IFRS for SMEs

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AGENDA

Introduction

IFRS for SMEs

- Overview of Standards
- Comparison with Full IFRS

Access to Resources

Introduction to Corporate Governance for SME’s

Questions and Answers

IFRS FOR SMEs AT A GLANCE

IFRS for SMEs published July 2009:

a. Good Financial Reporting Made Simple.
b. 230 pages (full IFRSs has over 3,000 pages).
c. Built on a full IFRS foundation. Simplifications from full IFRSs based on:

    1. User needs primarily for information about short-term cash flows, liquidity and solvency (rather than longer-term forecasts of earnings and share prices).
    2. Cost-benefits considerations.

d. Completely stand-alone.

Types of simplifications compared to full IFRSs:

a. Some topics in full IFRSs are omitted because they are not relevant to typical SMEs.
b. Some accounting policy options in full IFRSs are not allowed because a more simplified method is available to SMEs.
c. Simplification of many of the recognition and measurement principles in full IFRSs.
d. Substantially fewer disclosures.
e. Simplified redrafting.

IFRS FOR SMEs AT A GLANCE

IFRS for SMEs AT A GLANCE

Section 1 – *Small and Medium-sized Entities*
Section 2 - *Concepts and Pervasive Principles*
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FRS FOR SMEs AT A GLANCE

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APPLICABLE ACCOUNTING AND FINANCIAL REPORTING STANDARDS

For annual financial period beginning on or after January 01, 2015.

CLASS OF COMPANIES	APPLICABLE ACCOUNTING AND FINANCIAL REPORTING STANDARDS
• Large Sized Company • Public Interest Company • Public Interest and Large Sized Company licensed / formed under Section 42 and Section 43 of the Ordinance	International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and as notified by the Commission.
• Medium Sized Company • Small and Medium-Sized Company licensed / formed under Section 42 and Section 43 of the Ordinance	International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) issued by IASB as adopted in Pakistan The corresponding companies with appropriate disclosure in its financial statements may have option to adopt the following: 1. The revaluation model included in the International Accounting Standard 16 \`Property Plant and Equipment', and, 2. The capitalizing of borrowing costs as permitted by the International Accounting Standard 23 \`Borrowing Cost'
Small Sized Company	Revised Accounting and Financial Reporting Standards for Small Sized Entities (AFRS for SSEs) as approved.

SECTION 1 - SMALL AND MEDIUM SIZED ENTITIES

SCOPE

***IFRS for SMEs* is intended for use by small and medium-sized entities (SMEs).**

DESCRIPTION OF SMALL AND MEDIUM-SIZED ENTITIES

Small and medium-sized entities are entities that both:

a) Do not have 'public accountability'
b) Publish general purpose financial statements for external users (e.g. owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies).

DEFINITION OF 'PUBLIC ACCOUNTABILITY'

An entity has 'public accountability' if either:

a) Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market domestic or foreign stock exchange or an over-the- counter market, including local and regional markets).

SECTION 1 - SMALL AND MEDIUM SIZED ENTITIES

b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks will meet this second criterion.

However, the fact that entities may hold assets in a fiduciary capacity for reasons incidental to a primary business(as, for example, may be the case for travel or real estate agents, schools, charitable organizations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), does not make them publicly accountable.

5th Schedule to the Companies Ordinance prescribes the definitions of the following:

- **Economically Significant Company**
- **Medium-Sized Company**
- **Small-Sized Company**

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

SCOPE

This section describes:

- the objective of financial statements of small and medium-sized entities (SMEs)
- the qualities that make the information in the financial statements of SMEs useful
- sets out the concepts and basic principles underlying the financial statements of SMEs.

QUALATITIVE CHARACTERSTICS

Understandability

Information should be presented in a way that makes it comprehensible by users. This does not permit the omission of complex information on the grounds it is too difficult to understand

Relevance

Information provided should be relevant to the decision making needs of users. Relevant information is considered to be something that is capable of influencing a user's decision

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

QUALATITIVE CHARACTERSTICS

Materiality

Information is material if its omission or misstatement could influence a user's decision

Reliability

Information is reliable when it is free from material error and bias and represents faithfully that which it purports to represent. Substance over form Transactions should be presented in accordance with their substance, not just their legal form

Prudence

This is the inclusion of a degree of caution when making the judgements needed in making estimates of assets, liabilities, income or expense

Completeness

For reliability, information within the financial statements must be complete within the bounds of materiality and cost

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

QUALATITIVE CHARACTERSTICS

Comparability

Users need to be able to compare the financial statements from period to period.

Timeliness

Information needs to be provided on a timely basis to allow decision making by users of financial statements

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

DEFINITIONS AND PRINCIPLES

Financial Position

Asset

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

Liability

A present legal or constructive obligation which, upon settlement, is likely to result in an outflow of resources.

Economic benefit

the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents either from use or disposal of a resource

Equity

the residual interest in assets after deduction of liabilities. Equity may be sub classified into separate components.

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

DEFINITIONS AND PRINCIPLES

Performance

Income

Increases in economic benefits, including revenue arising from ordinary activities and other gains

Expenses

Decreases in economic benefits, including those arising from ordinary activities and other losses

Profit or loss

Represents the difference between Income and Expense other than those items classified in other comprehensive income

Total comprehensive income

Represents the difference between income and expenses.

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

RECOGNITION AND MEAUREMENT

Recognition of assets, liabilities, income and expenses

Recognition

For recognition of an asset, liability, income or expense it needs to be both:

- Probable that future economic benefit will flow to or from the entity
- The value can be measured reliably.

Measurement

Process of determining the value that is recognized. IFRS for SMEs specifies elsewhere the measurement basis for each type of asset, liability, income and expense both at initial measurement and for the purposes of subsequent measurement

SECTION 2 - CONCEPTS AND PERVASIVE PRINCIPLES

RECOGNITION AND MEAUREMENT

Accrual basis

With the exception of cash flow information, financial information is prepared using the accrual basis of accounting

Initial measurement

Historical cost, unless an alternative approach is required elsewhere in Other IFRS for SMEs

Subsequent measurement

Covered in applicable section of IFRS for SMEs

Offsetting

Offsetting is not permitted unless explicitly permitted by Other IFRS for SMEs.

SECTION 3 - FINANCIAL STATEMENT PRESENTATION

SCOPE

This section explains:
- fair presentation of financial statements, compliance with IFRS for SMEs
- what constitutes a complete set of financial statements.

REQUIREMENTS

Statement of compliance

A statement of explicit and unreserved compliance with IFRS for SMEs is required within the financial statements.

If an entity departs from IFRS for SMEs in the current or comparative period(s), disclose:
- That management have concluded the financial statements are presented fairly
- That the entity has complied with IFRS for SMEs except for the noted departure
- Nature and reasoning for the departure, and the treatment required by IFRS for SMEs.

SECTION 3 - FINANCIAL STATEMENT PRESENTATION

REQUIREMENTS

Consistency of presentation

- Retain the presentation and classification from one period to the next
- Where an entity's operations change or another presentation and disclosure would be more appropriate, in addition to any changes required by IFRS for SMEs.
- Changes made to presentation or classification will require the comparatives to be reclassified unless it is impracticable to do so.

Comparative information

- Disclose comparative information in respect of the previous period.
- Narrative and descriptive information is required when it is relevant to the understanding of the current period's financial statements.

SECTION 3 - FINANCIAL STATEMENT PRESENTATION

REQUIREMENTS

Materiality and aggregation

- Separate presentation is required for each material classes of similar items, and items of dissimilar nature and function (unless immaterial).
- Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements.

SECTION 3 - FINANCIAL STATEMENT PRESENTATION

COMPLETE SET OF FINANCIAL STATEMENTS

A complete set of financial statements includes the following:

1. A statement of financial position at the reporting date
2. For the reporting period, either a single statement of comprehensive income or a separate income statement and statement of comprehensive income, encompassing other comprehensive income*
3. Statement of changes in equity *
4. Statement of cash flows
5. Notes to the financial statements

* If the only change to equity results from:

- profit or loss,
- payment of dividends,
- correction of errors or changes in accounting policies

it is acceptable to present a single statement of income and retained earnings in place of the comprehensive income statement and statement of changes in equity.

SECTION 3 - FINANCIAL STATEMENT PRESENTATION

IDENTIFICATION OF FINANCIAL STATEMENTS

- Name of entity and any changes in its name since the end of the prior period
- Clarification as to whether the financial statements cover the individual entity or group or entities
- The date of reporting period and period covered
- Presentation currency
- Level of rounding
- Domicile and legal form of the entity, its country of incorporation and its registered office
- Description of the nature of operations and principal activity.

SECTION 4 - STATEMENT OF FINANCIAL POSITION

SCOPE

This section sets out the information that is to be presented in a statement of financial position(SOFP)and how to present it.

Current vs non-current

Assets/liabilities are either presented:

- Current and non-current
- In ascending or descending order of liquidity.

Presentation based on ascending or descending order of liquidity is only permitted if this provides information that is reliable and more relevant than current/non-current.

Sequencing

IFRS for SMEs does not prescribe the sequence or format of line items, except when an entity does not present assets and liabilities on a current and non-current basis, in which case sequencing must be based on ascending or descending liquidity.

*** 5th Schedule to the Companies Ordinance prescribes the sequencing**

SECTION 4 - STATEMENT OF FINANCIAL POSITION

Information to be presented in the statement of financial position (SOFP)

- Cash and cash equivalents;
- Trade and other receivables;
- Inventories,
- Property; plant and equipment;
- Investment property (at fair value);
- Investment property (at cost less depreciation/impairment);
- Intangible assets;
- Biological assets(at cost less accumulated depreciation);
- Biological assets (at fair value);
- Investments in associates;
- Investments in jointly controlled entities;
- Trade and other payables;
- Provisions;
- Non-controlling interest;
- Equity;
- Deferred tax assets and/or liabilities;
- Other financial assets and/or liabilities.

Additional lines, headings and subtotals are presented when relevant to an understanding of the entity's financial position.

SECTION 4 - STATEMENT OF FINANCIAL POSITION

Information that can be presented in the SOFP or in the notes

- Classes of property, plant and equipment
- Disaggregation of inventory
  - finished goods,
  - work in progress,
  - raw materials)
- Provisions for employee benefits
- Other provisions
- Trade and other receivables/payables, showing separately
  - any amounts due from/to trade suppliers,
  - related parties,
  - accrued income/expense,
  - deferred income
- Classes of equity
  - paid in capital,
  - retained earnings,
  - share premium,
  - items required to be recognised in other comprehensive income);
- a description of each reserve in equity.

SECTION 4 - STATEMENT OF FINANCIAL POSITION

Information that can be presented in the SOFP or in the notes

- Share capital:
  - No. of authorized shares;
  - No. of issued shares fully and not fully paid;
  - Par value;
  - reconciliation of out standing shares;
  - rights preferences and
  - restrictions relating to distribution of dividends and repayment of capital;
- Shares held in the entity by the entity subsidiaries or associates; the amount and terms of shares reserved for issue.
- Information relating to any binding sale agreement for a major disposal of assets, or a group of assets and liabilities, that is in place as at reporting date

When financial statements are restated retrospectively full IFRSs require presentation of three statements of financial position. The IFRS for SMEs requires only two.

SECTION 5 - STATEMENT OF COMPOREHENSIVE INCOME AND INCOME STATEMENT

PRESENTATION OF TOTAL COMPREHENSIVE INCOME

An entity presents its total comprehensive income for a period either:

a) In a single statement of comprehensive income, in which case the statement of comprehensive income (SOCI) presents all items of income and expense recognised

b) In two statements (an income statement and a statement of comprehensive income).

A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 applies.

SECTION 5 - STATEMENT OF COMPOREHENSIVE INCOME AND INCOME STATEMENT

SINGLE STATEMENT APPROACH

Minimum line items to be presented under the single statement approach

a) Revenue;
b) Expenses
c) finance cost;
d) share of the profit or loss from equity accounted investments;
e) tax expense;
f) single amount for the total of post-tax profit or loss of a discontinued operation and post-tax gain or loss attributable to an impairment or reversal of an impairment of the assets in the discontinued operation;
g) profit or loss
h) Each item of other comprehensive income grouped into those that will and will not be reclassified subsequently to profit or loss e.g.
   - gains and losses on retranslation of a foreign operation;
   - actuarial gains and losses;
   - changes in fair value of hedging instruments;
   - gains and losses arising on revaluation of property plant and equipment
i) Share of other comprehensive income from equity accounted investments
j) The split of profit or loss attributable to non-controlling interests and owners of the parent

SECTION 5 - STATEMENT OF COMPOREHENSIVE INCOME AND INCOME STATEMENT

TWO STATEMENT APPROACH

Income statement

- The income statement presents, as a minimum, line items that present the amounts in paragraph (a) under the single statement approach, with profit or loss as the last line.

Statement of comprehensive income

- Begins with profit or loss and then presents, as a minimum, line items that present the amounts in paragraphs (b) –(e) under the single statement approach.

SECTION 5 - STATEMENT OF COMPOREHENSIVE INCOME AND INCOME STATEMENT

REQUIREMENTS OF BOTH APPROACHES

- Effects of restating prior period due to material errors and changes in accounting policies are presented as retrospective adjustments of prior periods (*Refer Section 10*)
- Additional line items, heading and subtotals are required when the presentation is relevant to understanding of the financial statements
- Presentation or description of line items as 'extraordinary items' (or similar) is prohibited
- Expenses are required to be analyzed and presented by either:
  - Nature: expenses are aggregated by their nature (i.e. depreciation, purchases of materials, transport costs, employee benefits, advertising costs etc.)
  - Function: expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method s

SECTION 6 - STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAIN EARNINGS

SCOPE

This section sets out requirements for presenting the changes in an entity's equity for a period, either:

- in a statement of changes in equity or,
- if specified conditions are met and an entity chooses, in a statement of income and retained earnings.'

STATEMENT OF CHANGES IN EQUITY

Purpose

Presents an entity's:

- profit or loss for a reporting period,
- other comprehensive income for the period,
- the effects of changes in accounting policies and corrections of errors recognised in the period,
- the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners during the period.

SECTION 6 - STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAIN EARNINGS

STATEMENT OF CHANGES IN EQUITY

Requirements

The section requires the following to be presented in the statement of changes in equity:

- Total comprehensive income for the period showing separately amounts attributable to the owners of the parent and to non-controlling interests
- The effects of restatements of prior periods resulting from changes in accounting policies or material errors
- A reconciliation for each component of equity between the carrying amounts at the beginning and end of the period with separate disclosure of changes from:

  - Profit or loss
  - Other comprehensive income
  - Amount of investments by, dividends and other distributions to, owners in their capacity as owners, showing separately:
    - Issue/repurchase of shares
    - Treasury share transactions
    - Dividends and other distributions to owners in their capacity as owners
    - Changes in ownership interests of subsidiaries not representing a loss

SECTION 6 - STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAIN EARNINGS

STATEMENT OF INCOME AND RETAINED EARNINGS

Purpose

Presents an entity's profit or loss and changes in retained earnings for a reporting period.

Criteria for presentation

If the only change to equity results from profit or loss, payment of dividends, correction of errors, changes in accounting policies an entity is permitted to present a single statement of income and retained earnings in place of the comprehensive income statement and statement of changes in equity.

Requirements

In addition to the information required by Section 5 Statement of Comprehensive Income and Income Statement, this section requires the following to be presented with the statement of income and retained earnings:

- Retained earnings at the beginning and end of the period
- Dividends declared and paid/payable
- Restatement for prior period adjustments(errors and changes in accounting policy).

SECTION 7 - STATEMENT OF CASH FLOWS

SCOPE

This section sets out the information that is:

- To be presented in a statement of cash flows (SOCF); and
- How to present it.

The SOCF provides information about:

- the changes in cash and cash equivalents (C&CEs) of an entity for a reporting period,
- Showing separately changes from:
    - Operating activities by either of;
        - Indirect Method; or
        - Direct Method
    - Investing activities; and
    - Financing activities.

SECTION 7 - STATEMENT OF CASH FLOWS

FOREIGN CURRENCY CASH FLOWS

- Recorded in the entity's functional currency at the rate applicable at the date of the cash flow – including cash flows of a foreign subsidiary
- Unrealised exchange gains and losses are not cash flows.

NOTE ON SPECIFIC CASH FLOWS

- Interest paid and received is presented separately and classified consistently each period –either as operating, investing, or financing activities
- Dividends paid/received may be classified as operating, investing, or financing activities
- Income tax cash flows are classified as operating unless specified.

OTHER DISCLOSURES

- Non-cash transactions are disclosed elsewhere within the financial statements and not included in the SOCF
- A reconciliation of the components of C&CEs (i.e. cash amount presented in the SOCF, and the cash position presented in the statement of financial position -if the amounts are not identical)
- Any cash or cash equivalents, together with management commentary, that are not available for use.

SECTION 8 – NOTES TO THE FINANCIAL STATEMENTS

SCOPE

This section sets out the underlying principles concerning the information to be presented in the notes to the financial statements.

Notes contain information in addition to that contained in the primary statements and provide narrative descriptions and breakdowns of items presented in those statements.

In addition to requirements of this section, nearly all of the other sections of IFRS for SMEs require certain disclosures in the notes.

REQUIREMENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

The notes are required to:

- Present information about the basis of preparation
- Provide information that is not presented elsewhere in the financial statements and is relevant to the understanding of the financial statements

SECTION 8 – NOTES TO THE FINANCIAL STATEMENTS

- Be prepared in a systematic manner, which normally follows the below order:
  - A statement of compliance (i.e. that the financial statements have been prepared in accordance with IFRS for SMEs)
  - A summary of significant accounting policies
  - Supporting information (i.e. notes) to items presented in the financial statements, in the sequence in which they are presented in those statements
  - Any other disclosures.
- Cross reference to items in the financial statements
- Present accounting policies including the measurement basis(or bases)and other policies used that are relevant to the understanding of the financial statements
- Disclose the judgements that management have made in applying the accounting policies

SECTION 8 – NOTES TO THE FINANCIAL STATEMENTS

- Present the key assumptions concerning the future and other sources of estimting uncertainty at the reporting date that have a risk of causing a material misstatement to the carrying amount of assets and liabilities within the next financial year. The disclosure must include details of:

  - The nature of the estimation uncertainty
  - The carrying amount of the related assets and liabilities.

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

SCOPE

This section defines the circumstances in which an entity presents consolidated financial statements and the procedures for preparing those statements.

It also includes guidance on separate financial statements and combined financial statements.

REQUIREMENT TO CONSOLIDATE

Unless exempt, a parent entity is required to consolidate all entities it controls (subsidiaries). Control is presumed to exist when the parent entity has:

- Directly (or indirectly through subsidiaries) more than 50% of the voting power or voting rights (by agreement with other shareholders)
- Power to control financial and operating activities
- Ability to remove/appoint the majority of members of the controlling governing body
- Is able to cast the majority of votes at meetings of the controlling governing body
- Has an agent with the ability to direct the financial and operating activities

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

EXEMPTIONS

A parent need not present consolidated financial statements if either:

(a) Both of the following conditions are met:

  i. The parent is itself a subsidiary
  ii. Ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with the IFRS for SMEs.

(b) It has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year.

If the subsidiary is not disposed of within one year the parent shall consolidate the subsidiary from the acquisition date, unless the delay is due to events beyond the parent's control and it is still committed to its plan to sell or dispose of the subsidiary

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

DISCLOSURES

The following disclosures are required in consolidated financial statements:

- The fact that the financial statements are consolidated
- Basis for concluding that control exists when the parent does not own directly or indirectly more than half of the voting rights
- Any differences in reporting date between parent and subsidiaries
- Nature and extent of restrictions on ability to transfer funds to the parent through either dividends or to repay loans
- Profit or loss attributable to owners and NCIs
- Total comprehensive income attributable to owners and NCIs

NCI is presented as a separate component of equity.

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

COMBINED FINANCIAL STATEMENTS

Combined financial statements are a single set of statements of two or more entities under common control.

IFRS for SMEs does not require these to be prepared.

If combined financial statements are prepared and they are described as conforming with IFRS for SMEs they are required to comply with all its requirements.

Required disclosures include:

- The fact that they are combined financial statements
- Reason why they are prepared
- Basis for determining which entities are included
- Basis of preparation
- Related party disclosures in line with Section 33.

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

SEPARATE FINANCIAL STATEMENTS

- IFRS for SMEs does not require a parent to prepare separate financial statements
- If prepared, a parent is required to adopt a policy for accounting for each class of investments in subsidiaries, associates and jointly controlled entities either:
  - at cost less impairment
  - at fair value through profit and loss
  - using the equity method.
- Required disclosures:
  - The fact that statements are separate financial statements
  - A description of the methods used to account for the investments
  - Identification of the consolidated financial statements or other primary financial statements to which they relate.

SECTION 9 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

SPECIAL PURPOSE ENTITIES (SPEs)

Entity's created to accomplish a narrow objective (e.g. to effect a lease, undertake research and development activities or securitize financial assets).

SPEs may take the form of a corporation, trust, partnership or unincorporated entity.

SPE's that are controlled by an entity are consolidated in accordance with this section of IFRS for SMEs. In addition to the scenarios set out above in the 'Requirement to consolidate' section, the following circumstances may indicate that an entity controls an SPE (not an exhaustive list):

- The activities of the SPE are being conducted on behalf of the entity according to its specific business needs
- The entity has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated
- The entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE
- The entity retains the majority of the residual or ownership risks related to the SPE or its assets.

SECTION 10 – ACCOUNTING POLICIES, ESTIMATES AND ERRORS

SCOPE

This section provides guidance for:

- Selecting and applying the accounting policies used in preparing the financial statements
- Changes in accounting estimates
- Correction of prior period errors.

ACCOUNTING POLICY SELECTION AND APPLICATION

- Accounting policies applied are required to be in accordance with IFRS for SMEs
- If IFRS for SMEs does not cover:
  - a transaction,
  - event or condition,

Management must apply its judgement in developing and applying an accounting policy in the financial statements that :

- Represent faithfully the financial position, financial performance and cash flows of the entity
- Reflect the economic substance of transactions, other events and conditions, and not merely the legal form
- Are neutral (i.e. free from bias),
- Prudent; and Complete in all material respects.

SECTION 10 – ACCOUNTING POLICIES, ESTIMATES AND ERRORS

- In making this judgement consideration should be given to:
  - Requirements and guidance given by IFRS for SMEs in dealing with similar issues
  - Definitions, recognition criteria and measurement concepts for assets, liabilities, income, expenses and the pervasive principles in Section 2 Concepts and Pervasive Principles.
- Accounting policies must be selected and applied consistently for similar transactions, other events and conditions (unless IFRS for SMEs requires or permits otherwise).

CHANGES IN ACCOUNTING POLICIES

- Unless required by IFRS for SMEs or if following IAS 39 Financial Instruments: Recognition and Measurement and that standard's requirements change, changes in accounting policy should be accounted for retrospectively to the earliest date for which it is practicable, as if the new accounting policy had always been applied.
- Exception: A change from the cost model to the revaluation model for a class of property, plant and equipment is treated as a revaluation and accounted for prospectively.

SECTION 10 – ACCOUNTING POLICIES, ESTIMATES AND ERRORS

- Disclosure requirements include:
  - The nature of the change in policy
  - For the current and prior period the amount of adjustment for each financial statement line affected
  - For prior periods not presented the effect of the adjustment
  - When making a voluntary change in policy the reasons why applying the new accounting policy provides

CHANGE IN ACCOUNTING ESTIMATES

These are the adjustment of the carrying amount of an asset or liability, resulting from new information or developments.

Corrections of errors are not changes in accounting estimates.

Disclosures include:

- The nature and effect of the change in accounting estimate in the current financial statements
- If practicable, the effect in one or more future periods.

SECTION 10 – ACCOUNTING POLICIES, ESTIMATES AND ERRORS

PRIOR PERIOD ERRORS

- Prior period errors are omissions and misstatements for one or more prior periods where the necessary information was either available or could reasonably be expected to have been available when the financial statements of prior periods were approved.

- Such errors include:
  - The effects of mathematical mistakes
  - Errors in applying accounting policies
  - Oversights or misinterpretations of facts
  - Fraud.

- Errors are corrected retrospectively by restating prior period comparatives or, if the error occurred before prior periods presented, the opening balances for assets, liabilities and equity should be adjusted.

- Disclosure of the error are required as follows:
  - Nature of error
  - For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
  - To the extent practicable, the amount of the correction at the beginning of the earliest prior period presented
  - An explanation if it is not practicable to determine the amounts above.

SECTION 11 & 12 – FINANCIAL INSTRUMENTS

SCOPE OF SECTIONS 11 & 12

This Section and Section 12 Other Financial Instruments Issues together deal with recognizing, derecognizing, measuring and disclosing financial instruments:

- Section 11: Basic financial instruments -relevant to all entities
- Section 12: More complex financial instruments and transactions.

Entities have an (accounting policy) choice to apply either:

- Sections 11 and Sections 12 in full
- Recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement**and the disclosure requirements of Sections 11 and 12.

In the IFRS for SMEs the accounting for basic financial instruments is addressed separately from the accounting for more complex financial instrument transactions.

SECTION 11 & 12 – FINANCIAL INSTRUMENTS

Under the IFRS for SMEs an entity shall choose to account for all of its financial instruments either:

a) by applying the provisions of both Section 11 and Section 12 in full, or

b) by applying the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of Section 11 and Section 12.

If an entity chooses to apply (b)

The difference between applying (b) and applying full IFRSs is the applicable disclosure requirements.

IFRS 7's disclosures are divided into three main categories:

- significance; risk; and transfers.

Section 11 includes many of the 'significance' disclosures that are in IFRS 7.

However, the IFRS for SMEs includes none of the 'risk' disclosures that are in IFRS 7.
The only disclosure from IFRS 7 relating to 'transfers' that is included in the IFRS for SMEs relates to transfers of financial assets that do not qualify for derecognition.

SECTION 13 – INVENTORIES

SCOPE

This section sets out the principles for recognition and measurement of inventories.

Inventories are:
- assets held for sale in the ordinary course of business
- supplies to be consumed in the production process or in the rendering of services.

Specific general scope exclusions

- Work in progress arising under construction contracts (see Section 23)
- Financial instruments (see Sections 11 & 12)
- Biological assets related to agricultural activity and agricultural produce at the point of harvest (see Section 34).

Specific measurement scope exclusions

- Producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through profit or loss
- Commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

SECTION 13 – INVENTORIES

MEASUREMENT PRINCIPLES

Inventories are measured at the lower of cost, and estimated selling price less costs to complete and sell. The following guidance also applies:

- Service providers measure inventory at the costs of production
- Cost of Inventory acquired through a non-exchange transaction is measured at fair value at the date of acquisition.

MEASURING COST

- Techniques such as standard cost method, retail method or most recent purchase price are all acceptable measures
- Inventory must be measured on first-in first-out basis (FIFO) or weighted average cost
- Inventories are required to be assessed for impairment at the end of each reporting period (see Section 27 for further requirements)
- When inventories are sold or distributed the cost of inventory is reduced and recognised as an expense.

SECTION 13 – INVENTORIES

COST PRINCIPLES

Cost includes all costs of purchase, cost of conversion and any other costs (i.e. those incurred in bringing the asset to its current location and condition).

Cost of purchase

- Purchase price(after deducting trade discounts/rebates)
- Import duties, and other unrecoverable taxes
- Transport and handling costs.

Cost of conversion

- Direct labour
- Allocation of variable and fixed production overheads
  - Based on normal capacity of the production facilities
  - Unallocated overheads are recognized as expenses
  - Low production (or idle plant): allocation not adjusted
  - Abnormal high production: allocation adjusted

Costs excluded from inventories:

- Abnormal wastage of material, labour or production costs
- Storage costs unless a necessary course of production
- Administrative overheads
- Selling costs.

SECTION 13 – INVENTORIES

JOINT PRODUCTS AND BY PRODUCTS

A production process may result in more than one product being produced simultaneously.

When the costs of raw materials or conversion of each product are not separately identifiable, these costs are allocated between the products on a rational and consistent basis (e.g. relative sales value).

Immaterial products are measured at selling price less costs to complete and sell(with this amount being deducted from main product cost).

DISCLOSURES

The following disclosures are required:

- Accounting policy adopted for measuring inventories, including the cost formula used
- Total carrying amount of inventory in classifications appropriate to that entity
- Amount of inventory recognised as an expense during the period
- Impairment losses recognised or reversed in the period in profit or loss in accordance with Section 27
- Carrying amount of inventory pledged as security for liabilities.

SECTION 14 – INVESTMENTS IN ASSOCIATES

SCOPE

This section applies to accounting for associates in consolidated financial statements and individual financial statements.

AN ASSOCIATE: An entity, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

SIGNIFICANT INFLUENCE

The power to participate in the financial and operating policy decisions.
Significant influence is presumed to:

- Exist when an investor holds (directly/indirectly) 20% or more of the voting power

A substantial majority ownership by a third party does not preclude significant influence.

SECTION 14 – INVESTMENTS IN ASSOCIATES

MEASUREMENT

An investor accounts for all of its investments in associates using one of the following models:

(1) COST METHOD

Measurement is at cost less accumulated impairment losses.
Dividends are recognised as income.

(2) FAIR VALUE METHOD

The fair value model requires that dividends received are recognised as income, and the investment in associate is:

- Initially recognise at transaction price (excluding transaction costs)
- At reporting date, measure the investment at fair value in accordance with Section 11 (if impracticable, use cost model)
- Movement in fair value recognised in profit or loss.

SECTION 14 – INVESTMENTS IN ASSOCIATES

MEASUREMENT

3) EQUITY METHOD

Investment is initially recognized at the transaction price (including transaction costs) and is subsequently adjusted to reflect:

- the investor's share of the profit or loss
- other comprehensive income of the associate.

SECTION 15 – INVESTMENTS IN JOINT VENTURES

Joint venture:

A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are classed as: jointly controlled operations, jointly controlled assets, or jointly controlled entities.

Joint control:

The contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

JOINTLY CONTROLLED OPERATIONS

- Involve the use of assets and other resources of the venturers rather than the establishment of an entity
- Each venturer uses its own assets, incurs its own expenses and liabilities, and raises its own finance which represents its own obligations
- Each venturer recognises in its financial statements the share of income, the assets its controls, and liabilities and expenses incurred.

SECTION 15 – INVESTMENTS IN JOINT VENTURES

JOINTLY CONTROLLED ASSETS

- Involves joint control by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture's activity
- The venturer recognises in its financial statements:
  - Share of the jointly controlled assets, classified according to the nature
  - Liabilities and expenses incurred in respect of their interest in the joint venture
  - Share of any liabilities jointly incurred
  - Income from sale or use of its share of the asset together with their share of expenses incurred.

JOINTLY CONTROLLED ENTITIES

Involves the establishment of a separate entity where a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

All of a venturer's interests in its jointly controlled entities (JCE) are accounted for using one of three measurement models:

(1) Cost model;
(2) Fair value model, or
(3) Equity method.

SECTION 15 – INVESTMENTS IN JOINT VENTURES

DISCLOSURES

- Accounting policy used for recognising interest in jointly controlled entities (JCEs)
- Carrying amount of investments in JCEs
- Fair value of equity accounted investments when published price quotations are available
- Aggregate amount of commitments relating to joint ventures
- For equity accounted JCEs share of profit or loss and discontinued operations
- If the fair value model is used, Section 11 disclosures plus, if used, reasons why the undue cost or effort exemption has been applied.

SECTION 16 – INVESTMENT PROPERTY

INVESTMENT PROPERTY

Property held by owner (or lessee) to earn rental or for capital growth or both, rather than for:

- Use in the production/supply of goods or services, or administrative purposes
- Sale in the ordinary course of business.

Mixed use property is separated between investment property and property, plant and equipment. If cannot measure fair value reliably, account as PP&E.

MEASUREMENT

Initial measurement

At cost, comprising the purchase price plus any directly attributable expenditure (legal and brokerage fees, property transfer taxes, other transaction costs). If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.

Cost of a self-constructed investment property is determined using Section 17 (PP&E).

SECTION 16 – INVESTMENT PROPERTY

MEASUREMENT

Subsequent measurement

If reliably measurable, fair value at each reporting date, with changes in fair value being recorded in the profit or loss.

If fair value is not reliably measurable, use the cost-depreciation-impairment model (see Section 17).

Transfers

If a reliable measure of fair value is no longer available, the property must be transferred to property, plant and equipment and accounted for in accordance with Section 17–with carrying amount at that date becoming its cost.

SECTION 17 – PROPRTY, PLANT AND EQUIPMENT

SCOPE

This section applies to accounting for property, plant and equipment ("PP&E") as well as investment property where fair value cannot be measured reliably.

PP&E are tangible assets that are both:

- Held for use in the production or supply of goods or services, rental to others, or administrative purposes
- Expected to be used during more than one period.

PP&E does not include biological assets, heritage assets, and mineral rights/similar reserves.

INITIAL RECOGNITION AND MEASUREMENT

Initial recognition(criteria)

- It is probable that associated future economic benefits will flow to the entity
- The cost of the item can be measured reliably
- Items of PP&E are split into their major components for depreciation purposes.
- Spare parts, stand-by-and servicing equipment are recognised as PP&E if they meet the definition. Otherwise such items are classified as inventory.

SECTION 17 – PROPRTY, PLANT AND EQUIPMENT

Initial measurement at cost includes:

- Purchase price net of discounts (incl. legal, brokerage, duties, taxes)
- Costs directly attributable to bring PP&E to operate in the manner intended
- Initial estimate of costs of dismantling, removing the item and restoring the site on which it is located when an obligation has been incurred in respect of this.

The following do not constitute costs of PP&E:

- Costs of opening a new facility
- Costs to introduce a new product, service or conduct business in a new location
- Administrative and other overheads, and borrowing costs.

SUBSEQUENT MEASUREMENT (POLICY CHOICE)

Cost model (depreciation)

- The depreciable amount of an asset is allocated over its useful economic life from the date an asset is available for use in the manner intended by management. Land (except landfills and quarries) has an unlimited life and is not depreciated.
- Upon a change in use, change in residual value or unexpected wear and tear, the residual value, depreciation method or useful life are adjusted for as a change in an accounting estimate (see Section 10)

SECTION 17 – PROPRTY, PLANT AND EQUIPMENT

- The depreciation method(i.e. straight line, diminishing value, or usage based such as units of production)should reflect the pattern which the entity expects to consume the asset's future economic benefits
- Factors to be considered in determining the useful life of an item of PP&E include:
  - The expected usage of the asset
  - Expected physical wear and tear
  - Technical or commercial obsolescence
  - Legal or similar limits.

Revaluation model

- PP&E is measured at its fair value at the date of revaluation less accumulated depreciation and impairment losses
- Revaluations should be made with sufficient regularity to ensure the carrying amount at each reporting date is not materially different from fair value.
- On revaluation, the entire class of PPE to which the asset belongs is revalued
- Increases in the carrying amount are recognised in OCI as a revaluation surplus. If the increase reverses a revaluation decrease of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss.
- If the carrying amount is decreased as a result of the revaluation, the decrease is recognised in OCI to the extent of an existing revaluation surplus. Any excess is recognised in profit or loss.

SECTION 17 – PROPRTY, PLANT AND EQUIPMENT

Impairment and Derecognition

- At each reporting date, determine whether any PP&E is impaired (see Section 27)
- PP&E is derecognised on disposal or when no future economic benefits are expected
- Gain/loss on derecognition is taken to profit or loss (proceeds less carrying amount)
- Proceeds from compensation in relation to impaired assets are only recognised when the compensation becomes receivable.

DISCLOSURES

- For each class of PP&E the following is required to be disclosed:
  - Measurement basis, depreciation methods and useful lives/rates used
  - Gross carrying amount and accumulated depreciation
  - A reconciliation from opening to closing amount for the current period only.
- Carrying amount of assets that have restricted title or have been pledged as security
- The amount of contractual commitments for the acquisition of PP&E.
- The fact and reasons why the fair value of an investment property cannot be determined without undue cost or effort
- Revalued PP&E: effective date of revaluation; whether an independent valuer was used; methods and assumptions in estimating fair value; carrying amount under the cost model; revaluation surplus indicating the change in the period.

SECTION 18 – INTANGIBLE ASSETS OTHER THAN GOODWILL

INTANGIBLE ASSET

Non-monetary asset without physical substance that is identifiable. This is, the asset:

- Is separable-capable of being separated/divided from the entity (i.e. sold, licensed, rented etc.)
- Arises from contractual or other legal rights (even if those rights are inseparable from the entity).

Intangible assets do not include:

- Financial assets
- Mineral rights and reserves.

SECTION 20 – LEASES

SCOPE

Arrangements excluded from the scope of Section 20 are:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34)
- Licensing agreements (e.g. for motion picture films, video recordings, plays, manuscripts, patents and copyrights -see Section 18)
- Measurement of property accounted for as investment property (lessees), and, measurement of investment property provided by lessors under operating leases (see Section 16)
- Measurement of biological assets held by lessees under finance leases and biological assets provided by lessors under operating leases (see Section 34)
- Leases where contractual terms could lead to a loss that is unrelated to changes in the price of the leased asset, foreign exchange rates, changes in lease payments based on variable market interest rates or a default by one of the counterparties
- Operating leases that are onerous
- Agreements that are contracts for services which involve the use of assets, but do not transfer the right to use those assets from one contracting party to the other.

SECTION 20 – LEASES

CLASSIFICATION OF LEASE AS EITHER FINANCE OR OPERATING

Situations that individually/in combination would normally lead to a finance lease

- Ownership of the asset transfers to the lessee by the end of the lease term
- Lessee option to purchase at a price expected to be lower than fair value as at exercise date
- Lease term is for the major part of the economic life of the asset
- Present value of minimum lease payment sat inception amounts to at least substantially all of the fair value of the leased asset
- The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Indicators that individually/in combination would normally lead to a finance lease

- Lessor losses upon cancellation by the lessee are borne by the lessee
- Gains or losses from the fluctuation in the residual value of the leased asset accrue to the lessee
- The lessee has the ability to continue the lease for a secondary period at aren't that is substantially lower than market rent.

SECTION 20 – LEASES

FINANCIAL STATEMENTS OF LESSEES - FINANCE LEASES

Initial recognition and measurement

- A lessee recognises its right of use (an asset) and obligation (a liability) under the lease agreement in its statement of financial position equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments
- Initial (incremental) direct costs incurred in arranging the lease are added to the amount recognised as an asset
- The present value of the minimum lease payments is calculated using the interest rate implicit in the lease or, if this cannot be determined, the lessee's incremental borrowing rate.

Subsequent measurement

- Minimum lease payments are allocated between the finance charge and the reduction of the outstanding liability using the effective interest rate (see Section 11)
- Contingent rents are recognised as an expense in the periods in which they are incurred
- The leased asset is depreciated in accordance with the relevant Section of IFRS for SMEs or, if it is not reasonably certain that the lessee will obtain ownership by the end of the lease term, over the shorter of the asset life or the lease term
- The asset is assessed for impairment at each reporting date.

SECTION 20 – LEASES

OPERATING LEASES

Recognition of lease payments

- Lease payments are recognised as an expense on a straight line basis unless another systematic basis is more representative of the time pattern of the user's benefit, or the payments are structured to increase in line with expected general inflation (and there are no other factors that vary payments to the lessor).

SALE AND LEASEBACK TRANSACTIONS

Involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease i.e.:

Finance or Operating Lease

SECTION 20 – LEASES

DISCLOSURES

Finance lease disclosures include:

- Net carrying amount at the financial reporting date for each class of asset
- Total future minimum lease payments, analysed as within 1 year, later than 1 year but within 5 years, and over 5 years
- General description of the lessee's significant leasing arrangements. This includes contingent rent, renewal or purchase options, subleases and restrictions arising from lease contracts
- Also refer to Sections 17, 18, 27, and 34 for additional disclosures for assets held under finance leases.

Operating lease disclosures include:

- Total future minimum lease payments under non-cancellable operating leases, analyzed as within 1 year, later than 1 year but within 5 years, and over 5 years
- Lease payments recognised as an expense
- General description of the lessee's significant leasing arrangements. This includes contingent rent, renewal or purchase options, subleases and restrictions arising from lease contracts.

SECTION 21 – PROVISIONS AND CONTINGENCIES

SCOPE

This section applies to all provisions, contingent liabilities and contingent assets, except:

- Leases (Section 20) and Construction contracts (Section 23)
- Employee benefit obligations (Section 28) and Income tax (Section29).

The term 'provision' does not refer to:

- Depreciation
- Impairment of assets
- Uncollectible receivables.

PROVISIONS

Recognition

A provision is recognised in the statement of financial position and as an expense when:

- As a result of a past event, there is a legal or constructive obligation at the reporting date which cannot be avoided
- The obligation can be reliably measured
- It is probable (more likely than not) that there will be an outflow of economic benefits in settlement.

SECTION 21 – PROVISIONS AND CONTINGENCIES

Initial measurement

- At the present value of the best estimate of the amount required to settle the obligation
- The provision for a single obligation is taken to be the most likely outcome
- The provision for a large population of items should be based on the estimate that reflects the weighting of all possible outcomes by their associated probabilities
- Gains from the expected disposal of assets are excluded
- When part of the provision may be reimbursed by another party, this amount should be recognised as a separate asset when it is virtually certain the reimbursement will be received. The reimbursement asset is not offset against the provision.

Subsequent measurement

- Charges made against a provision to reduce the carrying value must relate to the expenditure for which the provision was originally recognised
- Reviewed at each reporting date and adjusted to reflect the present value of the current best estimate required to settle the obligation
- Subsequent amendments are charged to profit or loss as an expense in line with previous recognition, with the exception of the unwinding of discount, which is recorded within finance costs.

SECTION 21 – PROVISIONS AND CONTINGENCIES

CONTINGENT LIABILITIES

- Either a possible but uncertain obligation,
- A present obligation that cannot be reliably measured
- Are required to be disclosed but are not recognised

CONTINGENT ASSETS

- Are not recognised as an asset and are disclosed
- When future economic benefits become virtually certain, the asset is no longer considered contingent and is recognised in the statement of financial position.

DISCLOSURES

- For each provision:
  - Opening carrying amount reconciled to closing carrying amount showing additions, adjustments and amounts charged/reversed in the period
  - A description of nature, amount and timing
  - Uncertainties around timing or amount
  - Amount of any expected reimbursement.

SECTION 23 – REVENUE

SCOPE

This section covers accounting for revenue arising from:

- Sale of goods
- Rendering of services
- Construction contracts
- Interest, royalties or dividends arising from the use by others of the entity's assets.

This section does not cover accounting for revenue from some transactions and events dealt with in other sections:

- Lease agreements (Section 20)
- Dividends and other income arising from equity accounted associates and JVs (Section 14 and 15)
- Changes in the fair value of financial assets and financial liabilities or their disposal (Section 11 and 12)
- Changes in the fair value of investment property (Section 16)
- Initial recognition and changes in the fair value of biological assets related to agricultural activity (Section 34)
- Initial recognition of agricultural produce (Section 34).

SECTION 23 – REVENUE

MEASUREMENT

- At the fair value of the consideration received or receivable
- Excludes all amounts collected on behalf of third parties (e.g. sales taxes, or when acting as an agent when an entity recognises only the amount of any commission).

Exchanges of goods and services

Revenue is not recognised when goods or services are exchanged for:

- Goods or services that are of a similar nature and value
- Dissimilar goods or services but the transaction lacks commercial substance.

IDENTIFICATION OF THE REVENUE TRANSACTION

To reflect the substance of the transaction, the revenue recognition criteria are applied:

- To the separately identifiable components of a single transaction
- To two or more transactions as one, when linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

SECTION 23 – REVENUE

SALE OF GOODS

- Revenue is recognised when all the following conditions are satisfied:
  - Significant risks and rewards of ownership have been transferred to the buyer, which is most likely to occur when legal title or possession passes
  - The entity does not retain continuing managerial involvement nor effective control over the goods sold
  - It is probable that economic benefits will flow to the entity
  - The costs incurred in respect of the transaction can be measured reliably.
- Significant risks and rewards may be retained in the following circumstances:
  - The entity retains an obligation for unsatisfactory performance not covered by normal warranties
  - Receipt of revenue is contingent on the buyer selling the goods
  - When goods are shipped subject to installation and installation is a major part of the contract
  - When the buyer has the right to rescind purchase for a reason specified in the sales contract and there is uncertainty about the probability of return.

SECTION 23 – REVENUE

RENDERING OF SERVICES

- When the outcome of a transaction involving rendering of services can be estimated reliably, revenue is recognised by reference to the stage of completion when the following conditions are met:

  - Revenue can be reliably measured
  - It is probable that the economic benefits of the transaction will flow to the entity
  - The stage of completion of the transaction can be measured reliably
  - Costs incurred and costs to complete can be measured reliably.

- When the outcome of rendering services cannot be estimated reliably, revenue is recognised to the extent that expenses recognised are recoverable.

INTEREST, ROYALTIES AND DIVIDENDS

Recognised when the inflow of economic benefits is probable and reliably measureable:

- Interest: Account for using the effective interest method
- Royalties: Recognised on an accruals basis
- Dividends: Recognised when shareholder's right to receive payment is established.

SECTION 23 – REVENUE

CONSTRUCTION CONTRACTS

- Revenue and costs are recognised by reference to stage of completion
- Requires reliable estimates of stage of completion, future costs and collectability
- The requirements are applied separately to each construction contract and, where necessary, to separately identifiable components
- A group of contracts (whether with a single or multiple customers) are accounted for together if they are negotiated as a single package, are interrelated to the extent they are part of a single project, and are performed concurrently or in a continuous sequence.
- Costs that relate to future activity are recognised as an asset if it is probable that the costs will be recovered. If not probable, they are recognised as an expense immediately
- When expected costs exceed expected revenues, the expected loss is recognised as an expense immediately.

STAGE OF COMPLETION MEASUREMENT

- The stage of completion is measured using the method that most reliably measures the work performed, methods include:
  - Costs incurred to date as a proportion of total expected costs
  - Surveys of work performed
  - Completion of a physical proportion of the service transaction or contract work.

SECTION 23 – REVENUE

DISCLOSURES

- Accounting policies adopted for revenue recognition including the methods used to determine stage of completion

- Revenue recognised in the period showing separately for; sale of goods, rendering of services, interest, royalties, dividends, commissions, grant and other significant streams
- For construction contracts the following disclosures are required:

  - Revenue recognised in the period
  - Methods used to determine contract revenue and stage of completion
  - Gross amount due from/to customers for contract work as an asset/liability.

SECTION 25 – BORROWING COSTS

SCOPE

This section covers the accounting for:

- Interest expense calculated using the effective interest method (per Section 11)
- Finance charges relating to finance leases (per Section 20)
- Exchange differences arising from foreign currency borrowings when they relate to an adjustment to interest costs.

RECOGNITION

All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Borrowing costs are not capitalised as part of the cost (or carrying amount) of assets.

DISCLOSURES

- Section 11 sets out the required disclosures for total interest expense (using the effective interest method) for financial liabilities that are not measured at fair value through profit or loss
- Section 25 does not require any additional disclosures.

SECTION 27 – IMPAIRMENT OF ASSETS

SCOPE

Does not apply to: deferred tax assets (Section 29), assets arising from employee benefits (Section 28), financial assets (Sections 11 &12), investment property measured at fair value (Section 16), biological assets (Section 34), and assets arising from construction contracts (Section 23).

IMPAIRMENT OF INVENTORIES

- At each reporting date, inventories are assessed for impairment by comparing the carrying amount to the NRV
- Impairment loss, if any is recorded in profit or loss (*Cost of Sales)*
- When part or all of a previous impairment no longer exists, a reversal of impairment is recorded.
- Reversal is capped at the amount of the original impairment loss.

IMPAIRMENT OF OTHER ASSETS

- An impairment loss (or reversal of a previous impairment) is recorded immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model (Section 17)

SECTION 27 – IMPAIRMENT OF ASSETS

- Indicators of impairment include:

  - Decline in an asset's market value
  - Significant changes with an adverse effect on the entity have taken place, including changes in its technological, market, economic or legal environment
  - Increases in market interest rates or other market rates of return on investments
  - Carrying amount of the net asset is more than the estimated fair value of the entity as a whole
  - Evidence of damage or obsolescence of an asset
  - Asset no longer in use within the business or plans are in place to dispose of the asset or discontinue/restructure the operation to which the asset belongs
  - Economic performance of the asset is worse than expected.

GOODWILL-ADDITIONAL REQUIREMENTS

- The fair value of goodwill must be derived from the measurement of the fair value of the CGU, of which goodwill is a part
- An impairment loss recognised for goodwill is not reversed in a subsequent period
- Goodwill acquired in a business combination is allocated to each of the acquirer's CGUs that are expected to benefit from the combination

SECTION 27 – IMPAIRMENT OF ASSETS

MEASURING THE RECOVERABLE AMOUNT OF AN ASSET

- The recoverable is the higher of its 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 in an arm's length transaction less the costs of disposal.
  - **Value in use** is the present value of the future cash flows expected to be derived from an asset. The present value calculation requires an estimate of future net cash flows to be generated from an asset, discounted at an appropriate discount rate.

- The following should be included within a value in use calculation:

  - ➢ An estimate of future net cash flows expected to be generated from the asset, excluding the impact of cash flows from financing activities and tax
  - ➢ Expectations about possible variations in the amount or timing of cash flows
  - ➢ Time value of money is reflected in the discount rate applied which is a pre-tax rate that reflects the risks specific to the asset. The discount rate is not adjusted for risks that have already been reflected in the estimated net cash flows in order to avoid double counting of the risk adjustment.

SECTION 27 – IMPAIRMENT OF ASSETS

DISCLOSURES

For each class of asset disclose the amount of impairment loss/reversal of loss recognised in profit or loss during the period and the line in the statement of comprehensive income where the amount is included.

SECTION 28 – EMPLOYEE BENEFITS

SCOPE

Employee benefits are split into 4 categories:

- Short-term benefits–employee benefits
- Post-employment benefits
- Termination benefits
- Other long-term employee benefits

RECOGNITION CRITERIA

All employee benefits are recognised as follows:

- As a liability after deducting payments to employees (including amounts paid directly to employees or to an employee benefit fund)
- As an expense unless another section of IFRS for SMEs requires capitalisation.

SECTION 29 – INCOME TAX

CURRENT TAX

RECOGNITION AND MEASUREMENT

- Recognise current tax payable on taxable profits in current and past periods
- If amounts already paid exceed the tax payable, recognise a current tax asset
- A current tax asset is recorded for the benefit of tax loss that can be carried back to offset taxes paid in previous periods
- A current tax liability (asset) is measured at the amount an entity expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.
- Tax rates and tax laws are substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

SECTION 29 – INCOME TAX

DEFERRED TAX

RECOGNITION

- A deferred tax asset or liability is recognised for tax recoverable or payable in future periods as a result of past transactions or events.

- Deferred taxes arise from:

  - differences between the carrying amounts of the entity's assets and liabilities in the balance sheet and the amounts attributed to those assets and liabilities by the tax authorities (temporary differences); and
  - the carry forward of currently unused tax losses and tax credits.

- No deferred tax liability is recognised for taxable temporary differences arising from

  - The initial recognition of goodwill
  - The initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit.

SECTION 29 – INCOME TAX

- No deferred tax asset is recognised for deductible temporary differences arising from the initial recognition of an asset or liability in a transaction:

  - That is not a business combination; and
  - At the time of the transaction, affect neither accounting nor taxable profit (loss).

CARRY FORWARD OF UNUSED TAX LOSSES AND TAX CREDITS

Unused tax losses and tax credits give rise to a deferred tax asset to the extent that it is probable that future taxable profit will be available against which the unused tax losses or tax credits can be utilised.

When assessing the probability of future taxable profits, the entity considers the following:

- Existence of sufficient taxable temporary differences relating to the same tax authority
- Probability of taxable profits before the unused tax losses/tax credits expire
- Whether the unused tax losses result from identifiable causes unlikely to recur
- Availability of tax planning opportunities

MEASUREMENT OF DEFERRED TAX

- **Using the tax rates and tax laws that have been (substantively) enacted by the reporting date**

SECTION 29 – INCOME TAX

DETERMINATION OF THE TAX BASES

Tax base of an asset

- Equals the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset.

Tax base of a liability

- Equals its carrying amount less any amounts deductible for tax purposes in future periods.

Tax base of deferred revenue liability

- Equals carrying amount less any amount of revenue that will not be taxable in future periods

SECTION 29 – INCOME TAX

PRESENTATION

- A tax expense is recognised in the same component of total comprehensive income or equity as the transaction or other event that resulted in the tax expense.
- Deferred tax assets/liabilities are not classified as current assets/liabilities
- Offsetting of current or deferred tax only if the entity
  - has a legally enforceable right to set off; and
  - can demonstrate without undue cost or effort that it plans to settle on a net basis or to realize the asset and settle the liability simultaneously.

SECTION 29 – INCOME TAX

DISCLOSURE

- Separate disclosure of the major components of tax expense/income, including:

  - Current tax expense/income
  - Adjustments recognised for current tax of previous periods
  - Amount of deferred tax relating to origination and reversal of temporary differences and to changes in tax rates or the imposition of new taxes
  - Benefit arising from a previously unrecognized tax loss, tax credit or temporary difference used to reduce the tax expense
  - Adjustments to deferred tax expense arising from a change in the tax status
  - Tax expense relating to changes in accounting policies and errors.

The following information needs to be disclosed separately:

- Separately, the aggregate current and deferred tax in relation to items recognised in OCI and credited directly to equity
- Explanation of significant differences between tax expense/income and accounting profit multiplied by the applicable tax rate

SECTION 29 – INCOME TAX

- Explanation of changes in applicable tax rates compared with previous periods
- For each type of temporary difference and each type of tax losses and credits:
  - Amount of deferred tax liabilities, assets and valuation allowance
  - Analysis of changes during the period.
- Amount of deductible temporary differences, unused tax losses/tax credits for which no deferred tax asset is recognised
- Explanation of potential tax consequences from the payment of dividends to shareholders in jurisdictions with different applicable tax rates
- If tax assets and liabilities are not offset with reference to the undue cost or effort exemption, the entity should disclose amounts that have not been offset.

SECTION 30 – FOREIGN CURRENCY TRANSLATION

FUNCTIONAL CURRENCY

- Each entity is required to identify its functional currency which is the currency of the primary economic environment in which the entity operates
- The functional currency is the one that mainly influences prices for sale/purchase of goods and services (including the competitive forces and regulations of the countries in which it operates)
- Other indicators include the currency from which funds from financing activities are generated, and in which receipts from operating activities are usually maintained
- A foreign currency transaction is recognised in an entity's functional currency at the spot exchange rate on the date of the transaction
- At each reporting period end, the following approach is followed:

  - Monetary items are translated using the closing rate
  - Non-monetary items measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction
  - Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates as the date when the fair value was determined.

SECTION 30 – FOREIGN CURRENCY TRANSLATION

NET INVESTMENT IN A FOREIGN OPERATION

Where a monetary item receivable from or payable to a foreign operation is not planned or likely to be settled for the foreseeable future it is in substance part of the entity's net investment in that operation and is accounted for in the financial statements that include the foreign operation within other comprehensive income.

DISCLOSURES

- The amount of exchange differences arising in profit or loss except those arising on financial instruments measured at fair value through profit or loss (Sections 11 and 12)
- Exchange differences arising during the period and classified in a separate component of equity at the end of the period
- The currency in which the financial statements are presented
- Any difference between the presentational currency and the functional currency, including the reason(s) why they are different
- Any change made to functional currency.

SECTION 32 – EVENTS AFTER THE END OF THE REPORTING PERIOD

ADJUSTING EVENTS

- An event that provides evidence of conditions that existed at the balance sheet date is an adjusting event. The entity adjusts the amounts recognised and related disclosures to reflect the adjusting event.
- Examples of events that could be considered to be adjusting events:
  - Settlement after the reporting date of a court case that confirms that the entity had a present obligation at the end of the reporting period and confirms that a provision should be recognised
  - The receipt of information after the reporting period end date that confirms that an asset was impaired at the end of the reporting period
  - The determination after the end of reporting period of the cost of assets purchased or proceeds from assets sold, before the end of the reporting period
  - The discovery of fraud or errors that show that the financial statements are incorrect.

SECTION 32 – EVENTS AFTER THE END OF THE REPORTING PERIOD

NON-ADJUSTING EVENTS

- Event which relates to events after the end of the reporting period that relate to the period after the reporting date. The effect(s) of non-adjusting events are not recognised in the financial statements
- Example of non-adjusting events are follows:
  - The decline in the market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue
  - A major business combination or disposal of a subsidiary
  - Announcement of plans to discontinue an operation

DISCLOSURE

An entity discloses the following:

- Date that the accounts were authorised for issue and who gave that authorisation
- If the owners or others have the power to amend the financial statements after issue the entity shall disclose that fact
- For non-adjusting events the nature of the event and an estimate of its financial effect (or a statement that an estimate cannot be made).

SECTION 33 – RELATED PARTY TRANSACTIONS

RELATED PARTY -ENTITY

- A entity is related to a reporting entity if:

  - It is a member of the same group
  - An entity is an associate or joint venture of the other entity (or a member of its group)
  - Both entities are joint ventures of the same third party
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity
  - The entity is a post-employment benefit plan
  - The entity is controlled or jointly controlled by a Related Party –Person
  - The entity or any member of a group of which it is part, provides key management personnel services to the reporting entity or to the parent of the reporting entity
  - A Related Party –Person has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

SECTION 33 – RELATED PARTY TRANSACTIONS

- Are not related parties:
  - Two entities simply because they have a director or other key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity
  - Two venturers simply because they share joint control over a joint venture
  - An organisation by virtue of their normal dealings i.e. providers of finance, trade unions and government departments
  - A customer, supplier, franchisor with whom an entity has a significant volume of business.

When considering related party transactions, it is necessary to consider the substance of the relationship and not merely the legal form.

RELATED PARTY - PERSON

- A person or a close member of that person's family that:
  - Has control or joint control over the entity
  - Has significant influence over the entity
  - Is a member of key management personnel of the entity or parent of the entity.

SECTION 33 – RELATED PARTY TRANSACTIONS

EXAMPLES OF RELATED PARTY TRANSACTIONS

- Transfers of research and development
- Transfers under licence agreements
- Settlements of liabilities on behalf of the entity or by the entity on behalf of another party.
- Purchases or sales of goods, properties and other assets
- Rendering or receiving of services
- Leases
- Provision of guarantees or collateral.

SECTION 33 – RELATED PARTY TRANSACTIONS

DISCLOSURE

- Relationship between parent and subsidiaries irrespective of whether there have been related party transactions
- Name of parent entity and, if different, the ultimate controlling party
- Compensation of key management personnel in aggregate
- Nature of related party transactions as well as information about the transactions and outstanding balances
- Commitments entered into and guarantees given
- Provisions for uncollectible receivables as well as the quantum of expense recognised in the period in respect of bad or doubtful debts from related parties
- Separate disclosure of the above is required for the following:

  - Entities with control, joint control or significant influence over the reporting entity
  - Entities over which the entity has control, joint control or significant influence
  - Key management personnel of the entity or its parent
  - Other related parties.

An entity may disclose items of a similar nature in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions.

SECTION 35 – TRANSITION TO IFRS FOR SMES

SCOPE

This section applies to first time adopters of IFRS for SMEs and is applied to the first set of financial statements that comply with IFRS for SMEs. Section 3 requires comparative information in respect of previous periods to be presented; therefore an entity's date of transition to IFRS for SMEs is the beginning of the earliest period for which the entity prepares full comparative information in accordance with IFRS for SMEs.

PROCEDURES FOR PREPARING FINANCIAL STATEMENTS

- In its opening statement of financial position at the date of transition an entity:
  - Recognises all assets and liabilities whose recognition is required by IFRS for SMEs, and derecognises assets or liabilities that are not permitted to be recognised
  - Reclassifies items recognised under its previous accounting framework which IFRS for SMEs requires to be presented differently
  - Applies the measurement requirements of IFRS for SMEs for all assets and liabilities.
- If it is impracticable for an entity to restate its opening statement of financial position at the date of transition for one or more of the adjustments required, the entity applies adjustments in the earliest period for which it is practicable to do so

SECTION 35 – TRANSITION TO IFRS FOR SMES

- Differences in the opening statement of financial position that arise from the transactions prior to the date of transition are recorded in retained earnings at the date of transition

- On adoption of IFRS for SMEs, an entity does not retrospectively change the accounting treatment it followed under its previous reporting framework for the following transactions:

  - Derecognition of financial assets and financial liabilities
  - Hedge accounting when it was applied prior to the date of transition and the hedging relationship no longer exists at the date of transition
  - Accounting estimates
  - Discontinued operations
  - Measurement of non-controlling interests
  - Government loans

SECTION 35 – TRANSITION TO IFRS FOR SMES

EXEMPTIONS ON FIRST TIME ADOPTION

- **Business combinations**
- **Share based payment transactions**
- **Fair value as deemed cost**
- **Revaluation at deemed cost**
- **Cumulative translation differences**

DISCLOSURES

An entity explain show the transition from its previous financial reporting framework to IFRS for SMEs affected its reported financial position, financial performance and cash flows.

SECTION 35 – TRANSITION TO IFRS FOR SMES

To comply with the above, an entity's first financial statements prepared in accordance with IFRS for SMEs include:

a) A description of the nature of each change in accounting policy

b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with IFRS for SMEs for both of the following dates:

   i. The date of transition to IFRS for SMEs, and
   ii. The end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with IFRS for SMEs for the same period.

COMPARISON WITH FULL IFRS

IFRS for SMEs	IFRS
Section 1 – Small and Medium-Sized Entities	IAS 1-Presentation of Financial Statements
Section 2 – Concepts and Pervasive Principles	Framework for the Preparation and Presentation of Financial Statements
Section 3 – Financial Statements Presentations	IAS 1- Presentation of Financial Statements
Section 4 – Statement of Financial Position	IAS 1- Presentation of Financial Statements
Section 5 – Statement of Comprehensive Income and Income Statement	IAS 1- Presentation of Financial Statements
Section 6 – Statement of Changes in Equity and Statement of Income and Retained Earnings	IAS 1- Presentation of Financial Statements
Section 7 – Statement of Cash Flows	IAS 7 – Statement of Cash Flows
Section 8 – Notes to the Financial Statements	IAS 1- Presentation of Financial Statements
Section 10 – Accounting Policies, Estimates and Errors	IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
Section 32 – Events after the End of the Reporting Period	IAS 10 – Events after the Reporting Period
Section 33 – Related Party Disclosures	IAS 24 – Related Party Disclosures
Section 31 – Hyperinflation	IAS 29 – Financial Reporting in Hyperinflationary Economies

IFRS FOR SMEs KEY ASPECTS FOR IMPLEMENTATION

- Understanding of regulators and stakeholders
    - Securities and Exchange Commission of Pakistan
    - Federal Board of Revenue
    - Financial institutions
- Understanding and training of preparers
- Understanding and training of practitioners
- Evolution of IFRS for SME's
- ICMAP Technical Support and Practice Development (TSPD) Department feedback

IFRS FOR SMEs ACCESS TO RESOURCES

IASB

- http://www.ifrs.org/ifrs-for-smes/Pages/IFRS-for-SMEs.aspx
- Project History
- Training material
- Webcasts

ICMAP

- Technical Support and Practice Development (TSPD) Department

Resources developed by International Firms

THE IMPLEMENTATION CHALLENGE FOR SMES

WHAT DOES GOOD CORPORATE GOVERNANCE LOOK LIKE FOR SMES?

These requirements cover a number of categories of corporate governance:

- commitment to sound corporate governance
- structure and functioning of the board of directors
- control environment and processes
- transparency and disclosure
- rights of minority shareholders.

WHAT DOES GOOD CORPORATE GOVERNANCE LOOK LIKE FOR SMES?

SMEs can gain a range of benefits from establishing appropriate corporate governance in their businesses. These include:

- less risk of conflict between family members or other owners who are actively managing the business and those who are not
- enhanced access to credit
- faster business growth
- greater resilience to fraud, theft or other financial costs due to poor internal controls.

QUESTIONS AND ANSWERS