (b) a deferred tax asset is only recognised to the extent that it is probable that there will be sufficient future taxable profit to enable recovery of the deferred tax asset; and (c) unremitted earnings of investments in subsidiaries, branches, associates and joint ventures, provided it is not probable that any temporary difference will reverse in the foreseeable future. There is no initial recognition exemption, unlike in IAS 12, Income Taxes.

Current and deferred tax is recognised in the income statement unless the tax arises from a transaction or event that is recognised in the same or different period, directly in equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that apply or have been enacted or substantively enacted by the balance sheet date. Discounting of deferred tax assets and liabilities is not permitted.

An entity recognises a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The same principles apply to recognition of deferred tax assets for unused tax losses carried forward.

Where an entity is subject to different tax rates depending on different levels of taxable income, deferred tax assets and liabilities are measured at the average enacted or substantively enacted tax rate applicable to the periods in which it expects the temporary differences to reverse.

Tax relating to dividends that is paid or payable to taxation authorities on behalf of the shareholders (for example, withholding tax) is charged to equity as part of the dividends.

3.7 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time.

A lease is classified at inception as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership. All other leases are treated as operating leases. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form of the contract.

For sale-and-lease-back transactions resulting in a lease-back of a finance lease, any gain realised by the seller-lessee on the transaction is deferred and amortised through the income statement over the lease term. Separate requirements apply where the transaction results in an operating lease.

Lessee

A lessee in a finance lease records an asset and a liability in its financial statements at amounts equal to fair value of the leased asset. The lessee depreciates this asset in accordance with its depreciation policy for similar assets or over the lease term if shorter. The lessee apportions minimum lease payments between finance charge and reduction of the outstanding liability.

The lessee in an operating lease records the rental payments as expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Lessor

The lessor records an asset leased under a finance lease in accordance with IAS 17, Leases.

The lessor records operating lease assets according to the nature of the assets and depreciates them on a basis consistent with the normal depreciation policy for similar owned assets. Rental income is recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished.

3.8 Discontinued operations and assets held for sale

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. It represents a separate major line of business or geographical area of operation or is part of a single co-ordinated plan to dispose of a major line of business or geographical area of operation. It could also be a subsidiary acquired exclusively for resale.

Discontinued operations are presented separately in the income statement and the cash flow statement. There are additional disclosure requirements in relation to discontinued operations.

A non-current asset (or disposal group) is classified as 'held for sale' where its carrying amount is recovered principally through a sale transaction rather than through continuing use. This is the case when the asset (or disposal group) is available for immediate sale in its present condition, its sale is highly probable and the sale is expected to be completed within one year from the date of classification.

Assets (or disposal groups) classified as held for sale are:

- carried at the lower of the carrying amount and fair value less costs to sell;
- not depreciated or amortised; and
- presented separately on the face of the balance sheet.

4. Business combinations, consolidated financial statements, and investments in associates and joint ventures

4.1 Business combinations

Business combinations are the bringing together of separate entities or businesses into one reporting entity. In almost all business combinations, one entity (the acquirer) obtains control of one or more other entities or businesses (the acquiree). Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.

A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase of the equity of another entity; the purchase of all the net assets of another entity; the assumption of the liabilities of another entity; or the purchase of some of the net assets of another entity that together form one or more businesses. It may be achieved by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a combination thereof. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

Business combinations between entities under common control are not covered by the IFRS for SMEs.

All business combinations are accounted for by applying the purchase method. The steps in applying the purchase method are: (1) identify the acquirer; (2) measure the cost of the business combination; and (3) allocate the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed at the acquisition date.

The cost of a business combination includes the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree, and any directly attributable costs. These costs are allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that date, except for non-current assets that are classified as held for sale. These are measured at fair value less costs to sell.

The criteria for recognition of items acquired are as follows:

- assets other than intangible assets are recognised when it is probable that any associated future economic benefits will flow to the acquirer and their fair value can be measured reliably;
- liabilities other than contingent liabilities are recognised when it is probable that an outflow of resources will be required to settle the obligation and their fair value can be measured reliably; and
- intangible assets or contingent liabilities are recognised when their fair value can be measured reliably.

Goodwill (the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities) is recognised as an intangible asset at the acquisition date. After initial recognition, the goodwill is measured at cost less any accumulated impairment losses.

Negative goodwill is recognised in the income statement immediately after management has reassessed the identification and measurement of identifiable items arising on acquisition and the cost of the business combination.

4.2 Consolidated and separate financial statements

A subsidiary is an entity that is controlled by the parent. Control is presumed to exist when the parent holds more than 50% of the entity's voting power; this presumption may be rebutted if there is clear evidence to the contrary.

All subsidiaries are consolidated. A subsidiary is consolidated from the date of acquisition until the date on which the parent ceases to control the subsidiary.

The consolidated financial statements present financial information about the group as a single economic entity. This requires the application of the consolidation procedures, elimination of the intra-group balances and transactions, and application of uniform reporting date and accounting policies.

A parent presents consolidated financial statements unless it is itself a subsidiary; the ultimate or intermediate parent of the entity produces consolidated financial statements either in accordance with full IFRS or in accordance with the IFRS for SMEs.

A special purpose entity (SPE) is an entity created to accomplish a narrow, well-defined objective. An entity consolidates an SPE when the substance of the relationship between the entity and the SPE indicates that the SPE is controlled by the entity.

When a parent prepares the separate financial statements, the investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale are accounted for either at cost or at fair value through profit or loss.

Combined financial statements are a single set of financial statements of two or more entities with common objectives and economic interest, and controlled by a single investor. If an entity prepares combined financial statements as conforming to the IFRS for SMEs, those statements must comply with all of the requirements of the standard, including elimination of inter-company transactions and balances, and application of same reporting date and accounting policies.

4.3 Investments in associates

An associate is an entity over which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. It is presumed to exist when the investor holds at least 20% of the investee's voting power; it is presumed not to exist when less than 20% is held. These presumptions may be rebutted if there is clear evidence to the contrary.

Associates are accounted for consistently using the cost model (cost less any accumulated impairment losses), the equity method (following the procedures in IAS 28, Investments in Associates) or the fair value through profit or loss model.

Investments in associates are classified as non-current assets.

4.4 Investments in joint ventures

A joint venture is a contractual agreement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is defined as the contractually agreed sharing of control of an economic activity. A venturer accounts for its investment based on the type of joint venture: jointly controlled operations, jointly controlled assets or jointly controlled entities.

Jointly controlled operations

Jointly controlled operations are operations that involve use of the assets and other resources of the venturers rather than the establishment of a separate entity. Each venturer uses its own property, plant and equipment, carries its own inventory, and incurs its own expenses and liabilities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Each venturer recognises in its financial statements the assets that it controls and the liabilities that it incurs, as well as 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.

Jointly controlled assets

The holding of jointly controlled assets is a type of a joint venture where venturers have joint control of asset(s) contributed or acquired for the purpose of the joint venture. A venturer recognises in its financial statements its share of the jointly controlled 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.

Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The venturer reports in its financial statements its interest in a jointly controlled entity:

- at cost, less any accumulated impairment losses;
- using the equity method;
- by proportional consolidation; or
- at fair value through profit or loss.

Gains and losses on contribution or sale of assets to a joint venture by a venturer are recognised to the extent of the interests of the other venturers, provided the assets are retained by the joint venture and significant risks and rewards of ownership of the contributed assets have been transferred. The venturer recognises the full amount of any loss when there is evidence of impairment loss from the contribution or sale.

5. Equity

Equity is the residual interest in the entity's assets after deducting all its liabilities. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

Issue of equity shares

Equity instruments (for example, ordinary shares) are measured at fair value, net of direct issue costs.

Compound financial instruments

On issuing convertible debt or similar compound instrument that contain both a liability and an equity component, an entity allocates the proceeds between the liability component and the equity component at initial recognition.

Treasury shares

Treasury shares are the equity instruments that have been acquired or re-acquired by the entity. An entity deducts from equity the fair value of the consideration given for the treasury shares. The entity does not recognise a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Minority interest

In consolidated financial statements, any minority interest in the net assets of a subsidiary is included in equity.

6.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when it is probable that economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue arising from the sale of goods is recognised when an entity transfers the significant risks and rewards of ownership and control, it is probable that economic benefits will flow to the entity, and the amount of revenue and costs are measured reliably.

Revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction. Revenue is recognised in the accounting periods in which the services are rendered under the percentage-of-completion method.

The transaction is not a sale and revenue is not recognised when, for example, the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions, the receipt of revenue from a particular sale is contingent on the buyer selling the goods, or the buyer has the power to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

In order to reflect the substance of the transaction, it may be necessary to apply the recognition criteria to the separately identifiable components of a single transaction. For example, when a product's selling price includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed.

Interest income is recognised using the effective interest rate method. Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognised when the shareholder's right to receive payment is established.

Construction contracts

When the outcome of the construction contract can be estimated reliably, revenue and contract costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. Where the outcome of the contract cannot be estimated reliably, recognition of the revenue cannot be made until the contract is completed.

6.2 Government grants

Government grants related to assets measured at fair value are accounted for in accordance with the IFRS for SMEs model outlined below. Government grants related to non-financial assets are accounted for in accordance with the IFRS for SMEs model or with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

An entity recognises government grants according to the nature of the grant as follows:

- a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;
- a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met; or
- grants received before the income recognition criteria are satisfied are recognised as a liability.

An entity measures grants at the fair value of the asset received or receivable.

6.3 Borrowing costs

An entity can choose as its accounting policy to recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.

Alternatively, an entity can capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to be prepared for use or sale – typically buildings, large industrial plant and some inventories. Where this option is chosen, the entity follows IAS 23, Borrowing Costs.

6.4 Share-based payment

Share-based payments cover transactions to be settled by some form of equity instrument (for example, shares) or in cash or other assets where the amount payable is based on the price of the entity's shares or by some combination of the two.

Recognition and initial measurement

An entity recognises the goods or services received in a share-based payment transaction when it obtains the goods or as the services are received.

Equity-settled share-based payment transactions are measured in accordance with IFRS 2; they are measured by reference to the fair value of the instruments granted if the transaction is with an employee. If the fair value of goods or services cannot be estimated reliably, IFRS 2 provides for measurement of the equity instruments at their intrinsic value.

Cash-settled share-based payments are measured at the fair value of the liability.

Subsequent measurement

Equity-settled share-based payments are not re-measured except to incorporate non-market vesting conditions. The liability arising from cash-settled share-based payments is re-measured at each balance sheet date and at the date of settlement, with changes in fair value recognised in profit or loss.

7.1 Functional currency

All components of the financial statements are measured in the currency of the primary economic environment in which the entity operates (its functional currency). All transactions entered into in currencies other than the functional currency are treated as transactions in a foreign currency.

Foreign currency transactions

A transaction in a foreign currency is recorded in the functional currency using the exchange rate at the date of the transaction (average rates may be used if they do not fluctuate significantly). At the balance sheet date, foreign currency monetary balances are reported using the exchange rate at the balance sheet date. Non-monetary balances denominated in a foreign currency and carried at cost are reported using the exchange rate at the date of the transaction. Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate at the date when the fair values were determined.

Exchange differences are recognised as income or expense for the period, except for those differences arising on a monetary item that forms part of an entity's net investment in a foreign entity (subject to strict criteria of what qualifies as net investment). In the consolidated financial statements, such exchange differences are classified separately in equity until the disposal of the net investment. At that time they are included in the income statement as part of the gain or loss on disposal.

7.2 Presentation currency

An entity may choose to present its financial statements in any currency. If the presentation currency differs from the functional currency, an entity translates its results and financial position into the presentation currency.

If the functional currency is not the currency of a hyperinflationary economy, the assets and liabilities are translated at the closing rate at the balance sheet date; the income statement is translated using exchange rates at the dates of the transactions. All resulting exchange differences are recognised as a separate component of equity.

7. Currencies (continued)

When preparing consolidated financial statements that involve more than one entity, entities in the group will often have different functional currencies. The financial statements of all entities are translated into the reporting entity's presentation currency. The exchange differences arising from the translation in respect of each entity are recognised in equity until the disposal of that entity.

8.1 Lessor accounting for finance leases

A lessor in a finance lease applies IAS 17, Leases, paragraphs 36-46, and makes the disclosures required by IAS 17 paragraph 47 (see Section 3.7).

8.2 Investment properties

The fair value model requires measurement of all of the investment properties at fair value. If an entity follows the fair value model, it applies IAS 40, Investment Property, in full to account for these properties (see Section 3.1).

8.3 Equity-settled share-based payments

An entity applies IFRS 2, Share-based Payment, in measuring equity-settled share-based payment transactions and makes the disclosures required by IFRS 2 (see Section 6.4).

8.4 Hyperinflation

Hyperinflation is indicated by characteristics of the economic environment of a country. An economy is hyperinflationary if the cumulative inflation rate over three years is approaching or exceeds 100%.

Where an entity's functional currency is the currency of a hyperinflationary economy, the entity applies IAS 29, Financial Reporting in Hyperinflationary Economies. The financial statements are therefore stated in terms of the presentation currency as of the end of the reporting period. The corresponding figures for the previous period are also stated in terms of the measuring unit current at the end of the reporting period. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

8.5 Earnings per share

An entity that chooses to disclose earnings per share calculates and disclose details in accordance with IAS 33, Earnings Per Share.

8.6 Segment reporting

An entity that chooses to disclose segment information in financial statements described as conforming to the IFRS for SMEs should comply fully with the requirements of IFRS 8, Operating Segments. If an entity discloses information about segments that does not comply with IFRS 8, it does not describe the information as segment information.

8.7 Interim financial statements

There is no requirement in the IFRS for SMEs for an entity to publish interim financial statements. However, entities may be required by other regulations or may elect to publish interim financial statements. In this case, they should apply either IAS 34, Interim Financial Reporting, or all requirements in the IFRS for SMEs. There are concessions where interim financial statements are required on a one-off basis (for example, where an entity is seeking a listing some of its securities).

8.8 Specialised industries

Agriculture
An entity involved in agricultural activity measures biological assets at fair value less estimated point-of-sale costs, where such fair value is readily determinable without undue cost or effort. Where fair value is not used, the entity measures such assets at cost less any accumulated depreciation and any accumulated impairment losses. The entity should refer to IAS 41, Agriculture, for guidance on application of the fair value model to biological assets.

The agriculture produce harvested from biological assets is measured at fair value less estimated costs to sell at the point of harvest.

Extractive industries

An entity using the IFRS for SMEs that is engaged in an extractive industry recognises exploration expenditure as an expense in the period in which it is incurred. Entities accounting for expenditure on the acquisition or development of tangible and intangible fixed assets for use in the extractive activities should follow the guidance in the IFRS for SMEs, paragraph 16 (property, plant and equipment) and paragraph 17 (intangible assets other than goodwill). When an entity has an obligation to dismantle or remove an item or restore a site, it should follow the guidance in the IFRS for SMEs paragraphs 16 and 20 (provisions and contingencies).

Insurance

An entity that acts as an insurer holds assets in a fiduciary capacity and is therefore unable to apply the IFRS for SMEs.

9. Transition to the IFRS for SMEs

An entity's first financial statements that conform to the IFRS for SMEs are the first annual financial statements in which the entity makes an explicit and unreserved statement of compliance with the IFRS for SMEs.

Accounting policies used in the opening balance sheet are those required by the IFRS for SMEs. Any adjustments that need to be made to adapt the entity's previous reporting framework to that of the IFRS for SMEs are made by recognising those adjustments directly in retained earnings (or, if appropriate, in another category of equity).

Adjustments are not made to the accounting under its previous accounting framework for any transactions connected with derecognition of financial instruments, hedge accounting, estimates, and assets classified as held for sale and discontinued operations.

Some exemptions are available for first-time adopters in respect of business combinations, use of fair value or revaluation for deemed cost in respect of items of PPE, cumulative translation differences, separation of compound financial instruments into their two components, share-based payment transactions and deferred incomes taxes.

IFRS for SMEs (proposals) – Pocket guide 2007 is designed only for the information of readers. While every effort has been made to ensure accuracy, some information that may be relevant to a particular reader may not be comprehensive or may have been omitted.

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Notes

Notes

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