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IFRS for SMEs versus LUX GAAP

A comprehensive comparison

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Foreword

Welcome to this edition of "IFRS for SMEs versus LUX GAAP – a comprehensive comparison"

Introduction
The objective of this brochure is to provide you with a summary and a clear and practical oversight of the key differences between the requirements of IFRS for SMEs and LUX GAAP. This summary does not attempt to capture all of the differences that exist or that may be material to a particular entity's financial statements. Our focus is on differences that are commonly found in practice.

Use of IFRS for SMEs worldwide
On August 14, 2009, South Africa was the first country to adopt the IFRS for SMEs. All entities that fall within the scope of IFRS for SMEs can use the new standard with immediate effect.

Following South Africa, until today, there are several other countries[i] that have already adopted IFRS for SMEs in some way. Other countries, like Argentina and the United Kingdom propose to adopt it.

Use of IFRS for SMEs in Europe
IFRS for SMEs is not yet part of the European Accounting Regulation.

The European Commission launched the consultation in November 2009 to gain an understanding of EU stakeholders' views on the IFRS for SMEs. The Commission said that the responses will assist the Commission in its ongoing review of the Accounting Directives.

[i] Countries including: Guyana, Trinidad and Tobago, Mauritius, Sierra Leone, Botswana, Cambodia, Venezuela, Lebanon, Costa Rica, Brazil, Namibia, Dominican Republic, Philippines, Panama, Jordan, Ethiopia, Hong Kong.

Use of IFRS for SMEs in Luxembourg
As of today, IFRS for SMEs cannot be used yet as a reporting framework for statutory purposes in Luxembourg, as in the current Luxembourg commercial law the application of IFRS for SMEs is not included as an option. The application of IFRS for SMEs will not happen in Luxembourg, before the standard will be accepted at the level of the European Union. Before that it will not form part of the European Accounting Regulation.

We hope, that the IFRS for SMEs will be adopted at both European and Luxembourg level in the future, although not as a mandatory requirement, but as a voluntary option.

Financial statements prepared under IFRS for SMEs are based on internationally accepted financial reporting standards. As such it could help entities (for example those being a subsidiary of a listed entity) to reduce their costs of complying with different accounting standards, because one set of financial statements can now be used for different purposes.

Entities have to bear in mind at least one important matter. Luxembourg has a dependent regime in terms of tax, meaning that their transition from LUX GAAP to IFRS for SMEs could significantly impact entities` tax position, unless there will be a change in the tax law.

Even though the application of IFRS for SMEs is not yet allowed in Luxembourg for statutory purposes, there could be entities in Luxembourg applying it for group reporting purposes, because IFRS for SMEs has been already adopted in several jurisdictions. Moreover we are convinced that there are already some entities considering the implementation, and we would like to help these entities by providing an overview of the requirements of each principle and of their differences.

As LUX GAAP and IFRS for SMEs are developing over time, we recommend you to approach your advisor in case you want to make an analysis of the differences between IFRS for SMEs and LUX GAAP specific for your company. Although great care has been given to the publication Deloitte S.A. and the authors will take no responsibility for any omissions.

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Abbreviations

ED	Exposure Draft
EU	European Union (27 countries)
DP	Discussion Paper
GAAP	Generally Accepted Accounting Principle(s)
IAS(s)	International Accounting Standard(s)
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)
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
LUX GAAP	Law of 10 August 1915 on commercial companies, as amended and Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings
SMEs	Small and Medium-sized Entity(ies)

Introduction

On 9 July 2009, the International Accounting Standards Board (IASB) issued the IFRS for Small and Medium-sized Entities (IFRS for SMEs), an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (IFRSs) in issue.

The IFRS for SMEs is a self-contained Standard, incorporating accounting principles that are based on full IFRSs but that have been simplified to suit the entities within its scope (known as SMEs), by:

- Removing some accounting treatments permitted under full IFRSs
- Eliminating topics and disclosure requirements not relevant to SMEs
- Simplifying requirements for recognition and measurement (reduction of the volume by more than 90% compared to full IFRSs)

Where financial statements are prepared using the Standard, the basis of presentation note would refer to compliance with the IFRS for SMEs (an internationally recognised 'cachet' to improve access to capital).

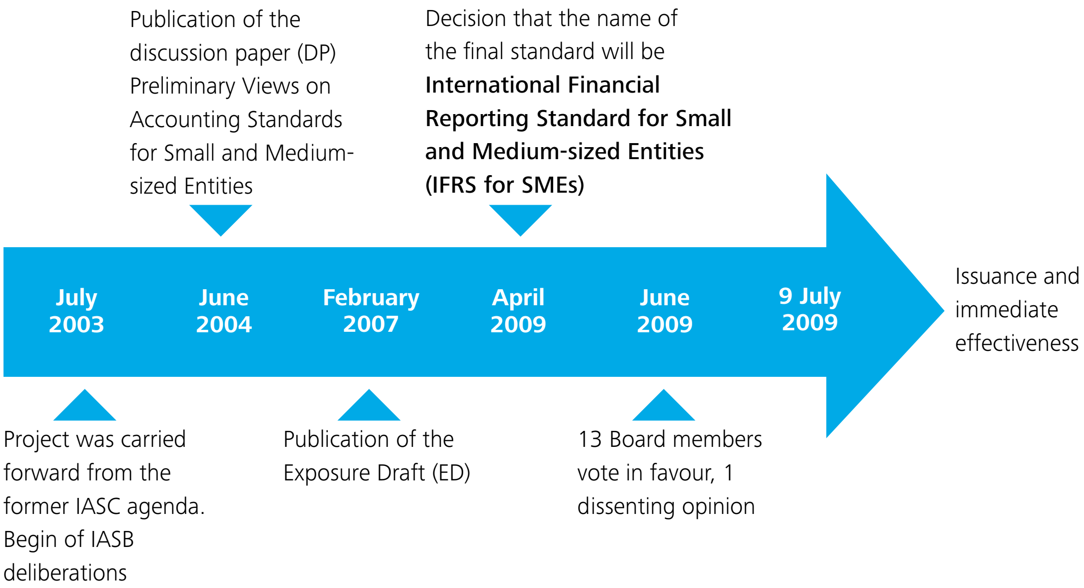
No effective date because the decision to adopt the IFRS for SMEs (and the timing for adoption) is a matter for each jurisdiction.

Basis for conclusions, illustrative financial statements, and presentation and disclosure checklist can be downloaded free from:
http://go.iasb.org/IFRSforSMEs

Summary of the IFRS for SMEs is available on:
http://www.iasplus.com/standard/ifrsforsmes.htm

IFRS for SMEs in your pocket is available on:
http://www.iasplus.com/dttpubs/1004pocketsmes.pdf

History of IFRS for SMEs



Key features of the IFRS for SMEs

The Standard has been organised by topic to make it more like a reference manual – intended by the IASB to be 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 that Standard in full (not permitted to 'mix and match' the requirements of the IFRS for SMEs and full IFRSs).

The IFRS for SMEs includes requirements for the development and application of accounting policies in the absence of specific guidance on a particular subject. In particular, an entity may, but is not required to, consider the requirements and guidance in full IFRSs dealing with similar and related issues.

However, there is a fallback that allows entities to choose to apply IAS 39 in its entirety instead of the financial instrument requirements in the IFRS for SMEs. This is the only fallback option to full IFRSs in the IFRS for SMEs (expected not to be chosen due to the additional complexity).

Effective date and transition

The effective date of the IFRS for SMEs will be determined in each jurisdiction that adopts it. The Standard contains a section on transition which contains all of the exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards – with additional simplifications in relation to comparative information. The IFRS for SMEs provides some relief from this by including an 'impracticability' exemption. Similarly, it provides an impracticability exemption with respect to restating the opening statement of financial position.

Who is eligible to use the IFRS for SMEs?

The IFRS for SMEs is intended by the IASB 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 its debt or equity instruments are publicly traded, or if it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients. Entities holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, and this is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks are not meeting the definition of SMEs, thus outside of scope.

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

However, because it would conflict with the IASB's intentions, even if the law or regulation in an entity's jurisdiction permits or requires the IFRS for SMEs to be used in the preparation of financial statements for small listed companies or small financial institutions – such financial statements cannot be described as conforming to the IFRS for SMEs.

Comparison of IFRS for SMEs and LUX GAAP

Principles/Policies

IFRS for SMEs names several principles, among them:
- Materiality
- Substance over form
- Prudence
- Completeness, comparability, timeliness etc.

LUX GAAP names less principles:
- "Prudence" is emphasised
- "Substance over form" is not required

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
10	**Selection of accounting policies:** If the issue is specifically addressed, then it shall be applied by entities, unless the effect is immaterial	**Selection of accounting policies:** No guidance is given but the annual accounts shall give a true and fair view of the undertaking's assets, liabilities, financial position and results
10	**Selection of accounting policies:** If it is not specifically addressed, management shall use its judgement in developing and applying an accounting policy	**Selection of accounting policies:** In line with IFRS for SMEs
10	**Selection of accounting policies:** Management shall refer to, and consider: • The requirements and guidance dealing with similar/related issues • The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and principles, + may also consider the requirements and guidance of full IFRSs	In line with IFRS for SMEs
10	**Changes in accounting policy:** • If required by changes to the standard – in accordance with the transitional provision • Voluntary changes must result in the financial statements providing reliable and more relevant information. Such changes shall be applied retrospectively (unless it is impracticable)	**Changes in accounting policy:** Retrospective application is not allowed. Any change in the accounting policy must be disclosed in the notes, including an assessment of its effect on the financial position and the profit or loss of the current year
10	**Changes in accounting estimates:** Prospectively by including in the profit or loss	**Changes in accounting estimates:** In line with IFRS for SMEs
10	**Correction of prior period errors:** Accounts shall be restated unless impracticable	**Correction of prior period errors:** In the extraordinary profit or loss of the current year (restatement is generally forbidden)

Financial Statements Presentation

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
3	Financial statements shall present fairly the **financial position, financial performance** and **cash flows** of an entity	The annual accounts shall give a true and fair view of the undertaking's assets, liabilities, **financial position and results**
3	Complete set has 5 elements: • Statement of financial position • Statement of comprehensive income • Statement of changes in equity • Statement of cash flows • Notes	Complete set has 3 elements: • Balance sheet • Profit and loss account • Notes • (+1) Management report, if criteria are met
4	**Statement of financial position:** Not fixed format, but minimum requirements which have to be presented on the face of the statement of financial position	**Balance sheet:** Fixed format as required by and included in LUX GAAP
5	**Statement of comprehensive income:** Includes income, expenses and OCI (other comprehensive income) of the entity	**Profit and loss account:** Includes income and charges of the entity
5	**Statement of comprehensive income:** If the entity has no items of OCI, it may present only an income statement	**Profit and loss account:** Not applicable
5	**Statement of comprehensive income:** Not fixed format, but minimum requirements which must presented on the face of the statement of comprehensive income	**Profit and loss account:** Fixed format as required by and included in LUX GAAP
5	**Statement of comprehensive income:** Expenses presented either by nature or by function	**Profit and loss account:** Expenses presented by nature
5	**Statement of comprehensive income:** An entity **shall not present** any items of income or expense as extraordinary items in the statement of comprehensive income, the separate income statement (if presented), or in the notes	**Profit and loss account:** Income and charges that arise otherwise than in the course of the company's ordinary activities **must be shown under** "Extraordinary income" or "Extraordinary charges"

Section	IFRS for SMEs	LUX GAAP
3	**Statement of income and retained earnings:** If specified conditions are met, a single statement of income and retained earnings may be presented (including presentation of dividend payable on the face) in place of the statement of comprehensive income and statement of changes in equity	**Profit and loss account:** Fixed format as required by and included in LUX GAAP Retained earnings and dividend payable can't be presented in it
6	**Statement of changes in equity:** Compulsory, unless specified conditions are met	**Statements of changes in equity:** Not required, not addressed
7	**Statement of cash flows:** Cash flows from operating activities are presented either by direct or by indirect method	**Statement of cash flows:** Not required, not addressed
8	**Notes to the accounts:** • Accounting policies • Information about judgements • Information about key sources of estimation uncertainty • Others required by specific pronouncements	**Notes to the accounts:** Accounting policies as well as other notes required by LUX GAAP, but less detailed than IFRS for SMEs

Consolidation

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
9	A parent entity shall present consolidated financial statements, unless it is a subsidiary of another entity, and the ultimate parent prepares consolidated financial statements in compliance with full IFRS or IFRS for SMEs	Exemption is given on quantified criteria, based on balance sheet total (€12,5 million), net turnover (€25 million), average number of employees (250 persons), as well as on qualitative criteria
9	Consolidated financial statements shall include all subsidiaries of the parent, other than those which was acquired with the intention of selling and disposing them within one year	The following exemptions apply: • Severe long-term restrictions on control • Information cost/benefits or undue delay • Shares held exclusively with a view to their subsequent resale
9	A subsidiary is an entity that is controlled by the parent, where control is the **power to govern** the financial and operating policies of an entity so as to **obtain benefits** from its activities	Control is derived from: • Voting right • Right to appoint the members of the boards • Agreement with the other shareholders
9	SPE (Special Purpose Entities) created by the entity must be consolidated when the substance of the relationship indicates that the SPE is controlled by the entity	Not addressed
9	Control can be achieved by having options or convertible instruments that are currently exercisable	Potential voting right are not considered when assessing control
9	Non-controlling interest has to be presented within the shareholders' equity	Minority interest is not presented within shareholders' equity
9	The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of **the same reporting date** unless it is **impracticable**	Consolidated financial statements must be prepared as of the same date, if the reporting date of a consolidated entity differs by **more than three months**, it shall be consolidated based on **interim financial statements**
9	Consolidated financial statements shall be prepared using **uniform accounting policies**. If different accounting policies used, **appropriate adjustments** are to be made when preparing the consolidated financial statements	Assets and liabilities to be included in consolidated accounts shall be valued according to **uniform methods**. However, other methods of valuation **complying with LUX GAAP** may be used in consolidated accounts

Section	IFRS for SMEs	LUX GAAP
9	The nature and extent of any **significant restrictions** on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans shall be disclosed	Not required
14	An investor shall account for all of its investments in associates using one of the following: • The cost model • The equity method • The fair value model	Investments in associates shall be accounted for by equity method in the consolidated financial statements
14	The cost model can't be used, if there is a published price quotation. If equity method used, the fair value of investments shall be disclosed for which published price quotation exist	Not addressed
14	**Equity method – reporting date:** The reporting date of the associate shall be **the same** as of the investor unless it is **impracticable**. If it is impracticable, the most recent financial statements shall be used and **adjusted for effects** of any significant transactions and events	**Equity method – reporting date:** If the difference in the reporting dates is more than three months, the associate has to draw up interim accounts
14	**Equity method – accounting policy:** If different accounting policies used by the associate, **appropriate adjustments** are to be made to reflect the investor's accounting policies unless it is **impracticable**	**Equity method – accounting policy:** Where an associate's assets or liabilities has been valued by methods other than those used for consolidation, **they may be revalued** by the methods used for consolidation
15	Types of joint ventures: • Jointly controlled operations • Jointly controlled assets • Jointly controlled entities	Not addressed

Section	IFRS for SMEs	LUX GAAP
15	A venturer shall account for all of its investments in associates using one of the following: • The cost model • The equity method • The fair value model No proportionate consolidation	Investments in jointly controlled entities shall be accounted for in proportion to the rights in its capital held by the investor (proportionate consolidation), or by equity method
19	Goodwill means the excess **of the cost** of the business combination over the acquirer’s interest **in the net fair value** of the identifiable assets, liabilities and contingent liabilities recognised	Goodwill is calculated as the difference between the book value of shares and proportion of capital and reserves: • Either on the basis of book values • Or on the basis of values of identifiable assets and liabilities
19	Goodwill shall be amortised during the useful life. If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years	Goodwill must be written off within a **maximum period of five years**, however, it may be written off over a period exceeding five years provided that this period does not exceed the useful economic life of the asset
19	Negative goodwill shall be recognised immediately in profit or loss	Negative goodwill shall be deducted from equity or amortised in the profit and loss account
9	The acquirer shall measure any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets	Minority interest is recorded based on proportion of book values

Related Party Disclosures

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
33	Requires an entity to disclose whether its financial position and profit or loss **have been affected by the existence of related parties** and by transactions and outstanding balances with such parties	**Much less information**, however on the face of the financial statements more information is disclosed
33	The related party is a person or entity that is related to the reporting entity, including as well, the member of the key management personnel of the entity or of a parent of the entity, or a **close member of that member's family**	The parties concerned are **limited**
33	An entity shall **disclose key management personnel compensation** in total. Compensation includes all employee benefits including those in the form of share-based payments	To disclose the **amount of compensation granted** to members of the administrative, managerial and supervisory bodies of the parent, and commitments to provide retirement pensions for current or former members of those bodies, with an indication of the total for each category

Financial Instruments

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
2	**Principle:** substance over form	**Principle:** form over substance
22	Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity (**puttable instruments** and instruments that oblige the entity to make mandatory payments)	Classification based on the legal form
22	An entity shall split the **convertible debt** or similar **compound financial instrument** into its liability and equity components, and initially, measure the liability component as the fair value of a similar liability that does not have a conversion feature, with the equity component representing the residual amount	Classify convertible debt as a liability at cost, or if the total amount repayable on any debt exceeds the amount received, the difference may be capitalised
22	If the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an **offset to equity in its statement of financial position**, not as an asset	Shall be recognised as an asset in the balance sheet
22	If the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash, the entity shall recognise the corresponding increase in equity to the extent of consideration received	If the entity receives the cash or other resources before the equity instruments are issued, the entity shall recognise the amount received as a liability in the balance sheet
22	An entity shall deduct from equity the fair value of the consideration given for the treasury shares	An entity may recognise treasury shares within financial assets, but in that case an undistributable reserve shall be created within equity for the carrying amount
22	When an entity has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed	Not addressed

Section	IFRS for SMEs	LUX GAAP
22	An entity shall account for the **transaction costs** of an equity transaction as a **deduction from equity**, net of any related income tax benefit	Transaction cost of equity transactions shall be recognised as expense in the profit and loss account
11	An entity shall choose to apply for basic financial instruments: • The provisions of IFRS for SMEs, or • The recognition and measurement provisions of IAS 39 (but retaining reduced disclosures) It is an accounting policy choice.	LUX GAAP shall be applied
11	An entity shall **recognise** a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument	Recognition and derecognition, as well, is based on the legal ownership of the instrument
11	All basic financial instruments shall be measured using the amortised cost model, except for **equity instruments** that are publicly traded or whose fair value can otherwise be measured reliably	The entity shall measure financial assets at cost less impairment such that financial assets are stated at the lower of cost or market value, valuation above costs is prohibited. Effective interest rate method can be used
11	**Initially**, an entity shall recognise financial instruments at the **transaction price**, including transaction costs (except for instruments measured at fair value through profit and loss)	When a financial asset or financial liability is recognised initially, an entity shall measure it at the price paid, although where the total amount repayable on any debt exceeds the amount received, the difference may be capitalised. The purchase price of assets shall be calculated by adding expenses incidental to the purchase to the to the price paid
11	If the arrangement constitutes a **financing transaction**, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument	Not addressed

Section	IFRS for SMEs	LUX GAAP
11	Subsequently, debt instruments (quoted or not) shall be measured **at amortised cost** using the **effective interest method**	The entity shall measure financial assets at cost less impairment such that financial assets are stated at the lower of cost or market value, valuation above costs is prohibited
11	Subsequently, an entity shall measure **equity instruments** that are publicly traded or whose fair value can otherwise be measured reliably **at fair value with changes in fair value recognised in profit or loss**	The entity shall measure financial assets at cost less impairment such that financial assets are stated at the lower of cost or market value, valuation above costs is prohibited
11	Subsequently, an entity shall measure **equity instruments** that are not publicly traded or whose fair value can't otherwise be measured reliably **at cost less impairment**	The entity shall measure financial assets at cost less impairment such that financial assets are stated at the lower of cost or market value, valuation above costs is prohibited
11	At the end of each reporting period, an entity shall **assess** whether there is objective evidence of **impairment** of any financial assets that are measured at cost or amortised cost. **Reversal of impairment** is allowed	Financial assets shall be subject to value adjustments with a view to stating them at market value, where lower. Valuation at the lower value provided for may not be continued if the reasons for which the value adjustments were made have ceased to apply
11	The impairment loss is the difference between the asset's **carrying amount** and the **best estimate** of the amount that the entity would receive for the asset if it were **to be sold at the reporting date**	The value adjustment is the difference between the asset's carrying amount and its **market value**, where lower, or, in particular circumstances, another lower value to be attributed to them at the balance sheet date. **Exceptional value adjustments** are permitted where these are necessary on the basis of a reasonable commercial assessment
12	Other financial instruments are those that are not basic financial instruments, covering **more complex instruments and transactions**	No such distinction is made
12	An entity shall choose to apply for other financial instruments: • The provisions of IFRS for SMEs, or • The recognition and measurement provisions of IAS 39 (but retaining reduced disclosures) It is an accounting policy choice.	LUX GAAP shall be applied

Section	IFRS for SMEs	LUX GAAP
12	Contracts to buy or sell **non-financial items** has to be accounted for in accordance with section 12 of IFRS for SMEs if the contract **can be settled net in cash or another financial instrument**, or by exchanging financial instruments as if the contracts were financial instruments	Not addressed
12	When a financial asset or financial liability is recognised initially, an entity shall **measure it at its fair value**, which is normally the transaction price	When a financial asset or financial liability is recognised initially, an entity shall measure it at the price paid, although where the total amount repayable on any debt exceeds the amount received, the difference may be capitalised
12	An entity shall measure all financial instruments within the scope at fair value and **recognise changes in fair value in profit or loss**, except for equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably	Derivative financial instruments are generally not recognised, but disclosed as off-balance sheet items
12	If specified criteria are met, an entity may designate a hedge relationship in such a way to qualify for **hedge accounting** (permitting offset of gain or losses on the hedged item and on the hedging instrument)	Similar accounting entries exist to reduce accounting mismatch
11, 12	Thorough disclosure requirement	Much more information is required on the face of the balance sheet of the financial statements, but much less in the notes

Inventories

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
13	An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell (except commodity brokers and dealers who shall measure it at fair value less costs to sell)	**Inventories** must be valued at purchase price or production cost. They shall be subject to value adjustment in order to state them at the lower of cost or market value
34	Agricultural produce harvested from an entity's biological assets shall be valued at its fair value less costs to sell at the point of harvest	No such differentiation is made. Valuation above cost is not allowed
13	An entity shall measure the cost of inventories using specific identification of individual cost, or if the inventory is interchangeable: • Weighted average cost formula • First-in, first-out (FIFO) cost formula	Inventory of the same category may be measured using the weighted average prices method, the first-in, first-out (FIFO) method, the last-in, first-out (LIFO) method, or a similar method

Tangible Assets

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
16	Property held by the entity to earn rentals or capital appreciation, or both, is defined as **investment property**. If its fair value can be measured reliably without undue cost or effort on an ongoing basis, it shall be accounted for **at fair value through profit and loss**	No such differentiation of property is available Valuation above cost is not allowed
16	If the assumption concerning **the reliable measurement of fair value without undue cost or effort** has changed during the period, the valuation method shall be changed both ways (in/out of the category)	Not addressed
17	The cost of regular major inspections for faults shall be recognised in the carrying amount if satisfies recognition criteria	Provision has to be accrued for those costs, in profit and loss account
25	**Borrowing cost** can't be capitalised in the carrying amount, and shall be recognised as an expense when they are incurred	Interest on capital borrowed to finance the production of fixed assets may be included in the production costs
17	If the **payment** of cost is **deferred** beyond normal credit terms, the cost is the present value of all future payments	Not addressed, such discounting is not required
17	The **cost** of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site, in the carrying amount of an asset	Provision has to be accrued for those costs, in profit and loss account
17	Major **components** with significantly different patterns of consumption of economic benefits shall be **depreciated** separately over its useful life	Not addressed, no distinction foreseen
17	If indicators are present that either the residual value or the useful life of an asset has changed, the previous estimates shall be reviewed. If current expectations differ, the residual value, depreciation method or useful life shall be amended	Not permitted
17	**Plan to dispose** of an asset before the previously expected date is an **indicator of impairment** that triggers the calculation of the asset's recoverable amount	Not addressed

Intangible Assets

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
18	An entity shall recognise **expenditure incurred internally** on an intangible item, including all expenditure for both research and development activities	Research and development costs can be capitalised. They must be written off within a period of no more than five years. However they may be written off over a period exceeding five years where the results of the research and development work may be used beyond that period. Formation expenses may be capitalised, and must be written off within a period of no more than five years
18	All intangible assets shall be considered to have a **finite useful life**. If an entity is unable to make a reliable estimate of the useful life, the life shall be **presumed to be ten years**	Not addressed, useful life is not limited
18	The entity shall assume that the residual value of the intangible asset is zero, unless their is a commitment by another party to purchase, or there is a market and the residual value can be determined by reference to the market	Residual value is not addressed
18	If indicators are present that either the residual value or the useful life of an asset has changed, the previous estimates shall be reviewed annually. If current expectations differ, the residual value, depreciation method or useful life shall be amended	Once a depreciation rate is defined for an asset, it may not be changed during the life of the asset

Impairment of Assets

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
27	An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the **recoverable amount** of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount	Value adjustment is assessed once a year
27	If it is not possible to estimate the recoverable amount of the individual asset, an entity shall estimate the recoverable amount of the **cash generating unit** to which the asset belongs	Not addressed
27	The recoverable amount of an asset or a cash-generating unit is the higher of its **fair value less costs to sell** and its **value in use** (present value of the future cash flows expected to be derived from it)	Not addressed
27	An impairment loss recognised for goodwill shall not be reversed in a subsequent period	Not prohibited. Valuation adjustments may not be continued if the reasons for which the value adjustments were made have ceased to apply

Leases

Section 20	Leases	Not addressed in LUX GAAP
Summary	• A lease is classified as a **finance lease** if it transfers substantially all **the risks and rewards** incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership • Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract • **Examples of situations** that individually or in combination would normally lead to a lease being classified as a finance lease are: – The lease transfers ownership of the asset to the lessee by the end of the lease term – The lease term is for the major part of the economic life of the asset even if the title is not transferred – The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease that the option will be exercised – At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset – The leased assets are of such a specialised nature that only the lessee can use them without major modifications • **Indicators of situations** that individually or in combination could also lead to a lease being classified as a finance lease are: – If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee – Gains or losses from the fluctuation in the residual value of the leased asset accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease) – The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent • Lessee's accounting – 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 reflects a constant periodic rate of return – Finance lease payments are apportioned between interest expense and the reduction in liability using the effective interest method • Lessee's accounting – 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	

Section 20	Leases	Not addressed in LUX GAAP
Summary	• Lessor's accounting – 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 the 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 – Finance lease payments are apportioned to reduce both the principal and unearned finance income • Lessor's accounting – 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 – Lease income is recognised on a straight-line basis over the lease term, unless it is structured to increase with expected general inflation or another systematic basis is more representative of the pattern of benefit	

Under LUX GAAP, all lease costs are expensed on a timely basis

Revenue

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
23	An entity shall measure revenue at the fair value of the consideration received or receivable	In line with IFRS for SMEs
23	When the inflow of cash or cash equivalents is **deferred**, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest	Not addressed, discounting is not required
23	In case the entity grants its customer a **loyalty award** that the customer may redeem in the future for free or discounted goods or services, the entity shall allocate the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale	Not addressed
23	**Sale of goods:** An entity does not recognise revenue if it retains significant risks of ownership, e.g.: revenue from a particular sale is **contingent** on the buyer selling the goods	In line with IFRS for SMEs
23	**Rendering of services:** • When the outcome of a transaction involving rendering of services **can be** estimated reliably, an entity shall recognise revenue by reference to the **stage of completion** of the transaction • When the outcome of a transaction involving rendering of services **cannot be** estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are **recoverable**	Not addressed

Section	IFRS for SMEs	LUX GAAP
23	**Construction contracts:** • When the outcome of a construction contract **can be** estimated reliably, an entity shall recognise contract revenue and contract costs by reference to the **stage of completion** of the contract activity at the end of the reporting period • When the outcome of a contract **cannot be** estimated reliably an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable, and the entity shall recognise contract costs as an expense in the period in which they are incurred	Not addressed
23	**Interest**: Shall be recognised using the effective interest rate method	Effective interest rate method can be used
23	**Royalties:** Shall be recognised on an accrual basis in accordance with the substance of the relevant agreement	In line with IFRS for SMEs
23	**Dividends:** Shall be recognised when the shareholder's right to receive payment is established	In line with IFRS for SMEs

Foreign Currency Translation

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
30	Each entity shall identify its **functional currency**. An entity's functional currency is the currency of the primary economic environment in which the entity operates	The entity must use the currency of its subscribed capital
30	The primary economic environment in which an entity operates is normally the one in which **it primarily generates and expends cash**. The most important factors are mentioned in the standard to determine the functional currency	Not addressed
30	If there is a change to those underlying transactions, events and conditions determined the functional currency, the functional currency shall be changed	Not addressed
30	Foreign currency monetary items shall be translated using the closing rate, even if it implies unrealised gains	As only profits realised at the balance sheet date may be recognised, unrealised gains cannot be recognised
30	The entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate the items of its financial statements into the presentation currency	The published annual accounts may be expressed in euros as well as in the currency or unit of account in which they were drawn up, using the rate of translation as at the accounting reference date

Income Tax

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
29	An entity is required to recognise the **current and future tax consequences** of transactions and other events that have been recognised in the financial statements	All foreseeable liabilities which have arisen during the course of **the financial year concerned** or of a **previous financial year** must be recognised
29	These recognised tax amounts comprise **current tax** and **deferred tax**	Any **difference arising on consolidation** between the tax chargeable for the current and preceding financial year and the amount of tax paid/payable in respect of those years shall be recognised
29	Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) **for the current period or past periods**	Not addressed
29	Deferred tax is tax payable or recoverable **in future periods**, generally as a result of the entity recovering or settling its assets and liabilities for their current carrying amount, and the tax effect of the carryforward of currently unused tax losses and tax credits	Not addressed
29	Deferred tax assets and deferred tax liabilities arising from the **temporary differences, unused tax losses** and **unused tax credits** shall be recognised	Not applicable for statutory accounts. Similar to IFRS for SMEs for consolidated accounts
29	**Temporary differences** arise from: • The difference of the tax basis and the carrying amount of assets and liabilities recognised • Items recognised as income or expense that will become taxable or tax-deductible in future periods	Not applicable for statutory accounts. Similar to IFRS for SMEs for consolidated accounts
29	An entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date	Not addressed

Section	IFRS for SMEs	LUX GAAP
29	An entity shall recognise a **valuation allowance** against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit	Not addressed
29	An entity shall not discount current or deferred tax assets and liabilities	Not addressed
29	Deferred tax assets (liabilities) shall not be classified as current assets (liabilities)	Not addressed
29	An entity shall offset current tax assets and liabilities, or offset deferred tax assets and liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously	In general, any set-off between asset and liability headings or between income and expenditure headings is prohibited
29	Thorough disclosure requirement	Not required

Provisions and Contingencies

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
21	An entity shall recognise a provision if: • The entity has an obligation at the reporting date as a result of a past event • It is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement and • The amount of the obligation can be estimated reliably	All **foreseeable liabilities** and **potential losses** which have arisen in the course of the financial year concerned or of a previous financial year must be recognised
21	An entity shall measure a provision at the **best estimate of the amount required** to settle the obligation at the reporting date	Provisions for liabilities and charges may not exceed the amount necessary to settle such liabilities and charges
21	When the effect of the **time value of money is material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation	Not addressed
21	A **contingent liability** is either a possible but uncertain obligation or a present obligation that is **not recognised** because it fails to meet one or both of the criteria	Not addressed
21	An entity shall not recognise a **contingent asset** as an asset, unless the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate	Not addressed

Events after the End of the Reporting Period

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
32	Events after the end of the reporting period are those events, that occur between the end of the reporting period and the date when the **financial statements are authorised for issue**	Not defined
32	There are two types of events: • Those that provide evidence of conditions that existed at the end of the reporting period (**adjusting events**) • Those that are indicative of conditions that arose after the end of the reporting period (**non-adjusting events**)	All foreseeable liabilities and potential losses must be recognised, including where such liabilities or losses become apparent between the date of the balance sheet **and the date on which it is drawn up**
32	If an entity declares **dividends** to holders of its equity instruments after the end of the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period	In line with IFRS for SMEs
32	An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation	Not required

Employee Benefits

Section of IFRS for SMEs	IFRS for SMEs	LUX GAAP
28	Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**	Not addressed
28	**Defined contribution plans** are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has **no legal or constructive obligation to pay further contributions** or to make direct benefit payments to employees	Not addressed
28	**Defined benefit plans** are post employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to **provide the agreed benefits** to current and former employees	Not addressed
28	**Defined contribution plans:** A contribution payable for the period shall be recognised as a liability after deducting any amount already paid	In line with IFRS for SMEs
28	**Defined benefit plan:** An entity shall recognise: • A liability for its obligations under defined benefit plans net of plan assets — its defined benefit liability • The net change in that liability during the period as the cost of its defined benefit plans during the period	Not addressed. Provision usually provided, if significantly unfunded
28	An obligation under a **defined benefit plan** is calculated as the difference of: • **The present value of its obligations** under defined benefit plans at the reporting date • And the **fair value** at the reporting date of **plan assets** out of which the obligations are to be settled directly	Plan assets shall be valued at lower of cost or market
28	The entity shall determine the rate used to discount the future payments by reference to **market yields** at the reporting date on **high quality corporate bonds**	Risk-free rate is not required, higher rate may be used

Section	IFRS for SMEs	LUX GAAP
28	If an entity is able, **without undue cost or effort**, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so	Not addressed
28	If an entity is not able, without undue cost or effort, to use the projected unit credit method, the entity is **permitted to make several simplifications** in measuring its defined benefit obligation with respect to current employees	Not addressed
28	Entities are **not required to engage an independent actuary** to perform the comprehensive actuarial valuation. Nor does it require that a comprehensive actuarial valuation must be done annually	Not addressed
28	An entity shall: • Recognise all actuarial gains and losses **in profit or loss** or • Recognise all actuarial gains and losses **in other comprehensive income** as an accounting policy election	Not addressed
28	If a parent entity provides benefits to the employees of one or more subsidiaries in the group, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group	Not addressed
28	Thorough disclosure requirement	The average number of staff employed during the financial year, broken down by category shall be disclosed

Share-based Payment

Section 26	Share-based Payment	Not addressed in LUX GAAP
Summary	• An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received • The entity shall recognise a corresponding increase in: – Equity if the goods or services were received in an **equity-settled share-based payment** transaction or – A liability if the goods or services were acquired in a **cash-settled share-based payment** transaction • For **equity-settled** share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, at the **fair value of the goods or services received**. If that fair value cannot be estimated reliably, those shall be measured at the **fair value of the equity instruments granted** • For transactions with **employees** (including others providing similar services), the fair value of the equity instruments shall be **measured at grant date**. For transactions with **parties other than employees**, the measurement date is the date when the entity **obtains the goods** or the **counterparty renders service** • For **cash-settled** share-based payment transactions, an entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the **fair value of the liability** at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period • If a share-based payment award is **granted by a parent entity** to the employees of one or more subsidiaries in the group, such subsidiaries are permitted to recognise and measure share-based payment expense (and the related capital contribution by the parent) **on the basis of a reasonable allocation** of the expense recognised for the group	

In practice, under LUX GAAP, provision if cash settlement

Transition to the IFRS for SMEs

Section 35	Transition to the IFRS for SMEs	Not addressed in LUX GAAP
Summary	• A first-time adopter of the IFRS for SMEs shall apply this section in its first financial statements that conform to this IFRS • An entity's first financial statements that conform to this IFRS are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the IFRS for SMEs • An entity's date of transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information in accordance with this IFRS in its first financial statements that conform to this IFRS • An entity shall, in its opening statement of financial position as of its date of transition to the IFRS for SMEs (i.e. the beginning of the earliest period presented): – Recognise all assets and liabilities whose recognition is required by the IFRS for SMEs – Not recognise items as assets or liabilities if this IFRS does not permit such recognition – Reclassify items that it recognised under its previous financial reporting framework differently – Apply this IFRS in measuring all recognised assets and liabilities • An entity may use one or more of the exemptions detailed in the standard in preparing its first financial statements that conform to this IFRS • An entity shall explain how the transition from its previous financial reporting framework to this IFRS affected its reported financial position, financial performance and cash flows • The standard contains a general exemption from retrospective application when this would be impracticable	

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