Deloitte.

ukGAAP
2010

IFRS for SMEs in your pocket – UK edition

Contacts

UK transition team

Lead champions

Audit

James Bates
jbates@deloitte.co.uk

Andrew Downes
adownes@deloitte.co.uk

Will Smith
willrsmith@deloitte.co.uk

Fiona Walker
fiwalker@deloitte.co.uk

Tax

Pippa Booth
pbooth@deloitte.co.uk

Stephanie Hurst
stehurst@deloitte.co.uk

National Accounting and Audit

Tom Hopkins
thhopkins@deloitte.co.uk

Isobel Sharp
isharp@deloitte.co.uk

Andy Simmonds
asimmonds@deloitte.co.uk

Amanda Swaffield
aswaffield@deloitte.co.uk

Riana Wiesner
riawiesner@deloitte.co.uk

Foreword

In its transition report of December 2000 to the newly formed IASB, the outgoing Board of the International Accounting Standards Committee said "A demand exists for a special version of International Accounting Standards for Small Enterprises".

The IFRS for SMEs, issued by the IASB in July 2009, responds to this demand. It is self-contained, tailored for the needs and capabilities of smaller businesses and is understandable across borders. Compared with full IFRSs (and many national GAAPs), the IFRS for SMEs is written in clear, easily understandable and translatable language and is less complex in a number of ways, including the limitation of accounting policy choices, omitting topics that are not relevant to SMEs, simplifying the principles for recognition and measurement and requiring fewer disclosures.

In the UK, the Accounting Standards Board (ASB) established the principle of a shorter, simpler accounting regime for smaller entities when it issued the Financial Reporting Standard for Small Entities (FRSSE) in 1997. Over the years, that standard has been updated to include all relevant legal provisions so that it provides a 'one-stop shop' for small entities.

The ASB declared in 2002 that "There can be no case for the use in the UK of two sets of wholly different accounting standards in the medium term". That policy led to the partial conversion of some, but not all, UK standards based on IFRS equivalents, with the consequences of added complexity and the need to update those standards as IFRSs changed.

With the issue of IFRS for SMEs, ASB has an opportunity to replace a partially converted set of UK standards with a shorter, simpler, IFRS-based standard. Before that happens, there are a number of reasonably contentious issues for the UK to debate and ASB to resolve. Firstly, which entities should qualify for the simplified regime and which should be required to apply full IFRS? Secondly, should subsidiaries of listed groups be permitted a hybrid regime comprising full IFRS recognition and measurement but reduced disclosure? Thirdly, how should the UK approach not-for-profit entities? Fourthly, is there a continued role for Statements of Recommended Practice?

While it is right that the ASB must debate and resolve these issues, the process so far has been lengthy. Meanwhile, the demand from business to resolve the current uncertainty increases. It is hoped that ASB will move as swiftly as practicable to allow eligible UK companies to choose to move to the IFRS for SMEs.

About this publication

This pocket guide is based on an international version prepared by the Deloitte IFRS global team. It takes each section of the IFRS for SMEs, summarises its requirements and highlights key additional recognition and measurement requirements of full IFRSs issued by the IASB up to 31 December 2009 (with the exception of IFRS 9: *Financial Instruments* as the IASB's project to replace IAS 39: *Financial Instruments: Recognition and Measurement* is, at the time of writing, incomplete).

Additional guidance describing the application of the IFRS for SMEs in the UK is added in shaded text.

Deloitte's **www.iasplus.com** website provides comprehensive information about international financial reporting in general and IASB activities in particular.

Deloitte UK resources, including an earlier publication 'Choosing your GAAP', may be found at **www.deloitte.co.uk/audit.**

Obtaining the IFRS for SMEs

The complete IFRS for SMEs (together with basis for conclusions, illustrative financial statements, and presentation and disclosure checklist) can be downloaded free from **http://go.iasb.org/IFRSforSMEs.**

In addition, the IASCF is in the process of publishing training materials for each section in the IFRS for SMEs which can be downloaded free of charge from **http://www.iasb.org/IFRS+for+SMEs/Training+material.htm.**

Obtaining the ASB Policy Proposal

Copies of ASB's 'Policy Proposal: The future of UK GAAP' and other materials related to this project can be downloaded from ASB's website at **http://www.frc.org.uk/asb/technical/projects/project0072.html.**

Contents

Abbreviations 4

Introduction to the IFRS for SMEs 5

Preface to the IFRS for SMEs and summaries of individual sections 8
Section 1. Scope and application 9
Section 2. Concepts and pervasive principles 10
Section 3. Financial statement presentation 11
Section 4. Statement of financial position (Balance sheet) 13
Section 5. Statement of comprehensive income and income statement 14
Section 6. Statement of changes in equity and statement of income and retained earnings 16
Section 7. Statement of cash flows 17
Section 8. Notes to the financial statements 19
Section 9. Consolidated and separate financial statements 20
Section 10. Accounting policies, estimates and errors 23
Section 11. Basic financial instruments 25
Section 12. Other financial instruments issues 30
Section 13. Inventories 34
Section 14. Investments in associates 36
Section 15. Investments in joint ventures 38
Section 16. Investment property 40
Section 17. Property, plant and equipment 42
Section 18. Intangible assets other than goodwill 44
Section 19. Business combinations and goodwill 46
Section 20. Leases 49
Section 21. Provisions and contingencies 52
Section 22. Liabilities and equity 54
Section 23. Revenue 57
Section 24. Government grants 59
Section 25. Borrowing costs 60
Section 26. Share-based payment 61
Section 27. Impairment of assets 64
Section 28. Employee benefits 67
Section 29. Income tax 70
Section 30. Foreign currency translation 73
Section 31. Hyperinflation 76
Section 32. Events after the end of the reporting period 77
Section 33. Related party disclosures 78
Section 34. Specialised activities 79
Section 35. Transition to the IFRS for SMEs 81

Abbreviations

ASB	Accounting Standards Board of UK and Ireland
CGU	Cash-generating unit
EBT	Employee benefit trust
ESOP	Employee share ownership plan
FRS	Financial Reporting Standard issued by the ASB
FRSSE	Financial Reporting Standard for Small Entities
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee (predecessor to the IASB)
IASCF	IASC Foundation (parent body of the IASB)
IFRIC	International Financial Reporting Interpretations Committee of the IASB, and Interpretations issued by that committee
IFRS(s)	International Financial Reporting Standard(s)
NCI	Non-controlling interest
P&L	Profit and loss
SME(s)	Small and medium-sized entity(ies)
SSAP	Statement of Standard Accounting Practice, issued by the ASC and adopted and amended by the ASB
UITF	Urgent Issues Task Force of the ASB
WIP	Work in progress

Introduction to the IFRS for SMEs

The IFRS for SMEs is a self-contained set of accounting principles that is based on full IFRSs, but that has been simplified for SMEs. The IFRS for SMEs has been organised by topic to make it more like a reference manual – the IASB considers this more user-friendly for SME preparers and users of SME financial statements.

The IFRS for SMEs and full IFRSs are separate and distinct frameworks. Entities that are eligible to apply the IFRS for SMEs, and that choose to do so, must apply the IFRS for SMEs in full (i.e. they are not permitted to 'mix and match' the requirements of the IFRS for SMEs and full IFRSs apart from applying the IFRS for SMEs option to use IAS 39 in respect of the recognition and measurement of financial instruments).

The IFRS for SMEs includes requirements for the development and application of accounting policies in the absence of specific guidance on a particular subject. An entity may, but is not required to, consider the requirements and guidance in full IFRSs dealing with similar and related issues. The following are the key types of simplifications made:

- some topics in IFRSs are omitted because they are not relevant to typical SMEs;
- some accounting policy treatments in full IFRSs are not allowed because a simplified method is available to SMEs;
- simplification of many of the recognition and measurement principles that are in full IFRSs;
- substantially fewer disclosures; and
- simplified language and explanations throughout.

The result of these simplifications is that the IFRS for SMEs is roughly 10% the size of full IFRSs and contains approximately ten per cent of the disclosure requirements of full IFRSs.

The IFRS for SMEs does not address the following topics that are dealt with in full IFRSs, because these topics are not generally relevant to SMEs:

- earnings per share;
- interim financial reporting;
- segment reporting;

- insurance (because entities that sell insurance contracts to the public will generally be classed as publicly accountable); and
- non-current assets held for sale (although holding for sale is cited as a potential impairment indicator).

The IASB expects to undertake a thorough review of the SMEs' experience in applying the IFRS for SMEs when two years of financial statements using the IFRS have been published by a broad range of entities. An IFRS for SMEs Implementation Group has been established that will be responsible for:

- encouraging jurisdictions to adopt the IFRS for SMEs;
- ensuring consistent and high quality implementation across and within jurisdictions;
- addressing the pervasive implementation questions that inevitably will arise on initial adoption of the standard globally; and
- identifying and fixing lack of clarity, key omissions, and possible errors in the IFRS for SMEs.

After the initial implementation review, the revision of the IFRS for SMEs will be limited to once in approximately three years, and it will consider new and amended IFRSs that have been developed in the previous three years as well as specific issues that have been identified as possible improvements. On occasion, the IASB may identify a matter for which amendment of the IFRS for SMEs may need to be considered earlier than in the normal three-year cycle. Until the IFRS for SMEs is amended, any changes that may be made or proposed with respect to full IFRSs would not apply to the IFRS for SMEs.

ASB's Policy Proposal: The future of UK GAAP

'UK GAAP' presently comprises three tiers:

- Full IFRSs – applicable to the consolidated financial statements of EU listed entities under an EU regulation, and available as an option for all other entities under UK law.
- UK FRSs – applicable to EU listed parent entities, all other medium or large entities, and available as an option for small entities. There are effectively two sub-tiers – those entities which have adopted FRS 26 *Financial Instruments: Recognition and Measurement* and those which have not.
- FRSSE – available to small entities.

ASB's Policy Proposal: The future of UK GAAP (continued)

As part of its medium-term strategy to converge UK standards to the IASB framework to the fullest extent possible consistent with the needs of UK and Irish entities, ASB issued a consultation paper 'Policy Proposal: The future of UK GAAP' in August 2009 proposing a new three tier model for UK GAAP:

- Full IFRS – applicable to all 'publicly accountable' entities.
- A new single UK FRS based on the IFRS for SMEs – applicable to all large and medium-sized non-publicly accountable entities (including subsidiaries of listed parents), and an option for small entities.
- FRSSE – available to small entities.

Large entities. The key part of ASB's proposal is the replacement of UK FRSs, SSAPs and UITF statements with a single UK standard, issued by ASB, based on the IFRS for SMEs. Unlike the IFRS for SMEs, which is aimed at SMEs (although it does not contain any size criteria), ASB would extend the scope of the UK equivalent standard expressly to include all large and medium-sized entities who fell outside the definition of 'publicly accountable'. This would therefore include large unlisted entities provided they were not financial institutions which take deposits, or hold assets in a fiduciary capacity, as a primary business (see Section 1 on page 9).

EU directives. Since the standard would be issued as a UK/Irish standard by ASB, it follows that it would need to comply with the EU 4th and 7th Company Law Directives. Where it is established that requirements within the Directives conflict with the IFRS for SMEs, ASB would need to amend the UK/Irish standard to comply with the Directives. In other respects, ASB are understood to favour retaining the IFRS for SMEs without amendment as far as possible.

A fourth tier for subsidiaries? Recognising that accounting policy options under full IFRSs may differ from those under the IFRS for SMEs, some commentators have called for a fourth tier for subsidiaries of listed entities which combines the recognition and measurement features of full IFRS (on which their group policies would be based) and the reduced disclosure requirements of the IFRS for SMEs. To date, ASB has not shown any appetite for such a fourth tier since it would require ASB to introduce and maintain its own schedule of disclosure requirements. The IFRS for SMEs already includes an option to adopt full IFRS recognition and measurement for financial instruments and benefit from reduced disclosures, which is likely to be the area of most frequent mis-match.

Preface to the IFRS for SMEs

The IFRS for SMEs is organised by topic, each presented in a separate section. All of the paragraphs in the Standard have equal authority.

The Standard is appropriate for general purpose financial statements and other financial reporting of SMEs (as defined in Section 1). General purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large.

The IASB expects to undertake a thorough review of SMEs' experience in applying the IFRS for SMEs when two years of financial statements using the IFRS have been published by a broad range of entities. The IASB then expects to address issues identified, and also, if appropriate, incorporate recent changes to full IFRSs. Thereafter, a single omnibus proposal of amendments will be issued, if necessary, approximately once every three years.

Implications for the UK

The IFRS for SMEs was issued in July 2009, and was available to IFRS preparers outside the EU immediately. As the IFRS for SMEs has not been endorsed for use in Europe, UK companies are currently unable to apply the Standard. There is no immediate plan for the European Commission to recognise IFRS for SMEs as part of the IAS Regulation.

Timing of UK standard and its update

The ASB's proposal is to adopt the IFRS for SMEs as a replacement for current UK GAAP. Since this proposal is subject to comment and further decision, we cannot be definitive on the timing of issue of a standard in the UK. However, once issued, the UK standard would be expected to be updated on the same three-yearly cycle as its IFRS equivalent. The first review of the content of the IFRS for SMEs and operation by IASB may thus be expected in 2012 based on the experience of preparers applying it in 2010 and 2011.

Section 1. Scope and application

The IFRS for SMEs is for use by entities that have no public accountability and that are required, or choose, to publish general purpose financial statements for external users. Essentially, an entity is considered to have public accountability if:

1. its debt or equity instruments are publicly traded; or

2. it is a financial institution or other entity that, as part of its primary business, holds assets in a fiduciary capacity for a broad group of outsiders. If assets are held in a fiduciary capacity for reasons that are incidental to the entity's primary business, it will not cause the entity to have public accountability, for example, public utilities, travel and real estate agents and not-for-profit entities.

Ultimately, the decision regarding which entities should use the *IFRS for SMEs* rests with national regulatory authorities and standard-setters – and those bodies may choose to specify more detailed eligibility criteria, including quantified criteria based on revenue, assets etc.

Implications for the UK

The definition of 'SME' in the IFRS for SMEs is very different from the familiar meaning in UK law as it makes no reference to the size of the entity in terms of revenue, assets, or employee numbers. Despite the title the Standard is applicable not only to SMEs but to all entities which do not have public accountability. ASB proposes to retain the IASB definition of 'publicly accountable', but amend it to include 'a deposit-taking entity'. According to ASB's analysis this results in the following publicly accountable entities being required to follow full IFRSs rather than UK standards as currently permitted:

- Companies and groups traded in 'over-the-counter' markets that are not currently required to follow full IFRSs.
- Parent entities of listed groups.
- Banking and insurance subsidiaries meeting the 'deposit-taking' or 'fiduciary capacity' criteria.
- Investment trusts.
- Building societies.
- Co-operatives.
- Credit Unions.
- Friendly Societies.

UK law. ASB's proposal to include large non-publicly accountable entities within the scope of the new UK standard is also subject to there being no changes to UK law on this point, for example extending the meaning of 'publicly accountable' to include all large entities.

Section 2. Concepts and pervasive principles

Scope

- Describes the objective of financial statements, which is to provide information about the financial position, performance and cash flows of SMEs that is useful to a broad range of users.

Summary of IFRS for SMEs

- Identifies the qualitative characteristics underlying the financial statements.
- Requires financial statements, excluding cash flow information, to be prepared using the accrual basis of accounting.
- Describes financial position as the relationship between assets, liabilities and equity.
- Describes performance as the relationship between income and expenses. Income encompasses both revenue and gains, whereas expenses include both expenses and losses.
- Defines basic elements of financial statements as well as the concepts for recognition and measurement.
- Identifies the limited circumstances in which assets and liabilities, or income and expenses can be offset.
- Specifies certain pervasive principles that an entity should consider in choosing an accounting policy in the absence of specific guidance in the IFRS for SMEs.

Full IFRS requirements

- Contain concepts of capital and capital maintenance.

Key UK GAAP conversion issues

- Concepts and principles in line with ASB's Statement of Principles.
- IFRS term 'valuation allowance' is used for amounts written off assets, e.g. provision for bad debts.

Section 3. Financial statement presentation

Scope

- Explains fair presentation, what a complete set of financial statements is and what compliance with the IFRS for SMEs requires.

Summary of IFRS for SMEs

- Principles essential for fair presentation of financial statements include:
  - the going concern assumption;
  - consistency of presentation;
  - comparability; and
  - materiality.
- Financial statements that comply with the IFRS for SMEs should include an explicit and unreserved statement of compliance.
  In extremely rare circumstances when departure is required to maintain fair presentation, additional disclosures have to be provided.
- Financial statements are prepared at least annually. When the end of the reporting period changes so that financial statements are presented for a period other than a year, additional disclosures are required.
- A complete set of financial statements includes each of the following for the current period and the previous comparable period:
  - a statement of financial position;
  - either a single statement of comprehensive income or a separate income statement and a separate statement of comprehensive income;
  - a statement of changes in equity;
  - a statement of cash flows; and
  - notes.

- A combined statement of income and retained earnings can be presented instead of the separate statements of comprehensive income and changes in equity, if the only changes to equity arise from profit or loss, dividend payments, corrections of errors, and changes in accounting policies.
- Each financial statement should be presented with equal prominence to the others.
- Entities may use titles and formats for the individual financial statements other than those specified in the IFRS for SMEs.
- The financial statements and notes should be clearly identified and distinguished from any other accompanying information.
- When information not required by the IFRS for SMEs is presented, the basis for preparing and presenting such information should be disclosed.

Full IFRS requirements

- Require the presentation of a statement of financial position at the beginning of the earliest comparative period when an accounting policy is applied retrospectively or a retrospective restatement or reclassification of items is made in the financial statements.
- Do not allow the combination of the statement of comprehensive income and statement of changes in equity under any circumstances.

Key UK GAAP conversion issues

- Statement of changes in equity is presented as a primary statement, compared to the reconciliation of movements in shareholders' funds in the notes under UK GAAP.

Section 4. Statement of financial position (Balance sheet)

Scope	• Sets out the information that is to be presented in the statement of financial position.
Summary of IFRS for SMEs	• Specifies minimum line items to be presented in the statement of financial position and includes guidance for including additional line items, headings and subtotals. • Requires a current/non-current distinction for assets and liabilities unless presentation based on liquidity provides more relevant and reliable information. • Specifies additional information that can be presented either in the statement of financial position or in the notes.
Full IFRS requirements	• Require the separate presentation of assets classified as held for sale or assets and liabilities included in a disposal group held for sale.
Key UK GAAP conversion issues	• Limited change to familiar UK format and in any event would still need to comply with company law formats based on the 4th directive. • Option to use new term 'Statement of financial position' rather than 'Balance sheet'.

Section 5. Statement of comprehensive income and income statement

Scope

- Sets out the information that is to be presented in the statement of comprehensive income and income statement.

Summary of IFRS for SMEs

- Requires the presentation of total comprehensive income either in:
  - a single statement of comprehensive income; or
  - a separate income statement (presenting all items of income and expense) and a separate statement of comprehensive income (presenting all items recognised outside of profit or loss).
- The only types of other comprehensive income recognised outside of profit or loss are:
  - foreign exchange gains and losses arising on translating the financial statement of a foreign operation;
  - some actuarial gains and losses; and
  - some fair value changes of hedging instruments.
- Specifies minimum line items to be presented and includes guidance for including additional line items, headings and subtotals.
- No item of income or expense may be described as 'extraordinary', but unusual items can be presented separately.
- Analysis of expenses recognised in profit or loss may be presented by nature (such as depreciation, salaries, purchases of materials) or function (such as cost of goods sold, selling expenses, administrative expenses).

Full IFRS requirements

- More items of comprehensive income recognised outside of profit or loss can arise (e.g. changes in the fair value of available-for-sale financial assets and gains on the revaluation of property, plant and equipment and intangible assets).

Key UK GAAP conversion issues	
Key UK GAAP conversion issues	• New terminology, but similar to P&L account and STRGL, with option to present as two statements or one combined statement. • Additional option to show retained profits brought/carried forward where 'STRGL'/equity items are limited to dividends and prior-year adjustments. • Discontinued operations presented as a single net item below continuing operations rather than a separate column. • No requirement for a note of historical cost profits and losses.

Section 6. Statement of changes in equity and statement of income and retained earnings

Scope	• Describes the requirements for the presentation of changes in an entity's equity for a period.
Summary of IFRS for SMEs	• Requires the statement of changes in equity to present all changes in equity, including: – a reconciliation between the opening and closing balance of each component of equity; – total comprehensive income for the period; – transactions with owners in their capacity as owners, e.g. dividends, treasury share transactions, changes in ownership interest, etc.; and – the effects of changes in accounting policies and correction of errors. • If the only changes in equity arise from profit or loss, dividends, changes in accounting policies and the correction of errors, a combined statement of income and retained earnings may be presented.
Full IFRS requirements	• Do not allow the statement of changes in equity to be combined with the statement of comprehensive income. • Require more disclosure about dividends and the related amount per share.
Key UK GAAP conversion issues	• No significant change to UK statement of movements in equity. • Additional option to combine with 'P&L account' to show retained profits brought/carried forward where 'STRGL'/equity items are limited to dividends and prior-year adjustments.

Section 7. Statement of cash flows

Scope

- Specifies the information on the changes in cash and cash equivalents to be presented in the statement of cash flows.

Summary of IFRS for SMEs

- Cash equivalents include investments that are short-term, highly liquid and held to meet short-term cash commitments, rather than for investment purposes or other purposes.
- Cash flows are presented separately for operating, investing and financing activities.
- Choice to present cash flows from operating activities using the direct or indirect method.
- Cash flows arising from foreign currency transactions are translated at the exchange rate on the date of the cash flow.
- Cash flows from interest and dividends received and paid are presented separately and classified as follows:
  - cash flows from interest and dividends received can be classified as either operating or investing activities, consistently from period to period; and
  - cash flows from interest and dividends paid can be classified as either operating or financing activities, consistently from period to period.
- Cash flows arising from income tax are classified as operating cash flows unless they can be specifically identified with financing or investing activities.
- Investing and financing transactions that do not require the use of cash are excluded from the statement of cash flows but must be disclosed separately.
- Requires a reconciliation between the amounts of cash and cash equivalents in the statement of cash flows and the amounts disclosed in the statement of financial position, if they are not the same.

Full IFRS requirements	• Encourage the direct method for presenting cash flows from operating activities. • Allow cash flows meeting certain conditions to be reported net.
Key UK GAAP conversion issues	• Cash flow statement is always required – no subsidiary or small company exemption. • Definition of cash broader than under FRS 1 (24 hour criterion does not apply). • 'Cash equivalents' included in the cash flow statement. • Only three classifications: operating, investing and financing.

Section 8. Notes to the financial statements

Scope	• Describes the principles underlying the information that is to be presented in the notes to the financial statements.
Summary of IFRS for SMEs	• Requires systematic presentation of information not presented elsewhere in the financial statements in, as well as information on the: – basis of preparation; – specific accounting policies; – judgements made in applying the accounting policies; and – key sources of estimation uncertainty.
Full IFRS requirements	• Encourage disclosure of the sensitivity of carrying amounts to the methods, assumptions and estimations applied.
Key UK GAAP conversion issues	• Disclosure required of critical judgements and sources of estimation uncertainty.

Section 9. Consolidated and separate financial statements

Scope

- Defines the circumstances in which consolidated financial statements are presented and the procedures for preparing those statements.
- Provides guidance on separate and combined financial statements.

Summary of IFRS for SMEs

- Consolidated financial statements present financial information about a group (parent and subsidiaries) as a single economic entity.
- A subsidiary is an entity controlled by another entity (the parent) including special purpose entities. Control is the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.
- Apart from the following two exceptions, a parent must present consolidated financial statements:
  - the parent has no subsidiaries other than one that was acquired with the intention of disposing of it within one year; or
  - the parent itself is a subsidiary that is included in consolidated financial statements that comply with the IFRS for SMEs or full IFRSs.
- A subsidiary is not excluded from consolidation simply because the:
  - parent is a venture capital organisation;
  - business activities of subsidiary are dissimilar to those of other group entities; or
  - subsidiary operates in a jurisdiction that imposes restrictions on the transfer of cash or other assets out of the jurisdiction.
- A subsidiary acquired with the intention of disposing of it within one year is accounted for at fair value if it can measured reliably otherwise it is accounted for at cost less impairment.

- Intragroup balances and transactions are eliminated in full on consolidation.
- All entities in the group must use the same reporting date and apply uniform accounting policies.
- NCI (sometimes called 'minority interest') is measured at the proportionate share of the net assets of acquiree.
- NCI is presented in equity, separate from the equity of the parent. Total comprehensive income is allocated between NCI and the owners of the parent even if it results in the NCI having a deficit balance.
- When a parent loses control over a subsidiary but continues to hold an investment in the former subsidiary, the investment is accounted for as a financial asset (providing it does not become an associate or jointly controlled entity) and the carrying amount of the subsidiary at the date that control was lost is regarded as the cost of that investment.
- On disposal of a foreign subsidiary, foreign exchange differences recognised in equity are not recycled to profit or loss.
- Includes guidance for preparing separate and/or combined financial statements, although such statements are not required under the IFRS for SMEs.
- If separate financial statements are presented, investments in subsidiaries, associates or joint ventures are accounted for either at cost less impairment or at fair value with changes in fair value recognised in profit or loss (choice available for each of the three classes).

Full IFRS requirements

- A parent that is itself a subsidiary of an entity using IFRSs must obtain the consent of its owners to be exempt from preparing consolidated financial statements.
- Permit a maximum difference of three months for differences in group reporting dates. Includes guidance on the adjustments required when there is a difference.

- Do not have a temporary control exemption. However, if on acquisition a subsidiary meets the criteria to be classified as held for sale under IFRS 5, it is accounted for at the lower of cost or fair value and presented as a disposal group held for sale.
- Non-controlling interest is measured either at fair value or at the proportionate share of the net assets for each transaction.
- Require the assets and liabilities of a former subsidiary and any NCI in the subsidiary to be derecognised at their carrying amount. A continuing investment in the former subsidiary is initially measured at fair value. Any resulting difference is recognised as a gain or loss in profit or loss attributable to the parent.
- On disposal of a foreign subsidiary the cumulative, foreign exchange differences relating to that subsidiary and recognised in equity are recycled to profit or loss.
- Investments in subsidiaries, associates or joint controlled entities in the separate financial statements are measured either at cost or in accordance with IAS 39.
- Do not include guidance and disclosure requirements in relation to combined financial statements.

Key UK GAAP conversion issues

- No size exemption (but under ASB proposals a 'small group' could apply FRSSE).
- Availability of exemption from consolidation for sub-groups with a parent reporting under, for example, US GAAP unclear.
- NCIs presented as part of equity, under UK GAAP minority interests are presented as a deduction from net assets.
- UK GAAP requirements on presentation of assets and liabilities of ESOPs and EBTs in company only balance sheets not included in IFRS for SMEs.

Section 10. Accounting policies, estimates and errors

Scope

- Provides guidance on selecting and changing accounting policies, together with the accounting treatment of changes in accounting estimates and the correction of errors.

Summary of IFRS for SMEs

- Accounting policies are the specific principle, basis, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- In the absence of specific guidance in the IFRS for SMEs, an entity should follow the following the hierarchy when developing accounting policies:
  - requirements of the IFRS for SMEs dealing with similar and related issues (i.e. try to analogise);
  - definition, recognition and measurement concepts and pervasive principles set out in Section 2: Concepts and pervasive principles.
- An entity may also consider the guidance in full IFRSs dealing with similar issues.
- Accounting policies must be applied consistently to similar transactions.
- An accounting policy is changed only if it is mandated by changes to the IFRS for SMEs or if it results in reliable and more relevant information.
- If a change in accounting policy is mandated by the IFRS for SMEs, the transitional provisions requirements, if specified, is applied. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods unless restatement is impracticable. The change in policy will then be applied prospectively from the start of the earliest period practicable with a corresponding adjustment to equity.
- Changes in accounting estimates are accounted for prospectively in the current year, or future years, or both depending on which periods the change affects.

- All material errors are corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening statement of financial position.

Full IFRS requirements

- In the absence of specific guidance in full IFRSs, the hierarchy of guidance includes pronouncements issued by other standard-setting bodies or industry practice as a source to consider.

Key UK GAAP conversion issues

- Limited guidance within IFRS for SMEs will result in increased need for judgement in determining accounting policies.
- Prior period adjustments restated when 'material' rather than 'fundamental'.

Section 11. Basic financial instruments

The IFRS for SMEs includes two sections on financial instruments. Section 11 applies to the basic financial instruments that are most likely to be relevant to SMEs, whereas Section 12 applies to other, more complex financial instruments and transactions, including hedge accounting. An entity applying the IFRS for SMEs has an accounting policy choice between applying either the provisions of Sections 11 and 12 in full or the recognition and measurement principles of IAS 39 *Financial Instruments: Recognition and Measurement*. An entity that applies the recognition and measurement principles of IAS 39, is required only to comply with the disclosure requirements of Sections 11 and 12 and not those of IFRS 7 *Financial Instruments: Disclosures*.

Scope

- Applies to all basic financial instruments. Examples of basic financial instruments included in the scope of this section, includes, but are not limited to:
  - cash, demand and fixed-term deposits;
  - debt instruments with a fixed return or variable return based on a quoted or observable interest rate (e.g. LIBOR);
  - loans, accounts and notes receivable or payable meeting certain conditions;
  - commercial paper and commercial bills held;
  - bonds and similar debt instruments;
  - intercompany loans;
  - commitments to receive a loan that cannot be net settled; and
  - investments in non-convertible and non-puttable ordinary and preference shares.
- Does not apply to:
  - investments in subsidiaries, associate or joint ventures;
  - an entity's own equity;
  - leases;
  - employers' rights and obligations under employee benefit plans; or
  - financial instruments in Section 12.

Summary of IFRS for SMEs

- Requires an amortised cost model for all basic financial instruments except for investments in non-puttable and non-convertible equity instruments with a quoted price or reliably measurable fair value. Those shares should be measured at fair value through profit or loss.
- Basic financial instruments are initially recognised at the transaction price, including transaction costs (except if measured at FVTPL). However, if the acquisition or issuance constitutes a financing transaction, initial measurement is at the present value of future cash payments discounted at a market rate of interest for similar instruments.
- Subsequent to initial recognition, basic financial instruments are measured as follows:
  - debt instruments at amortised cost using the effective interest rate method;
  - commitments to receive a loan that are within the scope of this section, at cost (if any) less impairment; and
  - investments in non-convertible and non-puttable shares at fair value if it can be measured reliably, otherwise at cost less impairment.
- Amortised cost is the present value of the financial instrument's future cash flows discounted at the effective interest rate (i.e. the rate that initially discounts estimated future cash flows to the initial carrying amount of the instrument). The interest expense (income) in a period equals the carrying amount at the beginning of the period multiplied by the effective interest rate.
- Financial assets and financial liabilities with no stated interest rate and that are classified as current, are initially measured at an undiscounted amount.
- Financial instruments measured at cost or amortised cost have to be assessed for impairment at the end of each reporting period.

- An impairment loss for instruments measured at amortised cost is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. For assets measured at cost, impairment is calculated as the difference between the carrying amount and the best estimate of the amount that will be received if the asset was sold at the reporting date.
- An impairment loss is reversed if the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. A reversal shall not result in a carrying amount that is greater than what it would have been had no impairment been recorded.
- Provides guidance on estimating fair value, including requiring the following hierarchy to be used:
  - quoted price for an identical asset in an active market;
  - a recent transaction price; and
  - a valuation technique.
- Financial assets are derecognised when:
  - the contractual rights to the cash flows expire or are settled;
  - substantially all the risks and rewards of ownership have been transferred; or
  - despite retaining some risks and rewards, control of the financial asset has been transferred and the other party has the practical ability to sell the asset in its entirety without needing to impose addition restrictions on the transfer.
- Any rights and obligations retained or created in the transfer are recognised separately.
- Financial liabilities are derecognised only when the obligation is discharged, cancelled or expires.

Full IFRS requirements

- Financial assets are classified using a four way model as either:
  - fair value through profit or loss;
  - available-for-sale;
  - held to maturity; or
  - loans and receivables.
- Include complex measurement principles and impairment requirements for the different categories of financial assets.
- Classification of financial assets requires an assessment of management's intentions for holding the financial instruments. There are also tainting provisions for held-to-maturity assets.
- Permit the designation of financial instruments at fair value through profit or loss in certain circumstances (known as fair value option).
- Cash flows relating to short-term receivables and payables are discounted if the effect of discounting is material.
- Impairment losses for unquoted equity instruments measured at cost less impairment are determined based on the present value of estimated future cash flows discounted at the current market rate of return as oppose to the best estimate of the amount an entity would receive if the asset were sold at the reporting date.
- Reversal of impairment losses on unquoted equity instruments and available-for-sale financial equity instruments is not permitted.
- Derecognition requirements for financial assets include the need to assess pass-through arrangements and whether there is continuing involvement.

Key UK GAAP conversion issues	• Introduces a fairly restricted accounting regime for basic financial instruments based on amortised cost using an effective interest model, impairment using an incurred loss model, reversal of impairment is allowed, derecognition of assets based on risk/reward and control tests, and derecognition of liabilities similar to UK GAAP. • Quoted securities must be measured at fair value. • Addition of most FRS 29 'significance' disclosures. • Option to use IAS 39 recognition/ measurement may be advisable when: – there is a need for consistency with full IFRS group policies; – an entity wishes to use the fair value option; – there are significant embedded derivatives; – an entity wishes to report gains and losses in other comprehensive income; or – an entity wishes to use more complex hedging strategies e.g. use of options.

Section 12. Other financial instruments issues

Scope

- Applies to complex financial instruments and transactions not within the scope of Section 11. Examples of financial instruments within the scope of this section includes:
  - asset-backed securities;
  - options, rights, warrants, futures contracts, interest rate swaps and forward contracts;
  - financial instruments designated as hedging instruments;
  - commitments to make a loan to another entity; and
  - commitments to receive a loan if they can be net settled in cash.
- Does not apply to:
  - Contracts or agreements, such as some insurance contracts, leases or contracts to buy or sell non-financial items, that could result in a loss to either party as a result of contractual terms that are unrelated to:
    - changes in the insured risk, leased price of the item or the price of the non-financial item;
    - changes in foreign exchange rates; or
    - a default by one of the counterparties;
  - interests in subsidiaries, associates or joint ventures;
  - employers' rights and obligations under employee benefit plans;
  - an entity's own equity; or
  - contracts for contingent consideration in a business combination (acquirer only).

Summary of IFRS for SMEs

- Financial assets and liabilities are recognised at their fair value, which normally is the transaction price when the entity becomes a party to the contractual provisions of the instrument.

- All financial instruments within the scope of this section are measured at fair value with changes in fair value recognised in profit or loss. There is an exception for equity instruments that are not publicly traded and whose fair value cannot be measured reliably, which are measured at cost less impairment.
- No separate accounting for embedded derivatives in either financial or non-financial contracts. The ability to keep the basic component at cost is lost. Embedded derivative assessment does not result in separation, but the entire contract at FVTPL.
- Hedge accounting permits the gain or loss on the hedging instrument and hedged item to be recognised simultaneously in profit or loss. Hedge accounting is only permitted for the following risks:
  - interest rate risk of debt instrument measured at amortised cost;
  - foreign exchange or interest rate risk in a firm commitment or on a highly probably forecast transaction;
  - price risk of a commodity that is held or in a firm commitment or highly probably forecast transaction to purchase or sell a commodity; and
  - foreign exchange risk in a net investment of a foreign operation.
- Defines only four types of hedging instruments that are permitted for hedge accounting.
- Hedge accounting can only be applied if hedge is expected to be highly effective at inception and at the beginning of each financial year (prospective test) and the hedge is documented. No specific effectiveness test or detail of items to be covered in hedge documentation is included. Also specifies other conditions to be satisfied to qualify for hedge accounting and the procedures to be followed in accounting for the hedging instrument and hedged item.

- Hedge accounting is discontinued prospectively for hedges that no longer qualify for hedge accounting from the beginning of the period during which the conditions were not met.

Full IFRS requirements

- Scope specifically excludes contracts between an acquirer and vendor in a business combination and certain loan commitments.
- Require separate accounting for embedded derivatives such that a host contract may be on a cost basis, and the derivative at fair value.
- Demanding documentation requirements for hedging including the risk management objectives, the strategy for undertaking a hedge transaction and the method for testing the effectiveness of a hedge.
- More risks are eligible for hedging and hedging of the entire hedged item (i.e. exposure to all risks) is permitted. A single hedging instrument may be designated as a hedge of multiple risks.
- Permit hedge accounting for portfolios.
- A broader number of hedging instruments are available for designation, including purchased options, and foreign currency loans for a hedge of foreign currency risk.
- Do not require the notional amount or maturity of the hedging instrument to be equal to the notional amount or maturity of the hedged item.
- Additional hedging requirements including a prospective effectiveness test needs to be performed at the inception of the hedge, and ongoing prospective and retrospective testing of hedge effectiveness.
- Hedge accounting is discontinued prospectively from date that conditions for hedge accounting are no longer met.

Key UK GAAP conversion issues	• More onerous than non-FRS 26 UK GAAP. • Introduces a FVTPL model for complex financial instruments, with all derivatives on-balance sheet at fair value, no synthetic instrument accounting, no separation of embedded derivatives, and very restricted hedge accounting (although the documentation requirements and effectiveness testing are not as prescriptive as full IFRS, they are more onerous than under UK GAAP). • See Section 11 above regarding option to use IAS 39 recognition and measurement.

Section 13. Inventories

Scope

- Applies to all inventories, except:
  - work in progress arising from construction contracts (see Section 23);
  - financial instruments; and
  - biological assets and agricultural produce at the point of harvest.
- Does not apply to the measurement of inventory held by commodity brokers, dealers or producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral resources to the extent that they are measured at fair value less costs to sell.

Summary of IFRS for SMEs

- Inventories are assets held for sale in the ordinary course of business, being produced for sale or to be consumed in the production process.
- Measured at lower of cost or estimated selling price less cost to complete and sell.
- The cost of inventories includes purchase cost, conversion cost and other costs incurred to bring the inventory to its present location and condition.
- Inventory items that are not interchangeable or produced for specific projects are measured using the individually identified costs.
- Other inventory items are measured using either the first-in, first-out or weighted average cost formula. The last-in, first-out method is not permitted.
- When inventories are sold, the carrying amount is recognised as an expense in the period in which the related revenue is recognised.

Full IFRS requirements

- The exemption from the measurement requirements of IAS 2 for producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products, is when these inventories are measured at net realisable value in accordance with well-established industry practices.

- Refers to net realisable value rather than estimated selling price less costs to complete and sell.
- Require the inclusion of borrowing costs in the cost of inventory in limited circumstances.

Key UK GAAP conversion issues	• Similar to SSAP 9 but the term 'net realisable value' (NRV) is replaced with 'estimated selling price less costs to complete and sell' (ESPLCTCAS). • Post-harvest agricultural produce comes within the scope, but pre-harvest biological assets are outside the scope. • Long-term contracts are dealt with under 'Revenue' (see Section 23).

Section 14. Investments in associates

Scope

- Applies to accounting for associates in consolidated financial statements or individual financial statement of an investor in an associate that is not a parent entity.

Summary of IFRS for SMEs

- Presumption of significant influence if investment represents, directly or indirectly more than 20 per cent of voting power.
- Investments in associates are accounted for using the:
  - cost model;
  - equity method; or
  - fair value model.
- An entity using the cost model must measure an investment for which there is a published price using the fair value model.
- Under the equity method, the investment is initially recorded at the transaction price and subsequently adjusted to reflect the investor's share of profit or loss, other comprehensive income and impairment. Implicit goodwill arising on acquisition is amortised. Detailed guidance is provided on application of the equity method.
- Investments measured at fair value are initially measured at the transaction price (excluding transaction costs) and subsequent changes in fair value are recognised in profit or loss.
- Investments in associates are classified as non-current assets.

Full IFRS requirements

- Require the separate classification and presentation of associates held for sale.
- Associates must be accounted for using the equity method in consolidated financial statements. The cost and fair value models are only permitted in the separate financial statements of the investor.
- Goodwill arising on the acquisition of an investment in an associate is not amortised.

- When significant influence is lost other than through partial disposal, the remaining investment is remeasured to fair value.

Key UK GAAP conversion issues	• Equity accounting remains available, but 'share of profit' is on a post-tax basis. • Cost and FVTPL options are added. • No three month limit on the gap between non-coterminous year-ends. • Less likely to record a liability if an associate makes losses.

Section 15. Investments in joint ventures

Scope

- Applies to accounting for joint ventures in consolidated financial statements or individual financial statements of a venture in a joint venture that is not a parent.

Summary of IFRS for SMEs

- A joint venture is a contractual arrangement to undertake an economic activity subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.
- In a jointly controlled operation, the venturer recognises the assets it controls, and liabilities and expenses it incurs, as well as its share of income earned.
- For jointly controlled assets, the venturer recognises its share of the joint assets, liabilities, income and expenses, as well as any liabilities and expenses that it has incurred directly.
- Interests in jointly controlled entities are measured using the:
  - cost model;
  - equity method; or
  - fair value model.
- An entity using the cost model must measure investment for which there is a published price using the fair value model.
- Guidance is provided on the accounting for transactions between a venture and a joint venture.
- If a venturer uses the equity method, it applies the guidance included in Section 14.
- Investments measured at fair value are initially measured at the transaction price (excluding transaction costs) and subsequent changes in fair value are recognised in profit or loss.

Full IFRS requirements	• Require the separate classification and presentation of joint ventures held for sale. • Interests in joint controlled entities must be accounted for either using proportionate consolidation or the equity method. The cost and fair value models are only permitted in the separate financial statements.
Key UK GAAP conversion issues	• Equity accounting remains available for joint ventures, but 'share of profit' is on a post-tax basis. Gross equity accounting no longer available. • Cost and FVTPL options added.

Section 16. Investment property

Scope

- Applies to accounting for properties held by the owner or some lessees to earn rentals and/or for capital appreciation, if fair value can be measured reliably without undue cost or effort on an ongoing basis.
- Does not apply to property used in the production or supply of goods or services or administrative purposes or held for sale in the ordinary course of business.

Summary of IFRS for SMEs

- Property interest held by a lessee under an operating lease, may be classified as investment property if it would otherwise meet the definition of an investment property and the lessee can measure the fair value without undue cost or effort on an ongoing basis. This classification is available on a property-by-property basis.
- Mixed used property is separated between investment property and property, plant and equipment.
- Investment property is measured at cost on initial recognition.
- Investment property under construction is measured at cost.
- Subsequently, investment property within the scope of this Section is measured at fair value at the reporting date with any changes recognised in profit or loss.
- If fair value cannot be measured without undue cost or effort on an ongoing basis, the property is accounted for as property, plant and equipment in accordance with Section 17.

Full IFRS requirements

- Accounting policy choice between fair value and cost model, including for property under construction.
- Property interest held under an operating lease and classified as investment property triggers a fair value accounting policy for all investment properties.

- Borrowing costs incurred during construction of investment property must be included in its cost.

Key UK GAAP conversion issues	
	• Cost option available on an asset-by-asset basis where fair value is not available without undue cost or effort. • Internal valuations possible (with disclosure). • Where fair value is used, gains and losses are reported in P&L. • No exemption for properties used by another group company. • Mixed use properties are split between investment property and property, plant and equipment. • Can include properties held under an operating lease.

Section 17. Property, plant and equipment

Scope

- Applies to the accounting for property, plant and equipment held for use in the supply of goods or services, for rental to others or administrative purposes and that is expected to be used during more than one period.
- Also applies to the accounting for investment property whose fair value cannot be measured reliably without undue cost or effort.
- Does not apply to biological assets related to agricultural activity or mineral rights and reserves.

Summary of IFRS for SMEs

- Initial recognition is at cost, which includes the purchase price, all costs necessary to get the asset ready for its intended use and an estimate of the costs of dismantling and removing the item, and restoring the site if required.
- Subsequent to initial recognition, property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment.
- Major components that have significantly different patterns of economic benefits are depreciated separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method should reflect the expected pattern of benefit consumption.
- Residual value, useful life and depreciation methods are reviewed when there is an indication that they have changed since the most recent annual reporting date and any changes are accounted for as a change in accounting estimate.
- Borrowing costs must be expensed (see Section 25).

Full IFRS requirements

- Assets held for sale and the recognition and measurement of exploration or evaluation assets are excluded from the scope.
- Borrowing costs directly attributable to construction of property, plant and equipment must be capitalised as part of its cost.
- Accounting policy choice between the cost and revaluation model.
- Review of residual value, useful life or amortisation methods should be performed annually.
- Separate depreciation of individual components is required when the cost of the component is significant in relation to the total cost of the asset.

Key UK GAAP conversion issues

- No option to revalue.
- No change to depreciation or impairment rules.
- No option to capitalise finance costs.
- Transitional provision – UK GAAP revalued amount or cost including finance costs may be used as 'deemed cost' at date of transition.

Section 18. Intangible assets other than goodwill

Scope

- Applies to all intangible assets other than goodwill and intangible assets held for sale in the ordinary course of business.
- Intangible assets are identifiable non-monetary assets without physical substance that are separable from the entity or arise from contractual or legal rights.
- Intangible assets do not include financial assets or mineral rights and reserves.

Summary of IFRS for SMEs

- An intangible asset is recognised if:
  - it is probable that future economic benefits attributable to the asset will flow to the entity;
  - the cost or value can be measured reliably; and
  - it does not result from expenditure incurred internally.
- Separately acquired intangible assets are initially measured at cost. Intangible assets acquired as part of a business combination or by way of a government grant, are initially measured at fair value.
- Expenditure incurred on internally generated items is recognised as an expense when incurred.
- Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses.
- All intangible assets are considered to have a finite useful life. If the useful life cannot be estimated reliably, it is presumed to be 10 years.
- Residual value is assumed to be zero, unless there is a commitment from a third party to purchase at end of useful life or there is an active market for the asset.
- Amortisation period and method are reviewed when there is an indicator that they have changed since the prior reporting date.

Full IFRS requirements	• Require the capitalisation of certain expenditure incurred on internally generated intangible assets, i.e. development costs meeting specified criteria. • Borrowing costs directly attributable to production of an intangible asset must be capitalised as part of its cost. • Intangible assets acquired free of charge or for nominal consideration by way of a government grant can initially be recognised at the nominal amount in accordance with IAS 20. • Accounting policy choice between the cost or revaluation model (only permitted if an active market exists). • Intangible assets with an indefinite useful life are not amortised but annually tested for impairment. • Review of residual value, useful life or amortisation methods should be performed annually.
Key UK GAAP conversion issues	• No ability to capitalise developments costs. • Amortisation period similar to UK GAAP where it is determinable. Otherwise, default to ten years.

Section 19. Business combinations and goodwill

Scope

- Applies to accounting for business combinations and goodwill both at the time of the business combination and subsequently.
- It does not apply to the:
  - combination of businesses under common control;
  - formation of a joint venture; or
  - acquisition of assets that do not constitute a business.

Summary of IFRS for SMEs

- Business combinations are defined as the bringing together or separate entities or businesses into one reporting entity. A business is an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or other economic benefits to participants.
- Business combinations are accounted for using the purchase method (NB this is as described in IFRS 3(2004), and not IFRS 3(2008)), which involves the following steps:
  - identifying an acquirer;
  - measuring the cost of the business combination as the aggregate of the fair value of assets given, liabilities assumed and equity issued including transaction costs;
  - allocating the cost of the business combination to the assets acquired and liabilities assumed based on their fair values; and
  - recognising any difference between the cost of the business combination and the acquirer's interest in the fair value of assets and liabilities assumed, as goodwill. If the difference is negative ('negative goodwill'), the resulting gain is recognised in profit or loss.

- Contingent consideration is included in the cost if it is probable and can be measured reliably. Subsequent adjustments to the estimate are recognised against goodwill.
- Provisions for acquired contingent liabilities are recognised as part of business combination if their fair value can be measured reliably.
- Goodwill is measured at cost less accumulated amortisation and impairment losses. If a reliable estimate of the useful life of goodwill cannot be made, it is presumed to be 10 years.

Full IFRS requirements

- Business combinations are accounted for using a revised acquisition method based on the fair value of the consideration transferred (method revised in 2008).
- Transaction costs are not capitalised as part of the cost of a business combination but expensed.
- Contingent consideration is initially recognised at fair value regardless of probability. Adjustments outside of the measurement period are recognised in profit or loss or other comprehensive income.
- Option to measure non-controlling interest either at fair value or at share of net-assets.
- In a business combination achieved in stages, any previously held interest in the acquiree is remeasured to fair value and included in the calculation of goodwill.
- Goodwill is not amortised but it is tested annually for impairment.

Key UK GAAP conversion issues	• Merger accounting not permitted (other than for 'common control' transactions) – an acquirer must be identified. • No change to UK acquisition method (e.g. acquisition costs, contingent consideration), but more intangibles identified separately from goodwill. • Group reconstruction concept replaced by wider concept of 'common control'. • Negative goodwill is recognised immediately in P&L. • Positive goodwill amortisation period defaults to ten years where its life is not determinable. • Transitional provision – no restatement of 'old' business combinations.

Section 20. Leases

Scope

- Applies to all leases, including some arrangements that do not take the legal form of a lease but convey rights to use assets in return for payments.
- Excluded from scope are:
  - leases to explore for or use mineral and other non-regenerative resources;
  - licensing agreements accounted for in accordance with Section 18;
  - measurement of property held by lessees that is accounted for as investment property and investment property provided by lessors under operating leases;
  - measurement of biological assets for lessees (finance leases) or lessors (operating leases);
  - certain leases in the scope of Section 12; and
  - onerous operating leases.

Summary of IFRS for SMEs

- Lease classification is made at the inception of the lease and is not changed unless the terms of the lease change.
- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples of situations that would normally lead to a lease being classified as a finance lease are:
  - transfer of ownership by end of lease term;
  - option to purchase asset at price below fair value;
  - lease term is for major part of economic life of asset;
  - present value of minimum lease payments is substantially equal to the asset’s fair value; and/or
  - leased asset is of specialised nature.
- All other leases are classified as operating leases.

- Lessees – finance leases:
  - asset and liability are recognised at the lower of the present value of minimum lease payments and the fair value of the asset;
  - asset is depreciated over shorter of lease term and useful life;
  - finance charge is recognised based on pattern that reflect a constant periodic rate of return; and
  - finance lease payments are apportioned between interest expense and reduction in liability using the effective interest method.
- Lessees – operating leases:
  - lease payments are recognised as an expense on a straight-line basis over the lease term, unless the payments are structured to increase with expected general inflation to compensate for the lessor's expected inflationary cost increases or another systematic basis is more representative of the pattern of benefit.
- Lessors – finance leases:
  - receivable is recognised at an amount equal to the net investment in the lease. The net investment is the aggregate of the minimum lease payments receivable and any unguaranteed residual value, discounted at the interest rate implicit in the lease;
  - for leases other than those involving manufacturer or dealer lessors, initial direct costs are included in measurement of finance lease receivable;
  - manufacturer or dealer lessors recognise selling profit or loss consistent with the policy for outright sales;
  - finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment; and
  - finance lease payments are apportioned to reduce both the principal and unearned finance income.

- Lessors – operating leases:
  - assets subject to operating leases are presented in the statement of financial position according to the nature of the asset and are depreciated in accordance with the lessor's depreciation policy for similar assets; and
  - lease income is recognised on a straight-line basis over the lease term, unless structured to increase with expected general inflation or another systematic basis is more representative of the pattern of benefit.
- If a sale and leaseback transaction results in a finance lease, the seller-lessee should amortise any excess of sales proceeds over the carrying amount of the asset over the lease term.
- If a sale and leaseback transaction results in an operating lease and was at fair value, any profit is recognised immediately.

Full IFRS requirements

- No scope exclusion for onerous contracts and certain contracts dealt with in Section 12.
- Operating lease payments that are structured to increase with expected inflation to compensate for the lessor's expected inflationary cost increases are not excluded from requirement to recognise the lease income/expense on a straight-line basis.

Key UK GAAP conversion issues

- Basic finance/operating lease model retained, but classification based on eight indicators, of which the '90% test' is one.
- No guidance on lease incentives, but UK treatment would be best practice.
- Lessor accounting of finance leases is on a pre-tax basis.
- Lessee accounting similar to UK, but additional feature allowing operating lease rentals to be increased by inflation without being 'straight-lined'.

Section 21. Provisions and contingencies

Scope

- Applies to all provisions, contingent liabilities and contingent assets, except those covered by other sections of the IFRS for SMEs, for example, leases, construction contracts, employee benefits and income tax.
- It does not apply to executory contracts unless they are onerous contracts.

Summary of IFRS for SMEs

- A provision is recognised only when a past event has created a present obligation at the reporting date, an outflow of economic benefits is probable and the amount of the obligation can be estimated reliably.
- An obligation arises when an entity has no realistic alternative to settle the obligation and can be a legal or constructive obligation. This excludes obligations that will arise from future actions, even if they are contractual, no matter how likely they are to occur.
- Provisions are measured at the best estimate of the amount required to settle the obligation at the reporting date and should take into account the time value of money if it is material.
- When all or part of a provision may be reimbursed by a third party, the reimbursement is recognised as a separate asset when it is virtually certain that payment will be received.
- Provisions are utilised only for the purpose for which they are originally recognised.
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.
- A contingent liability arises when there is a possible but uncertain obligation or a present obligation that fails to meet one or both of the recognition criteria for provisions.
- Contingent liabilities are not recognised as liabilities, but disclosure is required unless the possibility of an outflow of resources is remote.

- When an inflow of economic benefits is probable but not virtually certain, a contingent asset is disclosed.

Full IFRS requirements	• Provide significantly more guidance on provisions relating to restructurings.
Key UK GAAP conversion issues	• No change to UK GAAP.

Section 22. Liabilities and equity

Scope

- Applies to the classification of all types of financial instruments as either liabilities or equity, except:
  - interest in subsidiaries, associates or joint ventures accounted for in accordance with sections 9, 14 or 15 of the IFRS for SMEs;
  - employers' rights and obligations under employee benefit plans;
  - contracts for contingent consideration in a business combination (acquirer only); and
  - share-based payment transactions.
- Applies to the accounting for equity instruments issued to owners of the entity.

Summary of IFRS for SMEs

- Classifies issued financial instruments between liabilities (obligations) and equity (residual interest).
- Puttable instruments and instruments that impose on the entity an obligation to deliver a pro-rata share of net assets only on liquidation, and that (a) are subordinate to all other classes of instruments and (b) meet specific criteria, are classified as equity instruments even though they would otherwise meet the definition of a financial liability.
- Members' shares in co-operative entities are equity only if the entity has an unconditional right to refuse redemption of the members' shares or redemption is unconditionally prohibited by law, regulation or the entity's governing charter.
- The issue of shares is recognised as equity when another party is obliged to provide cash or other resources in exchange for the instruments. This applies equally to the sale of options, rights, warrants and similar equity instruments.

- Equity instruments are measured at the fair value of the cash or other resources received, net of the direct costs of issuing the equity instruments. If payment is deferred, the time value of money should be taken into account in initial measurement if material.
- Capitalisation or bonus issues and share splits do not result in changes to total equity and are recognised by reclassifying amounts within equity in accordance with applicable laws.
- Proceeds on the issue of a compound financial instrument are allocated between the liability and equity component. The liability component is measured at the fair value of a similar liability that does not have a conversion feature. The residual amount is allocated to the equity component.
- Treasury shares are measured at the fair value of the consideration paid and are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of treasury shares.
- Equity is reduced by the amount of distributions to owners, net of any income tax benefits.
- When an entity has an obligation to distribute non-cash assets to its owners, the liability is recognised at the fair value of the assets to be distributed (no common control exemption).
- Changes in a parent's controlling interest in a subsidiary that do not result in a loss of control are treated as equity transactions with the owners and no gain or loss in recognised.

Full IFRS requirements

- Excludes distributions of non-cash assets that are ultimately controlled by the same party before and after the distribution from the fair value measurement requirement.

Key UK GAAP conversion issues	
Key UK GAAP conversion issues	• Classification of equity/liability fully consistent with FRS 25, including recent updates for puttable shares and members' shares in co-operatives. Detailed application guidance is not included. • Incorporates a requirement to measure non-cash assets distributed to shareholders at fair value (giving rise to a 'gain on distribution'). • Non-controlling (minority) interests classified within equity, and transactions between a group and non-controlling interests recognised in equity (i.e. no goodwill on additions, and no gain/loss on disposals). • Cash receivable in respect of share capital called-up but not paid is recognised as a deduction from equity, not as an asset.

Section 23. Revenue

Scope

- Applies to the accounting for revenue arising from the sale of goods, rendering of services, construction contracts and the use by others of entity assets yielding interest, royalties or dividends.
- It does not apply to revenue or income arising from transactions and events dealt with in other sections of the IFRS for SMEs.

Summary of IFRS for SMEs

- Revenue is recognised at the fair value of the consideration received or receivable taking into account trade discounts, prompt settlement discounts and volume rebates.
- Revenue only includes the gross inflow of economic benefits on the entity's own account. Therefore revenue does not include sales taxes collected on behalf of a government.
- When payment of the consideration is deferred and the arrangement contains a financing element, revenue is recognised at the present value of future receipts determined using an imputed rate of interest that reflects what would have been the up-front cash sale price. The difference between the present value of all future receipts and the nominal amount of the consideration is subsequently recognised as interest revenue.
- Loyalty awards granted to customers as part of a sales transaction are accounted for as a separately identifiable component of the sales transaction, with the fair value of the consideration allocated between the award credits and other components of the sale.
- Revenue is generally recognised when it is probable that the economic benefits will flow to the entity, when the amount of revenue can be measured reliably, and the following conditions are met:
  - from sale of goods: when significant risks and rewards have been transferred, the seller has lost effective control and the costs incurred (or to be incurred) can be measured reliably;

- from rendering of services: when the stage of completion and costs incurred (or to be incurred) can be measured reliably; and
- from construction contracts: when the outcome of a construction contract (stage of completion) can be measured reliably.

- When the outcome of a transaction for the rendering of services or construction contract cannot be measured reliably, revenue is recognised to the extent that costs incurred will be recoverable.
- Revenue from the use by others of entity assets, is recognised when an inflow of future economic benefits is probable and the amount of revenue can be measured reliably. The following bases are used:
  - for interest: the effective interest method;
  - for royalties: on an accrual basis in accordance with the substance of the agreement; and
  - for dividends: when the shareholder's right to receive payment is established.

Full IFRS requirements

- Excludes revenue arising from extraction of mineral ores and changes in the value of current assets from the scope of IAS 18.

Key UK GAAP conversion issues

- Consistent with FRS 5 Application Note G.
- Includes guidance on measuring revenue on construction contracts, and restricts use of percentage of completion to contracts where the customer was involved at the outset.
- No change to services, if following UITF 40 *Revenue recognition and service contracts*.
- List of examples based on IAS 18.

Section 24. Government grants

Scope	• Applies to the accounting for government grants. Government grants are assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions. • Does not apply to government assistance provided in the form of income tax benefits.
Summary of IFRS for SMEs	• A grant that does not impose specified future performance conditions is recognised as income when the grant proceeds are receivable. • A grant that imposes specified future performance conditions is recognised as income only when the performance conditions are met. • Grants received before the revenue recognition criteria are satisfied as recognised as a liability. • Grants are measured at the fair value of the asset received or receivable.
Full IFRS requirements	• Government grants are recognised when there is reasonable assurance that the entity complies with the conditions of the grant and the grants are receivable. • Government grants are recognised as income over the period necessary to match them with the related costs that they are intended to compensate, on a systematic basis. • Grants related to assets are recognised either as deferred income (with systematic recognition in profit or loss over the useful life of the asset), or as a deduction from the carrying amount of the asset (with recognition in profit or loss by way of a reduced depreciation expense). • Provide guidance on non-monetary grants (permitting measurement at a nominal amount) and the repayment of government grants.
Key UK GAAP conversion issues	• New approach treating grants as income as soon as conditions are met. No concept of deferring and matching capital grants with related asset amortisation. • Non-cash grants measured at fair value.

Section 25. Borrowing costs

Scope	• Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. • This includes interest expense calculated using the effective interest method, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings.
Summary of IFRS for SMEs	• All borrowing costs are recognised as an expense in the period in which they are incurred.
Full IFRS requirements	• Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.
Key UK GAAP conversion issues	• Option to capitalise interest on tangible fixed assets and WIP no longer available. • Transitional provision – no change to interest capitalised in the past.

Section 26. Share-based payment

Scope

- Specifies accounting for transactions in which an entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments.

Summary of IFRS for SMEs

- Equity-settled share-based payment transactions:
  - for transactions with employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the equity instruments at the grant date; and
  - transactions with parties other than employees are measured at the fair value of the goods or services received at the date that the entity obtains the goods or services. Where that fair value cannot be measured reliably, the fair value of the equity instruments is used.
- Cash-settled share-based payment transactions:
  - liability is measured at fair value on grant date and at each reporting date, with changes recognised in profit or loss.
- Share-based payment transactions with cash alternatives are accounted for as cash-settled transactions unless the entity has a past practice of settling by issuing equity instruments or the option lacks commercial substance.
- Vesting conditions related to employee service or non-market performance conditions are taken into account when estimating the number of equity instruments expected to vest.
- All market conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the measurement date with no subsequent adjustments made.

- The fair value of equity instruments are determined according to the following hierarchy:
  - observable market prices;
  - observable market data, such as recent transactions or independent valuation of the entity; or
  - use of a valuation method if the above is impracticable (entity's directors should use their judgement as to the most appropriate valuation method).
- If a modification of vesting conditions is to the benefit of employees, the incremental fair value granted is recognised over the remaining vesting period, in addition to the original grant date fair value. If the modification in not beneficial to the employees, the services received are accounted for as if the modification had not occurred.
- A cancellation or settlement of an equity-settled share-based payment transaction is accounted for as an acceleration of vesting.
- Share-based payments granted by a parent that presents consolidated financial statements under the IFRS for SMEs or full IFRSs, to the employees of a subsidiary, such subsidiary may recognise a reasonable allocation of the group expense.

Full IFRS requirements

- Specifically excludes transactions with employees in their capacity as owners, equity instruments issued in a business combination in exchange for control and contracts that can be settled net in cash or other financial instruments.
- Include a rebuttable presumption that the fair value of goods or services received from non-employees can be measured reliably.

- Fair value of equity instruments are determined based on market prices, taking into account all the terms and conditions of the award. Where market prices are not available, fair value is determined using a valuation technique. If the fair value cannot be determined reliably, the equity instruments can be measured at their intrinsic value.
- Arrangements in which the counterparty has a choice of settlement in cash or equity are treated as compound financial instruments.
- For group plans, subsidiaries are required to recognise the share-based payment expense based on the fair value of the equity instruments granted and the portion of the vesting period completed by the employee in the service of the subsidiary.

Key UK GAAP conversion issues

- Based on FRS 20 and recent updates in UITFs 41 and 44 dealing with vesting conditions and group schemes.
- Some relaxations:
  - (i) measurement of equity instruments includes greater judgement by directors; and
  - (ii) reasonable allocation basis for group schemes.
- No 'intrinsic method' fallback where fair values cannot be estimated reliably.

Section 27. Impairment of assets

Scope

- Impairment occurs when the carrying amount of an asset exceeds its recoverable amount.
- Applies to all assets except those covered by another section:
  - deferred tax assets;
  - assets arising from employee benefits;
  - financial assets within Sections 11 or 12;
  - investment property measured at fair value; and
  - biological assets measured at fair value less estimated costs to complete.

Summary of IFRS for SMEs

- Inventory:
  - impairment loss recognised in profit or loss when selling price less costs to complete and sell is lower than its carrying amount at reporting date; and
  - when circumstances that led to impairment no longer exists, the impairment loss is reversed (the reversal is limited to the original amount of the impairment loss).
- Assets other than inventories:
  - if recoverable amount is lower than the carrying amount, the difference is recognised in profit or loss as an impairment loss;
  - recoverable amount is the higher of fair value less costs to sell and value in use;
  - fair value less costs to sell is the amount obtainable from the sale of an asset between knowledgeable willing parties less the costs of disposal;
  - value in use is the present value of future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life;

- the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate does not reflect risks for which the future cash flow estimates have been adjusted;
- assess at each reporting date if there is an indication of impairment. If impairment is not indicated no need to calculate recoverable amount;
- if not possible to determine recoverable amount of asset, then determine the recoverable amount of the CGU to which it belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely identifiable of the cash inflows from other assets (or groups of assets);
- an indication of impairment may also indicate that the useful life, depreciation method or residual value needs to be reviewed;
- an impairment loss recognised for a CGU is allocated first to goodwill within to the CGU and then to the pro-rata to other assets based on their carrying amounts; and
- reversal of prior impairment losses is permitted in certain instances.

- Goodwill:
  - goodwill acquired in a business combination is allocated to each CGU expected to benefit from the synergies of the combination;
  - for purposes of impairment testing, the carrying amount of a CGU is grossed up to include goodwill attributable to non-controlling interest;
  - if goodwill cannot be allocated to CGUs on a non-arbitrary basis, it is tested for impairment by determining the recoverable amount of either the acquired entity, if it has not been integrated, or the entire group of entities if it has been integrated; and

– reversal of an impairment loss recognised for goodwill is not permitted.

Full IFRS requirements

- An impairment loss on an asset carried at a revalued amount is accounted for as a revaluation decrease.
- Intangible assets not yet available for use, those with an indefinite useful life and goodwill are tested annually for impairment.
- Goodwill acquired in a business combination is always required to be allocated to each CGU expected to benefit from the synergies of the combination (no exception for arbitrary allocations).
- Grouping of cash-generating units for impairment testing of goodwill cannot result in a grouping being larger than an operating segment.

Key UK GAAP conversion issues

- Principles consistent with FRS 11.
- Removal of indefinite lives for goodwill and intangible assets results in no automatic requirement for annual impairment tests, but instead only required where trigger events occur.
- Some relaxation for acquired goodwill.

Section 28. Employee benefits

Scope

- Applies to all forms of consideration given by an entity in exchange for service rendered by employees, including the following, but excluding share-based payment transactions:
- – short-term benefits;
- – post-employment benefits;
- – other long-term benefits; and
- – termination benefits.

Summary of IFRS for SMEs

- The cost of providing employee benefits is recognised in the period in which employees have become entitled to the benefits.
- Short-term employee benefits:
  - are recognised at the undiscounted amount of benefits expected to be paid in exchange for services;
  - cost of accumulating compensated absences are recognised when employees render service that increase their entitlement to future compensated absences;
  - costs of non-accumulating compensated absences are recognised when they occur; and
  - profit-sharing and bonus payments are recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefits plans are classified as either defined contribution or defined benefit plans.
- For defined contribution plans, expenses are recognised in the period in which the contribution is payable.
- Defined benefit plans:
  - defined benefit liability is recognised as the net total of the present value obligations under the plans minus the fair value of plan assets at the reporting date;

- the projected unit credit method is applied to measure the define benefit obligation if it can be done without undue cost or effort. Otherwise, the calculation can be simplified by ignoring estimated future salary increases, future service of current employees and possible in-service mortality of current employees;
- curtailments or settlements that will result in changes to or elimination of the defined benefit obligation and any resulting gain or loss should be recognised in profit in loss;
- plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies;
- actuarial gains and losses may be recognised either in profit or loss or in other comprehensive income; and
- all past service costs recognised immediately in profit or loss.

- Other long-term employee benefits are recognised and measured in the same way as post-employment benefits under a defined benefit plan.
- Termination benefits are recognised when the entity is demonstrably committed either to terminate the employment of employees before normal retirement date or as a result of an offer to encourage voluntary redundancy.

Full IFRS requirements

- Defined benefit plans:
  - actuarial gains and losses may be
    - recognised immediately in profit or loss;
    - deferred up to a maximum, with any excess amortised in profit or loss (the 'corridor approach'); or
    - recognised immediately in other comprehensive income;
  - past service cost is recognised as an expense over the average period until the benefits vest;

- amount recognised for defined benefit liability includes unrecognised actuarial gains or losses and past service costs; and
- requires the projected unit credit method to determine the present value of defined benefit obligations in all cases.

Key UK GAAP conversion issues

- Comprehensive coverage of all employee benefits (excluding share-based payments).
- Employee benefits other than defined-benefit (DB) pension schemes: consistent with UK practice, but specific guidance on holiday pay accrual; discounting required for termination benefits payable > 12 months.
- DB pension schemes: similar to FRS 17 if information available without undue cost or effort; otherwise may use a discontinuance basis (ignore future service, salary increases and in-service mortality):
  - no requirement for external valuation;
  - actuarial gains/losses reported in either P&L or 'Other comprehensive income'; and
  - no spreading of past service costs.
- Multi-employer exemption not available for schemes servicing entities under common control (i.e. group pension plans):
  - must allocate to individual employer entities but may use 'reasonable allocation'.

Section 29. Income tax

Scope

- Income tax includes all domestic and foreign taxes that are based on taxable profit.
- It also includes withholding taxes that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

Summary of IFRS for SMEs

- Current tax liabilities and assets are recognised for current and prior period taxes, measured at the applicable tax rates at the reporting date, taking into consideration the effect of all possible outcomes of a review by the tax authorities.
- Temporary differences arise from differences between the carrying amounts and tax bases on of assets and liabilities.
- Tax base of an asset assumes recovery of carrying amount through sale at the end of the reporting period. Tax base of a liability assumes settlement of carrying amount at the end of the reporting period.
- Deferred tax liabilities (assets) are recognised for all temporary differences that are expected to increase (reduce) taxable profit in future and for the carry forward of unused tax losses and tax credits, except for temporary differences associated with:
  - assets or liabilities for which the entity expects to recover or settle the carrying amount without affecting taxable profit;
  - unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration; and
  - the initial recognition of goodwill.
- A valuation allowance is recognised against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered.

- Deferred tax assets and liabilities are measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities using enacted tax rates that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.
- Current and deferred tax assets and liabilities are not discounted.
- Current and deferred tax are recognised as tax expense in profit or loss except to the extent that the tax is attributable to an item of income or expense recognised as other comprehensive income or an item recognised in equity.
- Withholding taxes paid to taxation authorities on dividends paid are charged to equity as part of the dividends.

Full IFRS requirements

- No initial step in determining deferred tax assets and liabilities, i.e. no deferred tax arises in respect of an asset or liability if there is not expected to be an effect on taxable profit when the entity recovers or settles its carrying amount.
- Tax basis of assets and liabilities are determined based on the manner of expected recovery or settlement of the carrying amount of the asset or liability.
- Taxable temporary differences do not arise from the initial recognition of assets and liabilities not acquired in a business combination that at the time of the transaction do not affect accounting or taxable profit.
- Exemption from recognition of deferred tax from temporary differences arising from investments in subsidiaries, branches, joint ventures and associates, is not limited to foreign operations only. However, the exemption is restricted to where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
- Do not include specific guidance relating to uncertain tax positions.

- Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be sufficient to recover the carrying amount of the deferred tax asset. The use of a valuation allowance is not required but the net asset will be the same.
- Specific requirements for tax arising in a business combination and in respect of share-based payment transactions.

Key UK GAAP conversion issues

- Complex 'temporary difference' method based not only on existing IFRS standard but also projected IFRS ED that has been subsequently rejected by IASB. Results are unpredictable and unrelated to tax cash flows.
- Will give rise to new deferred tax on:
  - initial recognition of non-deductible assets/ liabilities;
  - remeasurement gains on non-monetary assets (e.g. investment properties);
  - fair value adjustments in business combinations; and
  - some unremitted earnings in foreign subsidiaries, associates and joint ventures.
- No discounting of deferred tax balances.
- Deferred tax presented as non-current asset or liability.

Section 30. Foreign currency translation

Scope

- Applies to foreign currency transactions and foreign operations in the financial statements of an entity.
- Prescribes the translation of financial statements into a presentation currency.
- Notes that the requirements in Section 11 and 12 apply to financial instruments denominated in a foreign currency and hedge accounting of foreign currency items.

Summary of IFRS for SMEs

- Functional currency is the currency of the primary economic environment in which an entity operates.
- On initial recognition, foreign currency transactions are recognised in the functional currency using the spot exchange rate at the date of the transaction.
- At the end of each reporting period:
  - monetary items are retranslated using the closing rate;
  - non-monetary items carried at historical cost continue to be measured using the exchange rate at the date of the transaction; and
  - non-monetary items measured at fair value are measured using the exchange rate on the date when fair value was determined.
- Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those used on initial recognition, are recognised in profit or loss (unless part of the entity's net investment in a foreign operation).
- The exchange component of a gain or loss on a non-monetary item is recognised where the gain or loss on the non-monetary item is recognised. This can be either in profit or loss, or other comprehensive income.

- In the consolidated financial statements exchange differences arising on a monetary item that forms part of the net investment in a foreign operation is recognised in other comprehensive income and reported as component of equity. Such exchange differences are not reclassified to profit or loss on disposal of the net investment.
- The effect of a change in functional currency is accounted for prospectively from the date of the change.
- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
  - income and expenses for each period presented are translated at the exchanges rates at the date of the transactions; and
  - all resulting exchange differences are recognised in other comprehensive income in consolidated accounts, with no recycling on disposal.
- Goodwill arising from the acquisition of a foreign operation and any fair value adjustments on acquisition are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

Full IFRS requirements

- In the consolidated financial statements exchange differences recognised in other comprehensive income that arose from monetary items treated as part of the net investment in a foreign operation are recycled to profit or loss on disposal of the foreign operation.

Key UK GAAP conversion issues	• Based on FRS 23. SSAP 20 bases superseded: – identify 'functional currency' rather than 'local currency' which may affect structures that rely on 'local currency' concept; – 'permanent as equity' items retranslated through P&L in individual entity accounts; – all hedging now covered under financial instruments sections; and – no use of forward/contracted rate for monetary items; • SSAP 20 net investment hedging of investment in a subsidiary with a foreign currency loan not available.

Section 31. Hyperinflation

Scope	• Applies to the financial statements of an entity whose functional currency is that of a hyperinflationary economy.
Summary of IFRS for SMEs	• Provides possible indicators of hyperinflation. • Require the financial statements of an entity whose functional currency is hyperinflationary to be stated in terms of the measuring unit current at the end of the reporting period. • Comparative information for prior periods is restated into the same current measuring unit. • Assets and liabilities not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index. • Monetary items are not restated because they are expressed in terms of the current measuring unit. • All items in the statement of comprehensive income (and income statement if presented) are restated by applying the change in general price index from the date of initial recognition. • The gain or loss on the net monetary position is included in profit or loss.
Full IFRS requirements	• Consistent with IFRS for SMEs.
Key UK GAAP conversion issues	• No longer able to use a stable currency as an alternative functional currency.

Section 32. Events after the end of the reporting period

Scope	• Describes principles for recognising, measuring and disclosing events after the end of the reporting period.
Summary of IFRS for SMEs	• Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. • The financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period (known as adjusting events). • The financial statements are not adjusted to reflect events that arose after the end of the reporting period. The nature and impact of such events are disclosed (known as non-adjusting events). • Dividends declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period.
Full IFRS requirements	• Consistent with IFRS for SMEs.
Key UK GAAP conversion issues	• Principles consistent with FRS 21. • Dividends proposed after the year-end may be presented as a separate component of retained earnings.

Section 33. Related party disclosures

Scope	• Requires disclosure in the financial statements to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and transactions and outstanding balances with such parties.
Summary of IFRS for SMEs	• Disclosure is required of: – relationships between a parent and its subsidiaries; – key management personnel compensation in total; and – related party transactions. • For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the relationship. • Government-related entities are exempt from most of the general disclosure requirements.
Full IFRS requirements	• Minor differences when compared to IAS 24 as revised in November 2009.
Key UK GAAP conversion issues	• Minor change to the definition of a related party. • Some disclosure changes: – no exemption in individual entity accounts for transactions with other group entities; – disclosure of key management personnel remuneration (not just directors); – separate disclosure for each type of related party (parent, subsidiary, joint venture, key management personnel, etc); – additional disclosures re outstanding balances (eg terms and conditions, guarantees, etc); and – no disclosure of the name of the related party.

Section 34. Specialised activities

Scope

- Provides guidance on financial reporting by SMEs involved in agriculture, extractive activities and service concessions.

Summary of IFRS for SMEs

- Agriculture:
  - biological assets, for which fair value is readily determinable without undue cost or effort, are measured at fair value less costs to sell. Changes in fair value less cost to sell are recognised in profit or loss;
  - all other biological assets are measured at cost less accumulated depreciation and impairment losses; and
  - at point of harvest, agricultural produce is measured at fair value less costs to sell and accounted for as inventories.
- Extractive activities:
  - expenditure incurred for the acquisition or development of assets for use in extractive activities are accounted for in accordance with Section 17 *Property, Plant and Equipment* and/or Section 18 *Intangible Assets other than Goodwill;* and
  - obligations for the dismantling or removal of items are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.
- Service concession arrangements:
  - provides guidance on how to account for arrangements whereby an operator develops, operates and maintains infrastructure assets of a government;
  - a financial asset is recognised to the extent that the operator has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services. The financial asset is measured at fair value and accounted for in accordance with Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*;

- an intangible asset is recognised to the extent that the operator receives a right to charge users for the public service. The intangible asset is recognised at fair value and accounted for in accordance with Section 18; and
- revenue is recognised and measured in accordance with Section 23 *Revenue*.

Full IFRS requirements

- Agriculture:
  - fair value measurement is required except when fair value cannot be measured reliably.
- Extractive activities:
  - the development of accounting policies for the recognition and measurement of exploration and evaluation assets is excluded from the hierarchy of authoritative guidance provided in IAS 8; and
  - expenditure recognised as exploration and evaluation assets are excluded from the scope of IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.
- Service concession arrangements:
  - principles consistent with IFRS for SMEs, but with more detailed guidance.

Key UK GAAP conversion issues

- Agriculture – more use of fair value, but only where readily determinable.
- Extractive industries – accounting for intangibles, tangibles and provisions falls within standard Sections. No special dispensation for industry practice.
- Service concession arrangements – covers operators only where grantor 'controls' the asset:
  - supersedes 'risk/reward' basis of FRS 5; and
  - operator may have financial or intangible asset (or both), but not a tangible fixed asset.

Section 35. Transition to the IFRS for SMEs

Scope

- Applies to the first financial statements in which an entity makes an explicit and unreserved statement of compliance with the IFRS for SMEs regardless of whether an entity has previously applied full IFRSs or local GAAP.
- An entity can be a first-time adopter for the IFRS for SMEs only once.

Summary of IFRS for SMEs

- The date of transition is the beginning of the earliest period for which an entity presents full comparative information in accordance with the IFRS for SMEs.
- In the opening statement of financial position, the entity should:
  - recognise all assets and liabilities as required by the IFRS for SMEs;
  - not recognise items if the IFRS for SMEs does not permit its recognition;
  - reclassify items previously recognised under previous GAAP if required under the IFRS for SMEs; and
  - apply the IFRS for SMEs in measuring all recognised assets and liabilities.
- An entity does not retrospectively change the accounting it followed previously for the following transactions (mandatory exceptions):
  - derecognition of financial assets and liabilities;
  - hedge accounting;
  - accounting estimates;
  - discontinued operations; and
  - measurement of non-controlling interest.
- A number of voluntary exemptions are provided which an entity can apply in preparing its first financial statements that comply with the IFRS for SMEs.
- Contains a general exemption from retrospective application when this would be impracticable.

Full IFRS requirements	• Held-for-sale items and discontinued operations are not specifically excluded from retrospective application. • Include optional exemptions for transactions and balances that are not applicable to the IFRS for SMEs, e.g. corridor approach for recognition of actuarial gains or losses, insurance contracts and borrowing costs. • Require deferred tax to be recognised for temporary differences relating to the carrying amounts of assets and liabilities in the opening IFRS statement of financial position (no optional exemption for undue cost or effort). • No general exemption when retrospective application is considered impracticable.
Key UK GAAP conversion issues	• Expect ASB to establish specific transitional provisions for UK.

Notes

Notes

Deloitte refers to one or more of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTT and its member firms.

Deloitte LLP is the United Kingdom member firm of DTT.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2010 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 2438A

Member of Deloitte Touche Tohmatsu