

# The IFRS for SMEs: Considering the alternatives

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# Foreword

On 9 July 2009 the International Accounting Standards Board issued the *International Financial Reporting Standard for Small and Medium-sized Entities* (the IFRS for SMEs or the standard), which is intended to facilitate financial reporting for small and medium-sized entities by:

- simplifying and reducing detailed requirements and guidance from full IFRSs; and
- removing the more complex option in certain areas in which full IFRSs allow more than one accounting option.

The IFRS for SMEs was published after a five-year development process as a response to many small and medium-sized entities arguing that adopting full IFRSs, which includes a considerable amount of guidance and detailed disclosure requirements, imposes a burden on small and medium-sized entities in terms of cost effectiveness and user friendliness. With the issue of the IFRS for SMEs, qualifying entities will have the option of using a much simplified, IFRS-based accounting framework to prepare their financial statements. For example, the IFRS for SMEs requires reporting entities to:

- expense all borrowing costs, removing the requirement from full IFRSs for entities to assess whether such costs should be capitalised;
- amortise goodwill and intangible assets over a maximum 10-year period, removing the requirement from full IFRSs for entities to perform an annual mandatory impairment test; and
- similar to the requirements in IFRS 9 *Financial Instruments* for financial assets, categorise all financial instruments in two categories: amortised cost and fair value; simplifying the accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial instruments.

The IASB also is developing comprehensive training materials for the IFRS for SMEs to assist in the understanding and implementation of the standard.

It is up to local jurisdictions to determine whether the IFRS for SMEs will be permitted or required to be used in their jurisdictions, and by which entities. As many jurisdictions have not yet made this decision, it is difficult at this stage to predict how widespread the use of the IFRS for SMEs will be.

Entities that have a choice of adopting the IFRS for SMEs could consider factors such as local financial reporting requirements, business and cost implications, their long-term goals and group reporting requirements before deciding whether to adopt the standard. All in all, there could be a variety of questions and matters to take into consideration when contemplating adopting the IFRS for SMEs, and we hope that this publication will provide some useful insights into that process.

Sanel Tomlinson

**KPMG International Standards Group**

## About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

We would like to acknowledge the principal authors of this publication. They are Eamon Dillon, Johan Schruppf, Sanel Tomlinson and Yin Wong of the KPMG International Standards Group.

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## Content

This publication addresses considerations and practical application issues that an entity may consider when applying the IFRS for SMEs. It also provides a high-level overview of the similarities and differences compared with full IFRSs and the requirements, exceptions and exemptions for first-time adoption of the standard. In many cases further interpretation will be needed in order for an entity to apply the IFRS for SMEs to its own facts, circumstances and individual transactions. Further, some of the information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change as practice develops.

The IFRS for SMEs and its interpretation will change over time. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standard itself.

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# 1. Executive summary

- The *International Financial Reporting Standard for Small and Medium-sized Entities* (the IFRS for SMEs or the standard) is a stand-alone document that is organised by topic. It does not follow the numbering of full International Financial Reporting Standards (full IFRSs); it also does not contain cross references to full IFRSs, except for a single reference to IAS 39 *Financial Instruments: Recognition and Measurement*.
- The IFRS for SMEs is available for use by those entities that do not have public accountability and that publish general purpose financial statements for external users.
- Legislative and regulatory authorities and standard setters in individual jurisdictions will decide who is permitted or required to use the IFRS for SMEs for statutory reporting in their jurisdiction.
- When entities have an option to adopt the IFRS for SMEs, they could consider the users of their financial statements, comparability to other entities, business impacts, long-term goals, group reporting requirements and the potential cost implications in making a decision.
- If a transaction, other event or condition is not addressed specifically in the IFRS for SMEs, then an entity should first consider the guidance in the IFRS for SMEs on similar and related issues, and then the definitions, recognition criteria and measurement concepts in Section 2 *Concepts and Pervasive Principles*. An entity may consider the requirements and guidance in full IFRSs dealing with similar and related issues, but is not required to do so.
- The IFRS for SMEs contains a number of recognition and measurement differences from full IFRSs and also requires less extensive disclosures.
- The IFRS for SMEs does not address earnings per share, segment information, interim reporting, insurance contracts and the classification of non-current assets (or disposal groups) as held for sale or distribution.
- Specific transitional requirements, including mandatory exceptions and optional exemptions similar to those available to first-time adopters of full IFRSs, apply to a first-time adopter of the IFRS for SMEs, regardless of the entity's previous generally accepted accounting principles (GAAP).

## 2. Scope and applicability

The IFRS for SMEs sets out its intended scope by describing the entities that the International Accounting Standards Board (IASB) believes would use the standard, namely those entities that:

- do not have public accountability; and
- publish general purpose financial statements for external users, i.e. financial statements directed towards the common information needs of a wide range of users.

Irrespective of the title of the standard, the IASB deliberately excluded size as one of the criteria. Therefore the IFRS for SMEs is applicable to entities of all sizes as long as the entity is not publicly accountable.

An entity is considered to have public accountability in either of the following situations:

- its debt or equity instruments are traded in a public market (or are in the process of being issued for trading in a public market); or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, e.g. a bank or insurance company.

However, an entity that holds assets in a fiduciary capacity for reasons incidental to its primary business (e.g. travel or real estate agents) is not considered to be publicly accountable.

Similar to full IFRSs, it is at the discretion of legislative and regulatory authorities and standard setters in individual jurisdictions to decide who is permitted or required to use the IFRS for SMEs in their jurisdictions. Local jurisdictions may determine and enforce specific criteria, such as quantitative thresholds, for an entity to qualify to use the standard. The IFRS for SMEs is available for any jurisdiction to adopt whether or not it has adopted full IFRSs. However, if a *publicly accountable* entity uses the IFRS for SMEs, for example because it is permitted or required to do so locally, then its financial statements cannot be described as complying with the IFRS for SMEs.

The IFRS for SMEs does not contain an effective date; instead, it will take effect from a date determined in each jurisdiction, if applicable.

## 3. Considerations prior to adopting the IFRS for SMEs

The IFRS for SMEs aims to simplify and reduce the costs of preparing financial statements. Any entity is permitted to adopt the IFRS for SMEs; however, only those entities within the intended scope of the standard as noted in chapter 2 can describe their financial statements as complying with the IFRS for SMEs.

This chapter sets out and discusses some of the matters that an entity could consider in determining whether to adopt the IFRS for SMEs.

### 3.1 Local financial reporting requirements

The adoption of the IFRS for SMEs depends, among other things, on whether the standard fits in with local laws. Even if it fits in with local laws and a jurisdiction requires or permits the standard as an acceptable financial reporting framework, then individual entities considering applying the standard still need to determine whether they can claim compliance with the standard in their particular circumstances. For example, an entity that qualifies under the criteria specified by a jurisdiction that allows application of the IFRS for SMEs by certain entities, would not be able to claim compliance with the standard if it has publicly-traded debt instruments.

Another aspect to consider is whether the IFRS for SMEs is a widely accepted financial reporting framework in the business environment in which the entities operate. One important question to ask is whether users such as local finance providers would accept or prefer financial information in accordance with the IFRS for SMEs, or whether they would require additional disclosures and statements. If additional disclosures or statements would be required, then a cost-benefit test might not be met (see 3.6 Cost). On the other hand, entities involved in cross-border trade or seeking foreign investment would benefit from adopting a standard developed by an independent international standard setter that:

- is based on similar principles as the widely accepted full IFRSs;
- is simplified to be more fit for purpose for SMEs than full IFRSs, but still result in the presentation of high-quality financial information; and
- is a more widely recognised framework than local GAAP.

### 3.2 Users and comparability to other entities

Given that the requirements in the IFRS for SMEs are not as exhaustive as those in full IFRSs, it appears inevitable that entities reporting under the IFRS for SMEs will in certain circumstances use different accounting treatments, which may result in financial statements of entities reporting under the IFRS for SMEs initially being less comparable than those of entities applying full IFRSs. This may be a short-term concern for users (e.g. finance providers) that might be interested in comparing the financial statements of different entities, but would most likely reduce over time as more entities adopt the standard and the interpretation of the requirements of the standard becomes more standardised. In addition, financial statements prepared under the IFRS for SMEs may be easier to understand given that the requirements in the IFRS for SMEs are less complex and the disclosures less voluminous.

### 3.3 Business impacts

Some of the key business aspects to consider include the effect on an entity's financial metrics (e.g. reporting ratios, net profit), existing debt covenants, and the terms and conditions of contractual arrangements. It also may impact on items such as:

- **The amount of taxes payable:** if net profit changes and/or tax law is based on the accounting treatment, then taxable income and the amount of taxes payable could change.
- **The ability to pay dividends and/or the amount of dividends that could be paid:** in jurisdictions in which dividends are limited to distributable reserves or are subject to capital management requirements, the ability to pay dividends and/or the amount of dividends that could be paid could be impacted.

- **Management compensation:** if management compensation, including incentives, is based on net profit or other financial metrics, then the amount payable could change.

The significance of these impacts depends on the facts and circumstances of each entity, including local jurisdictional requirements. The key here is to ensure that sufficient forward planning is undertaken to limit any adverse impacts, but also to capitalise on the favourable impacts.

### 3.4 Long-term goals

Entities should consider their long-term goals and plans when determining whether to adopt the IFRS for SMEs. When an entity has growth ambitions or is planning an event such as a listing in the future that would require the adoption of full IFRSs, an earlier adoption of the IFRS for SMEs may be a useful step towards adopting full IFRSs when coming from a less detailed and less complex local GAAP. On the other hand, it could be considered an additional costly change if local GAAP is already similar to full IFRSs. Similarly, existing reporters under full IFRSs that are considering applying the IFRS for SMEs should contemplate future transactions or events that might require it to revert to full IFRSs.

### 3.5 Group reporting

Requirements in different jurisdictions may be particularly relevant to consider for group reporting purposes. If, for example, a group with subsidiaries, joint ventures or associates (group entities) in South Africa, Germany and France is considering applying the IFRS for SMEs for group reporting purposes, then the business case for using the standard will be more compelling if it is an accepted financial reporting framework in most jurisdictions in which the group entities are located as group reporting and statutory reporting will be aligned in those cases.

Assuming the group reports under full IFRSs, a second consideration with regard to group reporting might be whether the complexity and number of consolidation adjustments (and therefore the need for duplicate record keeping) will change as a result of a group entity's adoption of the IFRS for SMEs. This will very much depend on the entity's current financial reporting framework and how similar it is to full IFRSs.

#### 3.5.1 Transitioning from a local GAAP that is significantly different from full IFRSs

If local GAAP is significantly different from full IFRSs, then adoption of the IFRS for SMEs may decrease both the number and complexity of required consolidation adjustments.

#### 3.5.2 Transitioning from a local GAAP that is similar to full IFRSs

If local GAAP is similar to full IFRSs, then the number and complexity of consolidation adjustments required for group reporting may increase on adoption of the IFRS for SMEs due to those simplifications noted in chapter 5, and the group entity may be required to maintain additional information for group reporting purposes. The group also may incur additional costs on an ongoing basis to monitor new differences between full IFRSs and the IFRS for SMEs as new guidance is issued by the IASB. However, the group's overall compliance costs still may reduce if group entities adopt the IFRS for SMEs because they will have a noticeably simplified financial reporting framework with which to comply and significantly reduced disclosure requirements.

### 3.6 Cost

Adopting the IFRS for SMEs may have various cost implications to consider, depending on entity- and jurisdiction-specific circumstances. They could include the following:

- **Upfront investment:** the initial adoption of the IFRS for SMEs may require some upfront investment resulting from system changes, reformatting of the financial statements and training costs. However, given this is a global standard, it is likely that suitable standard accounting packages will be available that could reduce the upfront investment required.
- **Ongoing training:** as the IFRS for SMEs will not be updated every year, ongoing training costs may be less than those which would be incurred under a rapidly and constantly changing financial reporting framework.

- **Financial reporting:** the fact that the IFRS for SMEs may be considered a more widely recognised financial reporting framework because of its international status may result in entities no longer having to prepare information for regulators or finance providers to supplement their local GAAP financial statements.
- **Disclosure requirements:** the extent of disclosures in financial statements prepared under the IFRS for SMEs is expected to be significantly less than in those prepared under full IFRSs, thereby resulting in lower costs to prepare financial statements under the IFRS for SMEs. The opposite might be true if local GAAP requirements are less onerous than the IFRS for SMEs.
- **Advisers:** many complex accounting areas in full IFRSs are simplified in the IFRS for SMEs, potentially reducing the need for experts (valuation experts, actuaries etc.) in some areas. On the other hand, the standard provides less guidance than full IFRSs in some areas and does not address certain topics (see chapter 5). The absence of detailed guidance may require additional consultation with experts.
- **The IFRS for SMEs update process:** the IFRS for SMEs is expected to provide a stable financial reporting framework in the three-year period between the IASB's updates. As mentioned under Ongoing training, this may reduce the level of investment and the costs involved in considering standard-setting developments on a regular basis from a training perspective, which could provide significant relief to SMEs given the IASB's recent level of activity. However, this update process may increase costs if the IFRS for SMEs reporter reports to an entity using full IFRSs (see 3.5 Group reporting).

## 4. The IFRS for SMEs' hierarchy

If a transaction, other event or condition is not addressed specifically in the standard, then the entity's management should use judgement in developing or applying an accounting policy that results in relevant and reliable information. In making these judgements, the IFRS for SMEs provides a hierarchy for determining an appropriate accounting policy when no specific guidance is available in the IFRS for SMEs. In such situations an entity applying the IFRS for SMEs considers:

- first the guidance in the IFRS for SMEs on similar and related issues; then
- the definitions, recognition criteria and measurement concepts in Section 2 of the standard.

An entity also may consider the requirements and guidance in full IFRSs dealing with similar and related issues, but is not required to do so. Similarly, the IFRS for SMEs makes no reference to considering the pronouncements of other standard setters. Although the reduced guidance contained in the IFRS for SMEs may require increased consultation with external advisers to assist in the interpretation of the IFRS for SMEs, the opportunity to determine appropriate accounting treatment without requiring reference to full IFRSs may be considered a benefit. Entities could consider alternative accounting practices as long as those practices are consistent with the basic principles underlying the IFRS for SMEs.

## 5. Comparison with full IFRSs

The IFRS for SMEs was developed based on the core concepts and principles from the IASB framework and full IFRSs, with modifications to address the particular financial reporting needs of the SMEs and from a cost-benefit perspective. In addition and given the unlikely applicability, the IFRS for SMEs does not address the following topics:

- earnings per share
- segment information
- interim financial reporting
- insurance contracts
- classification of non-current assets (or disposal groups) as held for sale or distribution.

The modifications resulted in the IFRS for SMEs containing significantly less detailed guidance and examples than full IFRSs for topics that are addressed. Less guidance in the IFRS for SMEs compared with full IFRSs, combined with the fact that the hierarchy does not require SMEs to consider the requirements of full IFRSs, makes it likely that differences will arise from full IFRSs even when the principles appear to be the same or similar. Therefore the similarities to and differences from full IFRSs highlighted in this publication may require further consideration as experience is gained in using the standard.

The following table compares some of the basic requirements in the IFRS for SMEs with the equivalent requirements in full IFRSs. It highlights similarities and differences between the IFRS for SMEs and full IFRSs only and is not a complete overview of the requirements of the standard. Since the IFRS for SMEs does not contain a specific effective date, the requirements generally are compared to the requirements in full IFRSs on issue and that are mandatorily effective for periods beginning on 1 January 2010.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Financial statement presentation (Sections 3 - 8)	Presentation & Disclosure	The presentation of a combined statement of comprehensive income and retained earnings is permitted if the only changes to equity during the period arise from: <ul style="list-style-type: none"> <li>● profit or loss;</li> <li>● the payment of dividends;</li> <li>● the correction of prior period errors; and/or</li> <li>● changes in accounting policy.</li> </ul>	IAS 1 <i>Presentation of Financial Statements</i> does not include a similar exemption from presenting a separate statement of changes in equity.
	Presentation & Disclosure	A SME is not required to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or corrects a prior period error, or when it reclassifies items in its financial statements.	IAS 1 requires a statement of financial position as at the beginning of the earliest comparative period to be presented in such circumstances.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
<p>Consolidated and separate financial statements (Section 9)</p>	<p>Recognition &amp; Measurement; Presentation &amp; Disclosure</p>	<p>A SME that is a parent prepares consolidated financial statements unless either of the following applies:</p> <ul style="list-style-type: none"> <li>● it is itself a subsidiary and its ultimate or any intermediate parent's financial statements comply with full IFRSs or the IFRS for SMEs; or</li> <li>● its only subsidiaries were acquired with the intention of selling or disposing of them within one year.</li> </ul>	<p>The requirements in IAS 27 <i>Consolidated and Separate Financial Statements</i> (2008) to qualify for the exemption from presenting consolidated financial statements are more restrictive than those for SMEs. Furthermore, subsidiaries acquired with the intention of selling or disposing of them within one year are not exempt from consolidation under IAS 27 (2008).</p>
	<p>Recognition &amp; Measurement; Presentation &amp; Disclosure</p>	<p>A SME makes an accounting policy choice in any separate financial statements to account for each of subsidiaries, associates and jointly controlled entities either at cost less impairment or at fair value through profit or loss.</p>	<p>IAS 27 (2008) requires an entity in its separate financial statements to account for each of subsidiaries, associates and jointly controlled entities either at cost or in accordance with IAS 39. The classifications under IAS 39 are broader than allowed by the IFRS for SMEs.</p>
<p>Financial Instruments (Sections 11 and 12)</p>	<p>Recognition &amp; Measurement; Presentation &amp; Disclosure</p>	<p>A SME has an accounting policy choice for its financial instruments to apply either the requirements of the IFRS for SMEs or the recognition and measurement requirements of IAS 39 in combination with the disclosure requirements of the IFRS for SMEs.</p>	<p>Under full IFRSs financial instruments are recognised and measured under IAS 39 and the disclosure requirements are included in IFRS 7 <i>Financial Instruments: Disclosures</i>.</p>
	<p>Recognition &amp; Measurement; Presentation &amp; Disclosure</p>	<p>The IFRS for SMEs provides guidance on accounting for financial instruments in two sections. Section 11 provides guidance on "basic" financial instruments and Section 12 provides guidance on more complex financial instruments. Examples of such instruments are provided in the IFRS for SMEs. The IFRS for SMEs only has two classification categories for financial instruments: amortised cost and fair value through profit or loss.</p>	<p>IAS 39 does not differentiate between basic and complex financial instruments. In addition, IAS 39 contains more classification categories for financial instruments such as financial assets or liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets.</p>

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Financial Instruments (Section 11)	Recognition & Measurement; Presentation & Disclosure	Financial instruments within the scope of Section 11 comprise basic financial instruments; they are recognised initially at the transaction price. Examples of such instruments generally include cash, demand and fixed-term deposits, debt instruments such as accounts, notes and loans receivable and payable, bonds and ordinary shares. Transaction costs are included in the initial amount recognised except for financial assets and liabilities measured at fair value through profit or loss, in which case they are recognised in profit or loss.	IAS 39 requires financial assets and liabilities to be measured initially at fair value. Directly attributable transaction costs are added to this value if the financial asset or liability is not at fair value through profit or loss.
	Recognition & Measurement; Presentation & Disclosure	Subsequent to initial recognition, financial instruments within the scope of Section 11 are accounted for at amortised cost using the effective interest method, with a number of exceptions to this measurement rule.	In accordance with IAS 39, loans and receivables, held-to-maturity investments and other financial liabilities (with certain exceptions) are measured subsequently at amortised cost using the effective interest method.
	Recognition & Measurement	An impairment loss is recognised on equity instruments when there is objective evidence of impairment. The IFRS for SMEs provides examples of loss events that provide objective evidence of impairment.	IAS 39 lists a number of events that constitute objective evidence for a financial asset to be impaired, which generally are similar to the events listed in the IFRS for SMEs. However, IAS 39 additionally includes a "significant or prolonged" indicator, which is not contained in the IFRS for SMEs.
Financial Instruments (Section 12)	Recognition & Measurement; Presentation & Disclosure	Financial instruments within the scope of Section 12 comprise more complex financial instruments; they are measured at fair value with changes in fair value recognised in profit or loss, with certain exceptions. Examples of such instruments generally include options, rights, warrants, futures, forwards and asset-backed securities.	IAS 39 does not differentiate between basic and complex financial instruments, although fair value through profit or loss is a measurement principle that could be used for a number of financial instruments in IAS 39. As such, there may be differences between the requirements in full IFRSs and the requirements for SMEs with respect to accounting for (complex) financial instruments.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Financial Instruments (Section 12) (continued)	Recognition & Measurement; Presentation & Disclosure	<p>Hedge accounting for SMEs is permitted only for the following risks:</p> <ul style="list-style-type: none"> <li>● interest rate risk for a debt instrument measured at amortised cost;</li> <li>● foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;</li> <li>● price risk of a commodity held or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or</li> <li>● foreign exchange risk in a net investment in a foreign operation.</li> </ul>	IAS 39 is not as restrictive as the IFRS for SMEs in respect of the risks that can be hedged.
	Recognition & Measurement	Only interest rate swaps, foreign currency swaps, foreign currency forward exchange contracts and commodity forward exchange contracts are allowed to be designated as hedging instruments.	IAS 39 is not as restrictive as the IFRS for SMEs in respect of the type of instruments that are allowed to be designated as hedging instruments and allows a number of other hedging instruments, including options, cross-currency interest rate swaps etc.
	Recognition & Measurement	<p>A SME needs to designate and document a hedging relationship and it should expect the hedging instrument to be highly effective in offsetting the hedged risk. The following conditions need to be met with regard to the hedging instrument:</p> <ul style="list-style-type: none"> <li>● it involves only parties external to the entity;</li> <li>● its notional amount is equal to the designated amount of the hedged item;</li> <li>● its specified maturity date is no later than: the maturity date of the hedged item; the expected settlement date of the commodity purchase or sale commitment; or the occurrence of the highly probable forecast foreign currency or commodity transaction hedged; and</li> <li>● it has no prepayment, early termination or extension features.</li> </ul>	Other than the hedging instrument being issued by a party external to the reporting entity, IAS 39 does not contain the same restrictions on the conditions that must be met in order to designate a hedge relationship.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Inventories (Section 13)	Recognition & Measurement	In addition to being permitted to use the standard cost or retail method to approximate the cost of inventories, a SME is permitted to use the most recent purchase price if this approximates cost.	Under IAS 2 <i>Inventories</i> the most recent purchase price is not permitted to approximate the cost of inventories (unless the difference compared to the permitted methods is immaterial).
Investments in associates and jointly controlled entities (Sections 14 and 15)	Recognition & Measurement	<p>A SME has an accounting policy choice in its consolidated financial statements to account for each of investments in associates and jointly controlled entities:</p> <ul style="list-style-type: none"> <li>● using the equity method;</li> <li>● at cost; or</li> <li>● at fair value through profit or loss (unless not available without undue cost or effort).</li> </ul> <p>In respect of investees for which a public price is available, the standard is unclear as to whether measurement at fair value through profit or loss is mandatory irrespective of the SME's accounting policy choice for investees or only if the cost model is chosen.</p> <p>This accounting policy choice is available separately for investments in associates and jointly controlled entities.</p>	<p>IAS 28 <i>Investments in Associates</i> requires, with certain exceptions, that investments in associates be accounted for using the equity method.</p> <p>IAS 31 <i>Interests in Joint Ventures</i> requires, with certain exceptions, an interest in a jointly controlled entity to be accounted for either using proportionate consolidation or using the equity method.</p>
Investment property (Section 16)	Recognition & Measurement	A SME accounts for investment property at fair value with changes recognised in profit or loss, if the fair value of an investment property can be determined reliably without "undue cost or effort" on an ongoing basis; otherwise it is accounted for as property, plant and equipment in accordance with Section 17. This assessment is made on a property-by-property basis. This means that the accounting policy is driven by the ability to determine the fair value of investment property; there is no accounting policy choice.	IAS 40 <i>Investment Property</i> requires an entity to choose either the fair value model or the cost model under IAS 16 <i>Property, Plant and Equipment</i> . The chosen policy applies to all of an entity's investment property. There is a limited exemption from fair value accounting once the fair value model has been elected, which is available only on initial recognition on a property-by-property basis.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Investment property (Section 16) (continued)	Presentation & Disclosure	If an investment property is being accounted for as property, plant and equipment, then there is no requirement to disclose the fair value of that property.	IAS 40 requires an entity that has elected the cost model to disclose the fair value of investment property, with limited exceptions that apply only if fair value was not readily determinable on initial recognition.
Property, plant and equipment (Section 17) and intangible assets other than goodwill (Section 18)	Recognition & Measurement	Property, plant and equipment and intangible assets are measured at cost less accumulated depreciation or amortisation and impairment losses after initial recognition. The revaluation model is not permitted.	IAS 16 and IAS 38 <i>Intangible Assets</i> have similar measurement requirements to those in the IFRS for SMEs when the cost model is applied, but the revaluation model also is permitted subject to specific guidance contained in each of IAS 16 and IAS 38.
	Recognition & Measurement	The useful lives, residual values and depreciation methods of items of property, plant and equipment and intangible assets are reviewed only when there are indications that they have changed, e.g. price changes or technological advancements.	Under IAS 16 and IAS 38 useful lives, residual values and depreciation methods are reviewed at least at the end of each financial year.
	Recognition & Measurement	All expenditure incurred internally on an intangible item is expensed as incurred unless it forms part of the cost of another asset that meets the recognition criteria under the IFRS for SMEs. This includes expenditure on both research and development activities.	Under full IFRSs, research expenditure is expensed as incurred, but IAS 38 requires the capitalisation of development expenditure in certain circumstances.
	Recognition & Measurement	All intangible assets are considered to have finite useful lives. Therefore all intangible assets are amortised. If an entity is unable to estimate reliably the useful life of an intangible asset, then it is presumed to be 10 years.	Under IAS 38 intangible assets may be determined to have indefinite useful lives when appropriate; intangible assets with indefinite useful lives are not amortised.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Business combinations and goodwill (Section 19)	Recognition & Measurement; Presentation & Disclosure	<p>The definition of a business combination, the treatment of transaction costs, contingent consideration and contingent liabilities and the calculation of goodwill and any non-controlling interests are the same as that under IFRS 3 <i>Business Combinations</i> (2004).</p> <p>However, the scope does not exclude business combinations achieved by contract alone or business combinations involving mutual entities.</p> <p>Also if an associate becomes a subsidiary or joint venture, then the investor remeasures its previously held equity interest to fair value and recognises any resulting gain or loss in profit or loss.</p>	<p>The requirements of the IFRS for SMEs with regard to business combinations largely are consistent with the requirements of IFRS 3 (2004), and as such the treatment of transaction costs, contingent consideration and contingent liabilities and the calculation of goodwill and any non-controlling interests are different from the requirements under IFRS 3 (2008).</p> <p>There are significant disclosure reliefs for SMEs compared with the disclosures required under IFRS 3 (2008).</p>
	Recognition & Measurement	<p>Goodwill is considered to have a finite useful life and is amortised over this life, which is presumed to be 10 years if it cannot be determined reliably. After initial recognition goodwill is measured at cost less accumulated amortisation and impairment losses. At each reporting date an entity assesses whether there is any indication that goodwill is impaired but only tests for impairment when there is such an indication.</p>	<p>Under IAS 36 <i>Impairments of Assets</i>, goodwill is not amortised and it is tested for impairment annually regardless of there being an indication of impairment.</p>
	Recognition & Measurement	<p>An impairment loss for goodwill cannot be reversed in a subsequent period.</p>	<p>The IFRS for SMEs requirement is the same as under IAS 36.</p>
Leases (Section 20)	Recognition & Measurement	<p>If payments under operating leases are structured to increase in line with expected general inflation, then the timing of the recognition of income and expenditure by the lessor and the lessee respectively reflects this fact instead of being recognised on a straight-line basis.</p>	<p>Under IAS 17 <i>Leases</i> expenditure in an operating lease generally is recognised on a straight-line basis.</p>

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Equity (Section 22)	Recognition & Measurement	If shares are issued before the consideration is received, then the receivable is offset against equity. If the consideration is received before shares are issued, then equity is increased only if there is no obligation to repay the amount received. If shares are subscribed for but no consideration has been received, then there is no increase in equity.	Full IFRSs do not specifically address this issue.
	Recognition & Measurement	When an entity declares a distribution of non-cash assets and has an obligation to distribute such assets to its owners, it recognises a liability, which is measured at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity reviews and adjusts the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution.	The requirements with respect to distributions of non-cash assets are the same as those contained in IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i> ; however, the IFRS for SMEs does not contain the scope exemptions that are included in IFRIC 17 (e.g. common control transactions).
Revenue (Section 23)	Recognition & Measurement	If an entity, with regard to the construction of real estate, is required to provide services together with construction materials in order to perform its obligation, then the agreement is accounted for as a sale of goods. However, the buyer is considered to not obtain control or the significant risks and rewards of ownership of the work in progress as construction progresses. Therefore transfer (and the recognition of revenue) occurs only upon the delivery of the completed real estate to the buyer.	In respect of the sale of goods, IFRIC 15 <i>Agreements for the Construction of Real Estate</i> requires a continuous recognition of revenue during the construction of real estate (i.e. a percentage of completion method) when there is a continuous transfer of risks and rewards to the buyer.  Other revenue related guidance included in the IFRS for SMEs is similar to full IFRSs.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Government grants (Section 24)	Recognition & Measurement	<p>A SME measures a government grant at the fair value of the assets received. If the grant imposes no specified performance conditions, then it is recognised in income when the grant proceeds are receivable. If the grant imposes specified performance conditions, then it is recognised in income only when those conditions are met.</p> <p>A SME is not permitted to recognise a grant related to assets by deducting the grant from the carrying amount of the related asset.</p>	The requirements for SMEs with respect to accounting for government grants are similar to the requirements contained in IAS 41 <i>Agriculture</i> with respect to such grants, and as such they differ from the requirements of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> .
	Recognition & Measurement; Presentation & Disclosure	A loan from a government with a nil or below-market interest rate is treated as a government grant to the extent of the favourable interest rate.	The IFRS for SMEs requirement is the same as under IAS 20.
Borrowing costs (Section 25)	Recognition & Measurement	All borrowing costs are expensed as incurred.	IAS 23 <i>Borrowing Costs</i> requires borrowing costs for qualifying assets to be capitalised as part of that asset.
Share-based payment (Section 26)	Recognition & Measurement	The concept underlying the recognition and measurement of share-based payment transactions is like that in full IFRSs. However, if the entity or the counterparty has a choice of settlement in cash or equity instruments, then the SME accounts for the transaction as a cash-settled share-based payment transaction, unless the entity has a past practice of settling by issuing equity instruments or the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments.	Under IFRS 2 <i>Share-based Payment</i> a transaction in which the entity has the choice of settlement is accounted for as equity-settled if the entity has the stated intent and ability to settle in equity instruments; otherwise it is accounted for as cash-settled. If the counterparty has the choice of settlement, then the entity has granted a compound instrument that includes a liability component and an equity component, which are accounted for separately.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Share-based payment (Section 26) (continued)	Recognition & Measurement	If a SME's parent grants a share-based payment award to the employees of the SME, then the SME is permitted to recognise and measure a share-based payment expense (and the related capital contribution by the parent) based on a reasonable allocation of the expense recognised for the group.	If a parent grants a share-based payment to the employees of a subsidiary, then IFRS 2 requires an attribution to the subsidiary's financial statements. In this case the subsidiary recognises the share-based payment based on a separate calculation.
Impairment of non-financial assets (Section 27)	Recognition & Measurement; Presentation & Disclosure	Non-financial assets (including all intangible assets and goodwill) are tested for impairment only when there is an indication that the asset may be impaired, i.e. there are no instances of mandatory annual impairment testing.	<p>IAS 36 requires that an entity measure the recoverable amount of the following assets annually, regardless of whether there is an indication of impairment: goodwill, indefinite-lived intangible assets and intangible assets not yet available for use.</p> <p>There are significant disclosure reliefs for SMEs compared with the disclosures required under full IFRSs.</p>
Employee benefits (Section 28)	Recognition & Measurement	The net change in a defined benefit liability during the period (other than changes attributable to benefits paid to employees or contributions from the employer) is recognised in profit or loss or in other comprehensive income, unless capitalisation is required under another section of the IFRS for SMEs (e.g. as part of the cost of inventory). Therefore an accounting policy choice is available to recognise actuarial gains and losses either in profit or loss or in other comprehensive income in the period in which they occur.	IAS 19 <i>Employee Benefits</i> allows the "corridor" method for recognising actuarial gains and losses in addition to the policies permitted under the IFRS for SMEs.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Employee benefits (Section 28) (continued)	Recognition & Measurement	The calculation of the present value of the obligation in a defined benefit scheme is the same as the projected unit credit method under IAS 19, if the necessary information is available or can be obtained without undue cost or effort; otherwise a simplified approach is applied. Under this simplified approach future salary increases, future service and possible mortality prior to the retirement date are ignored. The resulting obligation reflects both vested and unvested benefits.	IAS 19 does not permit the simplified approach allowed by the IFRS for SMEs.
	Other	A comprehensive actuarial valuation of defined benefit obligations is not required annually. However, specific roll-forward procedures for the periods between comprehensive actuarial valuations need to be followed.	IAS 19 does not mandate the timing or frequency of actuarial valuations, but indicates that such a calculation is carried out with sufficient regularity to avoid material misstatements. Furthermore, IAS 19 states that the discount rate should be determined by reference to the market yields at the end of the reporting period.
	Recognition & Measurement	Any gain or loss resulting from the introduction, change, curtailment or settlement of a defined benefit plan is recognised in profit or loss in the current period.	The treatment of curtailments and settlements under IAS 19 is similar to the requirements for SMEs. With respect to an introduction or a change to a defined benefit plan, IAS 19 requires recognition of any unvested past service costs over time (i.e. the remaining working lives of the employees).
	Recognition & Measurement	With respect to group plans, if the parent provides benefits to the employees of the subsidiaries and the parent present consolidated financial statements under either full IFRSs or the IFRS for SMEs, then subsidiaries are permitted to recognise a charge based on a reasonable allocation of the group charge.	In respect of such allocations for group plans, IAS 19 states that recognition in separate or individual financial statements depends on whether there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan to individual entities, with specific guidance in absence of such agreement or policy.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Employee benefits (Section 28) (continued)	Recognition & Measurement	Short-term and long-term benefits are defined as those that are wholly/not wholly due within 12 months after the end of the period in which the employees render the related service.	It is not clear whether the description of short-term and long-term as included in the IFRS for SMEs is intended to have the same meaning as short-term and long-term benefits under current IAS 19.
Income tax (Section 29)	Recognition & Measurement	<p>A current tax liability is recognised for taxes payable for current and prior periods. A current tax asset is recognised for the excess of taxes paid over taxes payable for current and prior periods and for the benefits of a tax loss which can be utilised to recover taxes paid in a prior period.</p> <p>Current tax assets and liabilities are recognised at the expected amounts recoverable or payable using the tax rates that are enacted or substantively enacted at the reporting date. Discounting of current tax assets and liabilities is prohibited.</p>	The recognition and measurement requirements in the IFRS for SMEs are similar to the requirement in current IAS 12 <i>Income Taxes</i> , except that discounting of current tax assets and liabilities is not addressed specifically in IAS 12.
	Recognition & Measurement; Presentation & Disclosure	<p>Deferred tax assets or liabilities are recognised for tax payable or recoverable on taxable profit for future periods as a result of past transactions or events. All deferred tax assets and liabilities are classified as non-current.</p> <p>There is no initial recognition exemption for a deferred tax asset or liability arising on the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.</p>	The recognition and measurement requirements in the IFRS for SMEs are similar to the requirement in current IAS 12 except that an exemption exists for a deferred tax asset or liability arising on the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.
Foreign currency translation (Section 30)	Recognition & Measurement	On disposal of a foreign operation any cumulative exchange differences relating to that operation previously recognised in other comprehensive income are not reclassified to profit or loss.	Under IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> cumulative foreign exchange differences relating to that operation are reclassified to profit or loss on disposal.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Related party disclosures (Section 33)	Presentation & Disclosure	The definition of related parties and the disclosure requirements for related party transactions are similar to those under full IFRSs and incorporates the revisions as a result of IAS 24 <i>Related Party Disclosures</i> (2009).	Generally, the definition of related parties and the disclosure requirements under the IFRS for SMEs are similar to the definition and disclosure requirements included in IAS 24 (2009), and as such are different from the currently effective requirements in current IAS 24 in these respects.
	Presentation & Disclosure	<p>Disclosure reliefs when compared to the disclosure requirements of full IFRSs and the exposure drafts include:</p> <ul style="list-style-type: none"> <li>● disclosure of key management personnel compensation in total only, and not by category or type of benefit; and</li> <li>● full exemption from the disclosure of relationships and transactions with the state and other state-controlled entities, except that the parent-subsidiary relationship still is required to be disclosed.</li> </ul>	In these areas, more extensive disclosures are required by current IAS 24, compared to the guidance included in the IFRS for SMEs.
Specialised industries (Section 34)	Recognition & Measurement; Presentation & Disclosure	<p>The IFRS for SMEs includes a section on specialised industries, including agriculture, extractive activities and service concession arrangements.</p> <p>The accounting for service concession arrangements in the IFRS for SMEs is consistent with that under full IFRSs. However, based on the definition of service concession arrangements in the IFRS for SMEs compared with the description in full IFRSs it is not clear whether they both would result in the same arrangements being considered service concession arrangements.</p>	Guidance with respect to accounting for specialised industries in IFRS 4 <i>Insurance Contracts</i> , IAS 41 and IFRIC 12 <i>Service Concession Arrangements</i> generally is more extensive in full IFRSs.

Topic	Classification	The IFRS for SMEs	Comparison to full IFRSs
Specialised industries (Section 34) (continued)	Recognition & Measurement; Presentation & Disclosure	There is no specific accounting guidance for a SME that is engaged in extractive activities. For example, if such an entity acquires or develops tangible assets for use in extractive activities, then it uses the guidance on property, plant and equipment in the IFRS for SMEs.	For entities involved in extractive activities, the accounting requirements in respect of exploration and evaluation activities for entities applying full IFRSs are set out in IFRS 6 <i>Exploration and Evaluation of Mineral Resources</i> , whereas SMEs in such circumstances are directed to the SME accounting requirements for tangible and intangible assets.
	Recognition & Measurement	Biological assets are measured at cost less accumulated depreciation and any impairment losses if their fair value is not readily determinable without undue cost or effort.	In IAS 41 there is a rebuttable presumption that the fair value less costs to sell of biological assets can be measured reliably.

## 6. First-time adoption of the IFRS for SMEs

The IFRS for SMEs includes a separate section that sets out all transitional requirements, mandatory exceptions and optional exemptions available on the first-time adoption of the standard. The transitional requirements of the IFRS for SMEs apply to a first-time adopter of the standard regardless of its previous GAAP, even if that financial reporting framework was full IFRSs.

An entity applies the transitional requirements of the IFRS for SMEs in its first set of financial statements in which an explicit and unreserved statement of compliance with the IFRS for SMEs is made. An entity can be a first-time adopter of the IFRS for SMEs only once. Therefore it cannot benefit more than once from the special measurement and recognition exceptions and exemptions available on first-time adoption of the IFRS for SMEs, e.g. if an entity stops using the IFRS for SMEs for a period of time and then is required or chooses to adopt it again at a later date, it will not be regarded as a first-time adopter at that later date.

In its opening statement of financial position, an entity is required to apply the IFRS for SMEs in:

- determining the IFRS for SMEs accounting policies;
- recognising and derecognising all assets and liabilities;
- reclassifying items as an asset, liability or component of equity as appropriate; and
- measuring recognised assets and liabilities.

The IFRS for SMEs includes several mandatory exceptions prohibiting an entity from making changes to the accounting under its previous GAAP, as well as a number of optional exemptions from the general requirement to retrospectively apply the entity's selected IFRS for SMEs accounting policies.

Mandatory exception	Description of the mandatory exception
Derecognition of financial instruments	May not recognise financial instruments derecognised under an entity's previous GAAP.
Hedge accounting	May not change its hedge accounting for hedging relationships that no longer exist at the date of transition. Further, an entity is required to comply with the requirements in Section 12 <i>Other Financial Instruments Issues</i> for all hedging relationships that exist at the date of transition.
Accounting estimates	May not make changes to estimates made under previous GAAP at the date of transition.
Discontinued operations	May not make changes to the accounting under previous GAAP with respect to discontinued operations.
Measurement of non-controlling interests	May not apply the requirements to allocate profit or loss and total comprehensive income between non-controlling interests and owners of the parent before the date of transition, unless a business combination is accounted for using this standard before the date of transition.

Optional exemption	Description of the optional exemption
Business combinations	May elect not to apply the requirements in Section 19 <i>Business Combinations and Goodwill</i> to business combinations effected prior to the date of transition or may apply it from a date prior to the date of transition as selected by the entity.
Share-based payment transactions	May elect not to apply the requirements in Section 26 <i>Share-based payment</i> to share-based payment transactions granted before, or share-based payment liabilities settled prior to, the date of transition.
Fair value or revaluation as deemed cost	May elect to measure an item of property, plant and equipment, investment property or an intangible asset at a previous revaluation amount at the revaluation date or at fair value at the date of transition.
Cumulative translation differences	May elect to restate cumulative translation differences to nil at the date of transition.
Separate financial statements	If a cost-based measure is used to measure investments in subsidiaries, associates and jointly controlled entities in an entity's separate financial statements, may elect to determine cost in accordance with the IFRS for SMEs or as deemed cost on the date of transition, being fair value or the previous GAAP carrying amount.
Compound financial instruments	May elect not to split the liability and equity portion of a compound financial instrument at the date of transition if the liability component is no longer outstanding.
Deferred income tax	May elect not to recognise deferred taxes arising from differences between the tax basis and carrying amount of any assets and liabilities at the date of transition if recognition would require undue cost or effort.
Service concessions arrangements	May elect not to apply the requirements of the IFRS for SMEs to service concession arrangements entered into prior to the date of transition.
Extractive activities	May elect to measure oil and gas assets at the amount determined under previous GAAP at the date of transition, provided the first-time adopter used full cost accounting under its previous GAAP.
Arrangements containing a lease	May elect to assess whether an arrangement contains a lease based on the facts and circumstances at the date of transition as opposed to the date on which the arrangement was entered into.
Decommissioning liabilities	May elect to measure a decommissioning liability based on the facts and circumstances at the date of transition as opposed to those at the date the obligation arose initially.
Derecognition of financial instruments	May elect to continue to recognise financial assets or liabilities that would have been derecognised under the IFRS for SMEs until disposal or settlement.

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