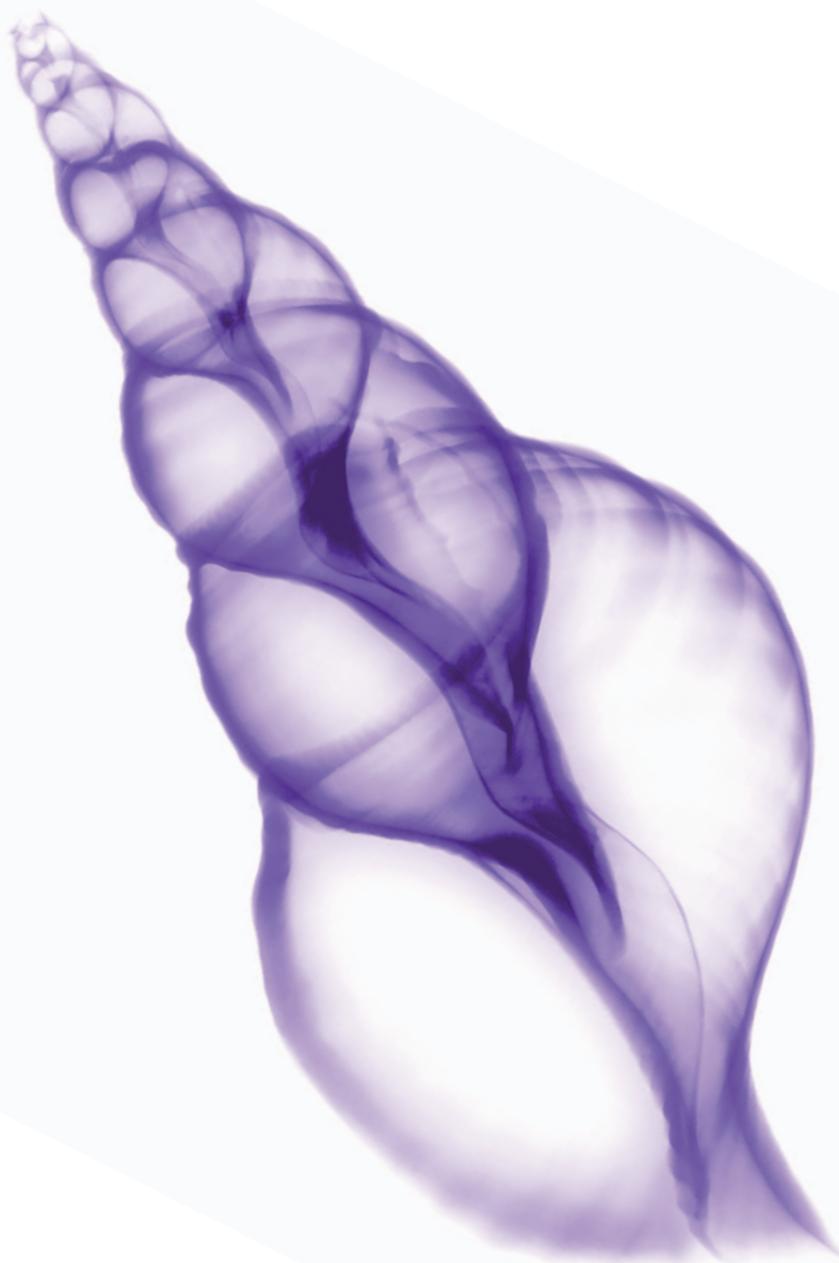


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IFRS for SMEs in your pocket
April 2010



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Foreword

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

Small and medium-sized entities (SMEs) pervade the business world. In virtually every jurisdiction, from the largest economies down to the smallest, over 99% of companies have fewer than 50 employees. There are 21 million SMEs in the European Union and 20 million in the United States alone. In most jurisdictions, the law requires SMEs to prepare and publish financial statements and have them audited. The global trend in the past decade has been for jurisdictions to adopt International Financial Reporting Standards (IFRSs) directly or to converge local generally accepted accounting practice (GAAP) to IFRSs. As IFRSs are designed to meet the needs of public capital markets, securities regulators actively encourage this trend. Today, over 110 jurisdictions require the adoption of IFRSs for listed companies. As a result, the scope and complexity of issues covered in IFRSs, the amount of implementation guidance, and the volume of disclosures, have increased.

In some jurisdictions this complexity has been pushed down to SMEs due to the convergence of local accounting standards with IFRSs. SMEs frequently express their concerns about the burden of complying with complex accounting requirements and question the relevance of the resulting information to the users of their financial statements, who are more interested in information about cash-flows, liquidity and solvency.

A reality in some countries is that the implementation of full IFRSs (or converged local equivalents) is fraught with difficulties. And where jurisdictions have developed their own SME standards, these often have serious limitations from a user perspective, are not readily understood by lenders and other capital providers, have limited support (such as textbooks and software) and are sometimes weakly enforced. World Bank studies of over 80 developing and emerging jurisdictions found that most have significant shortcomings in financial reporting by SMEs – shortcomings that impede economic growth.

The *IFRS for SMEs* was issued by the IASB in July 2009 in response to these concerns. It is self-contained, tailored to the needs and capabilities of smaller businesses and is understandable across borders. The *IFRS for SMEs* is written in a clear, easily translatable language and is less complex in a number of ways as compared with full IFRSs (and many national GAAPs), which include limiting accounting policy choices, omitting topics that are not relevant to SMEs, simplifying the principles for recognition and measurement and requiring fewer disclosures.

The *IFRS for SMEs* is separate from full IFRSs and is therefore available for any jurisdiction to adopt, whether or not it has adopted full IFRSs. It is also the responsibility of each jurisdiction to determine which entities should apply the *IFRS for SMEs*. The IASB's only restriction is that listed companies and financial institutions, i.e. companies that are publicly accountable, should not use it.

Many global accounting groups welcomed the *IFRS for SMEs* when it was issued. The World Bank said it was a “valuable reporting framework for smaller entities that is more responsive to the size and ownership of their operations, and should help improve their access to finance”. The International Federation of Accountants said the standard “will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance. The beneficiaries will not be only SMEs, but also their customers, clients and other users of SME financial statements.”

Those kinds of benefits are the reason the IASB developed the standard. An important public interest is served when those who provide capital have good information on which to base their lending, credit and investment decisions.

Paul Pacter

Director, IFRS Global Office

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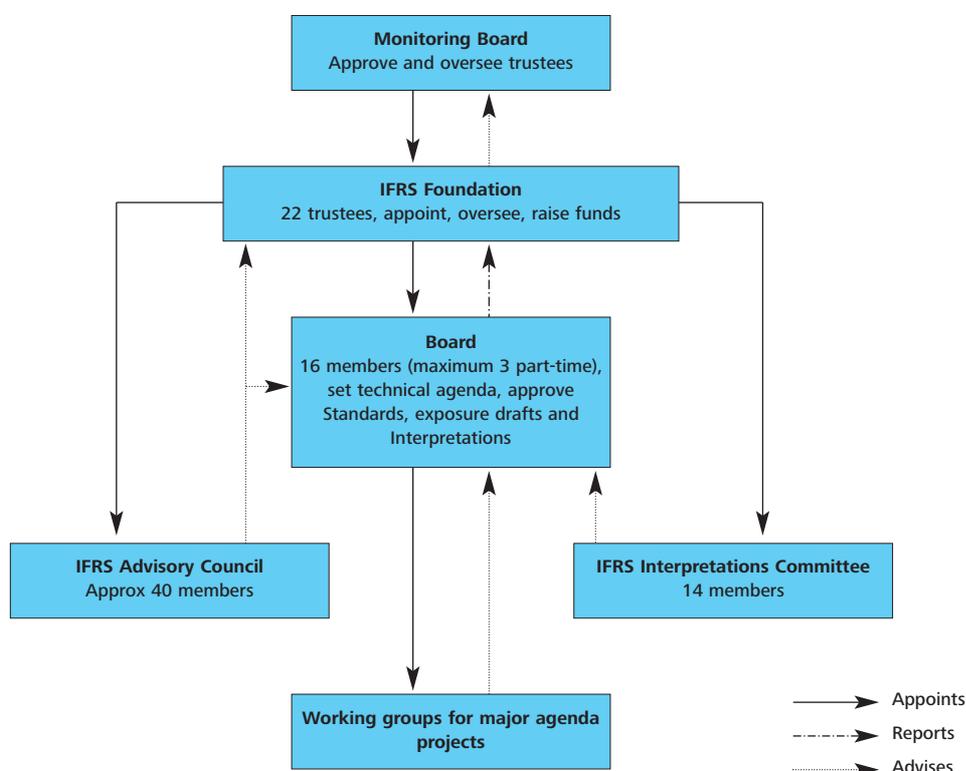
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Abbreviations

CGU	Cash-generating unit
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Practice(s)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee (predecessor to the IASB)
IASCF	IASC Foundation (parent body of the IASB, now named IFRS Foundation)
IFRIC	Interpretations issued by the IFRS Interpretations Committee (previously IFRIC)
IFRS(s)	International Financial Reporting Standard(s)
IFRSF	International Financial Reporting Standard Foundation
IOSCO	International Organisation of Securities Commissions
NCI	Non-controlling interest(s)
SAC	Standards Advisory Council (advisory body to the IASB, now named IFRS Advisory Council)
SIC	Standing Interpretations Committee of the IASC, and Interpretations issued by that committee
SME(s)	Small and medium-sized entity(ies)

IASB structure



Constitution review 2008-2010

The IASC Foundation (now known as the IFRS Foundation) finalised the second phase of the 2008-2010 Constitution Review in January 2010. The review began in January 2008 with the view to enhance the organisation's governance and was split into two parts. Part One focused on the governance and public accountability of the IFRS Foundation (in particular, the creation of the Monitoring Board) and on the size and composition of the IASB (in particular, the expansion of the IASB from 14 to 16 members (with up to three part-time) and a specified geographical mix for the IASB). These amendments were effective on 1 February 2009.

The second part of the review focussed on enhancing public accountability, stakeholder engagement and operational effectiveness. The main changes to the constitution involved the streamlining of names in the organisation¹ and the creation of vice-chairs for both the trustees and IASB. Changes to the Constitution resulting from Part Two of the review came into effect on 1 March 2010.

Monitoring Board

The primary purpose of the Monitoring Board is to serve as a mechanism for formal interaction between capital market authorities and the IFRS Foundation – the objective being to facilitate capital market authorities that allow or require the use of IFRSs in their jurisdictions to discharge their mandates relating to investor protection, market integrity and capital formation more effectively.

The responsibilities of the Monitoring Board include:

- participating in the process for appointing trustees and approving the appointment of trustees according to the guidelines set out in the IFRS Foundation's Constitution; and
- reviewing and providing advice to the trustees on their fulfilment of the responsibilities set out in the IFRS Foundation's Constitution. The trustees will make an annual written report to the Monitoring Board.

¹ IASC Foundation now named IFRS Foundation, Standards Advisory Council now named IFRS Advisory Council and International Financial Reporting Interpretations Committee now named IFRS Interpretations Committee.

As at 1 March 2010, the Monitoring Board comprised the relevant Member of the European Commission and the chairs of the Financial Services Agency of Japan, the US Securities and Exchange Commission, the Emerging Markets Committee of the International Organisation of Securities Commissions (IOSCO), and the Technical Committee of IOSCO. The Basel Committee on Banking Supervision is a non-voting observer.

IFRS Foundation

Composition: 22 individual trustees, of whom one is appointed as Chair and up to two as Vice-Chairs. Trustees are appointed for a three-year term, renewable once. Regardless of prior service, a trustee may be appointed to serve as Chair or Vice-Chair for a term of three years, renewable once, provided total years' service as a trustee does not exceed nine years.

Geographical balance: six trustees from the Asia/Oceania region; six from Europe; six from North America; one from Africa; one from South America; and two from any area (subject to maintaining overall geographical balance).

Backgrounds of trustees: the IFRSF Constitution requires an appropriate balance of professional backgrounds, including auditors, preparers, users, academics and other officials serving the public interest. Two will normally be senior partners of prominent international accounting firms.

International Accounting Standards Board

Composition: 14 Board members (rising to 16 no later than 1 July 2012), of whom one is appointed as Chair and up to two as Vice-Chairs. Up to three members may be 'part-time' members. After 2 July 2009, IASB members are appointed for an initial term of five years, renewable for a further three years. The Chair and Vice-Chairs may serve second terms of five years, subject to an overall maximum term of ten years.

Geographical balance: to ensure a broad international diversity, by July 2012 there will normally be four members from the Asia/Oceania region; four from Europe; four from North America; one each from Africa and South America; and two appointed from any area, subject to maintaining overall geographical balance.

Backgrounds of Board members: the main qualification for membership is professional competence and practical experience. The group is required to represent the best available combination of technical expertise and diversity of international business and market experience.

Members of the IASB

Sir David Tweedie, Chairman became the first IASB Chairman on 1 January 2001, having served from 1990-2000 as the first full-time Chairman of the UK Accounting Standards Board. Before that, he was national technical partner for KPMG and was a professor of accounting at Edinburgh University. Term expires 30 June 2011.

Stephen Cooper, was the Managing Director and head of valuation and accounting research at UBS Investment Bank prior to his appointment in 2007. He has also been a member of the Corporate Reporting User Forum, and of the IASB's Analysts' Representative Group and Financial Statement Presentation working group. Term expires 30 June 2012.

Philippe Danjou previously served as director of the accounting division of the Autorité des Marchés Financiers (AMF), the French securities regulator. He was also Executive Director of the French Ordre des Experts Comptables (OEC) from 1982 to 1986, and has acted in various advisory roles for European and international accounting and auditing groups. Term expires 30 June 2012.

Jan Engström held senior financial and operating positions with the Volvo Group, including serving on the management board as Chief Financial Officer and as Chief Executive Officer of Volvo Bus Corporation. Term expires 30 June 2014.

Patrick Finnegan was a Director of the Financial Reporting Policy Group, CFA Institute Centre for Financial Market Integrity. In that capacity he led a team at CFA Institute responsible for providing user input into the standard-setting activities of the IASB, FASB, and key regulatory bodies. Before joining the CFA Institute in 2008, Mr Finnegan worked at Moody's Investors Service, where he served as a managing director in Moody's Corporate Finance Group and as a senior analyst in Moody's Financial Institutions Group. Term expires 30 June 2014.

Robert P. Garnett was the Executive Vice President of Finance for Anglo American plc, a South African company listed on the London Stock Exchange. He has worked as a preparer and analyst of financial statements in his native South Africa. He serves as Chairman of IFRIC (now IFRS Interpretations Committee). Term expires 30 June 2010*.

Gilbert Gélard was a partner at KPMG in his native France and has extensive experience with French industry. Mr. Gélard speaks eight languages and is a former member of the French standard-setting body (CNC). He was also a member of the former IASC Board. Term expires 30 June 2010*.

Amaro Luiz de Oliveira Gomes was Head of Financial System Regulation Department of the Central Bank of Brazil prior to his appointment to the IASB. In that capacity, he played a leading role in the adoption of IFRSs in Brazil. Mr Gomes also served on the Accounting Task Force of the Basel Committee on Banking Supervision. Before joining the Central Bank, Mr Gomes was an auditor with one of the international audit firms. He is co-author of a book *Accounting for Financial Institutions*. His term expires 30 June 2014.

Prabhakar Kalavacherla ('PK') was previously a partner at KPMG LLP, serving as reviewing partner for both IFRS financial statements and filings with the US Securities and Exchange Commission. He has worked extensively in India and in Europe and has specialised in technology and biotechnology. Mr Kalavacherla is a member of both the Institute of Chartered Accountants of India and the American Institute of Certified Public Accountants. Term expires 30 June 2013.

James J. Leisenring has worked on issues related to accounting standard setting over the past three decades, as the Vice Chairman and later as Director of International Activities of the FASB in the United States. While at the FASB, Mr. Leisenring served for several years as the FASB's observer at meetings of the former IASC Board. Term expires 30 June 2010**.

Patricia McConnell is a former Senior Managing Director, Equity Research, Accounting and Tax Policy Analyst, Bear Stearns & Co. In a 32-year career in Bear Stearns' Equity Research group, Ms McConnell established herself as one of the leading analysts in the United States on issues related to accounting. Throughout her career, she has been an active participant in accounting standard-setting activities as a member of the IASB's Standards Advisory Council, the International Accounting Standards Committee (the IASB's predecessor body), the CFA Institute's Corporate Disclosure Policy Council, and the New York Society of Security Analysts. Term expires 30 June 2014.

Warren McGregor developed an intimate knowledge of standard-setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. Term expires 30 June 2011.

John T. Smith was previously a partner at Deloitte & Touche LLP (USA). He was a member of the FASB's Emerging Issues Task Force, Derivatives Implementation Group, and Financial Instruments Task Force. He served on the IASC Task Force on Financial Instruments and chaired the IASC's IAS 39 Implementation Guidance Committee. He has also been a member of the IASC, SIC and IFRIC. Term expires 30 June 2012.

Tatsumi Yamada was a partner at the Japanese member firm of PricewaterhouseCoopers. He has extensive experience of international standard setting as a Japanese member of the former IASC Board between 1996 and 2000 and the Joint Working Group on Financial Instruments. Term expires 30 June 2011.

Wei-Guo Zhang was Chief Accountant of the China Securities Regulatory Commission (CSRC) between 1997 and 2007. Before joining the CSRC, Dr Zhang was a professor at Shanghai University of Finance and Economics (SUFE) where he also received his PhD in economics. Term expires 30 June 2012.

* These Board members will be replaced by the following individuals from July and October of 2010 respectively:

Dr Elke König has served as a senior financial executive in the insurance industry. From 2002 to 2009 she served as CFO of Hannover Re Group (Germany), a leading international reinsurance group. Previously she spent twelve years as a member of the senior management of Munich Re, with specific responsibility for the group's accounting and controlling activities. She is currently serving in non-executive capacities as chairperson of Hannover Finanz GmbH and as a member of the supervisory board of Deutsche Hypothekbank Aktiengesellschaft. Dr König has been a member of the CFO Forum of European insurers, where she has been actively engaged in the IASB's project on insurance contracts.

Darrel Scott is the CFO of the FirstRand Banking Group, one of the largest financial institutions in South Africa. He has responsibility for both statutory and regulatory financial reporting under the Basel II Accords. He serves on various Governance, Risk, Operation and Strategic Committees of the Group. Mr Scott is also a member of the IFRIC (now IFRS Interpretations Committee), a position from which he will resign to become an IASB member, and was formerly a member of the IASC Foundation's (now IFRS Foundation) Standards Advisory Council (now IFRS Advisory Council).

** A replacement for Mr Leisenring will be made later in 2010.

IASB due process

The IASB follows a rigorous open due process. All meetings of the IASB and of the IASB and its formal working groups are held in public and are usually webcast. Formal due process for projects normally, but not necessarily, involves the following steps (steps required by the IFRS Foundation's Constitution are indicated by an asterisk *):

- staff are asked to identify and review the issues associated with a potential agenda topic and to consider the application of the Framework to the issues;
- national accounting requirements and practice are studied, and views about the issues are exchanged with national standard-setters;
- the IFRS Foundation Trustees and the IFRS Advisory Council are consulted about the topics and priorities in the IASB's agenda*;
- an advisory group is formed (generally called a 'working group') to advise the IASB and its staff on the project;
- a discussion document is published for public comment (usually called a discussion paper), which will often include the Board's preliminary views on some of the issues in the project;
- an exposure draft approved by at least nine (ten once there are 16 members) votes of the IASB is published for public comment, including therein any dissenting opinions held by IASB members (in exposure drafts, dissenting opinions are referred to as 'alternative views')*;
- a basis for conclusions is included within the exposure draft;
- all comments received within the comment period on discussion documents and exposure drafts are considered and discussed in open meetings*;
- the desirability of holding a public hearing and of conducting field-tests is considered and, where appropriate, these steps are undertaken;
- a Standard is approved by at least nine votes (ten votes once there are 16 members) of the IASB and any dissenting opinions are included in the published Standard*; and
- a basis for conclusions is included within the final Standard explaining, among other things, the steps in the IASB's due process and how the IASB has dealt with comments received on the exposure draft.

IASB contact information

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IFRS for SMEs – resources available from the IASB

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

It is available in English and several other languages.

The IFRSF (previously IASCF) is publishing one training module for each section in the *IFRS for SMEs* which can be downloaded free of charge from <http://www.iasb.org/IFRS+for+SMEs/Training+material.htm>

Each module consists of the following:

- an overview of the module;
- the full text of the section of the *IFRS for SMEs* with added notes and worked examples (designed to clarify and illustrate the requirements);
- a discussion of significant estimates and other judgements in accounting for transactions and events in accordance with the *IFRS for SMEs*;
- a summary of the main differences between the section of the *IFRS for SMEs* and the corresponding full IFRSs;
- multiple-choice questions (with answers) designed to test the learner's knowledge of the requirements of the section of the *IFRS for SMEs*; and
- generally two case studies (with solutions) designed to develop the learner's ability to account for transactions and events in accordance with the section of the *IFRS for SMEs*.

Background of the *IFRS for SMEs*

2001	IASB began a project to develop accounting standards suitable for small and medium-sized entities. A working group of experts to provide advice on the issues, alternatives and potential solutions was set up.
2002	Trustees of the IASC Foundation (now named IFRS Foundation) expressed their support for the efforts of the IASB to examine issues particular to emerging economies and to small and medium-sized entities.
2003 – 2004	IASB developed preliminary and tentative views about the basic approach it would follow in developing accounting standards for SMEs.
June 2004	IASB published a discussion paper setting out and inviting comments on the Board's approach.
July 2004 – January 2005	IASB considered the issues raised by respondents to the discussion paper and decided to publish an exposure draft.
April 2005	IASB realised the need to gain further information on possible modifications of the recognition and measurement principles for use in an <i>IFRS for SMEs</i> . A questionnaire was published as a tool to identify possible simplifications and omissions.
June – October 2005	Responses to the questionnaire were discussed with the Standards Advisory Council (now named IFRS Advisory Council), SME Working Group, World Standard-Setters and public roundtables.
2006	IASB's discussions and deliberations of the draft exposure draft.
August 2006	Complete staff draft of the exposure draft published on the IASB's website to keep constituents informed.
February 2007	Exposure draft published proposing five types of simplifications of full IFRSs, along with proposed implementation guidance and a basis for conclusions. Exposure draft translated into five languages.
June 2007	Field test questionnaire published (four languages) on IASB's website.
March 2008 – April 2009	IASB re-deliberated the proposals in the exposure draft based on the responses to the exposure draft and the findings of the field testing.
July 2009	Final <i>IFRS for SMEs</i> issued. Effective whenever adopted by an individual jurisdiction.

Full IFRS vs. *IFRS for SMEs*

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

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

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

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

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

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

- earnings per share;
- interim financial reporting;
- segment reporting;
- insurance (because entities that sell insurance contracts to the public are generally classed as publicly accountable); and
- non-current assets held for sale (although holding an asset for sale is cited as a potential impairment indicator).

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

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

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

Summaries of individual sections of the *IFRS for SMEs*

On pages 13 to 52, the requirements of all sections of the *IFRS for SMEs* are summarised, together with the key differences from full IFRSs, excluding disclosure requirements, in issue at 31 December 2009 (with the exception of IFRS 9 *Financial Instruments*). These summaries are intended as general information and are not a substitute for reading the entire Standard.

Section 1 Scope and application

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

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

Ultimately, the decision regarding which entities should use the *IFRS for SMEs* rests with national regulatory authorities and standard-setters – and those bodies may choose to specify more detailed eligibility criteria, including quantified criteria based on revenue, assets etc. However, because it would conflict with the IASB's intentions, even if the law or regulation in an entity's jurisdiction permits or requires the *IFRS for SMEs* to be used in the preparation of financial statements for small listed companies or small financial institutions, such financial statements cannot be described as conforming to the *IFRS for SMEs*.

The definition of SMEs contains no quantitative thresholds (e.g. revenue, asset values, employee numbers), and does not require a special approval process by the owners of an entity for the entity to be eligible to apply the *IFRS for SMEs*.

A subsidiary that is part of a consolidated group that uses full IFRSs is not prohibited from using the *IFRS for SMEs* in its individual financial statements, provided that the subsidiary itself does not have public accountability. If the subsidiary opts to use the *IFRS for SMEs*, it must follow that Standard in its entirety – it cannot pick and choose between the requirements of the *IFRS for SMEs* and those of full IFRSs.

Section 2 Concepts and Pervasive Principles

Scope	Describes the objective of financial statements, which is to provide information about the financial position, performance and cash flows of SMEs that is useful to a broad range of users.
Summary	<ul style="list-style-type: none">• Identifies the qualitative characteristics underlying the financial statements.• Requires financial statements, excluding cash flow information, to be prepared using the accrual basis of accounting.• Describes financial position as the relationship between assets, liabilities and equity.• Describes performance as the relationship between income and expenses. Income encompasses both revenue and gains, expenses include both expenses and losses.• Defines basic elements of financial statements as well as the concepts for recognition and measurement.• Identifies the limited circumstances in which assets and liabilities, or income and expenses, can be offset.• Specifies certain pervasive principles that an entity should consider in choosing an accounting policy in the absence of specific guidance in the <i>IFRS for SMEs</i>.

Key differences under full IFRSs	<ul style="list-style-type: none">• Address concepts of capital and capital maintenance.
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Section 3 Financial Statement Presentation

Scope

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

Summary

- Principles essential for fair presentation of financial statements include:
 - the going concern assumption;
 - consistency of presentation;
 - comparability; and
 - materiality.
- Financial statements that comply with the *IFRS for SMEs* should include an explicit and unreserved statement of compliance. In extremely rare circumstances when departure is required to maintain fair presentation, additional disclosures have to be provided.
- Financial statements are prepared at least annually. When the end of the reporting period changes so that financial statements are presented for a period other than a year, additional disclosures are required.
- A complete set of financial statements includes each of the following for the current period and the previous comparable period:
 - a statement of financial position;
 - either a single statement of comprehensive income or a separate income statement and a separate statement of comprehensive income;
 - a statement of changes in equity;
 - a statement of cash flows; and
 - notes.
- A combined statement of income and retained earnings can be presented instead of the separate statements of comprehensive income and changes in equity if the only changes to equity arise from profit or loss, dividend payments, corrections of errors, and changes in accounting policies.
- All financial statements should be presented with equal prominence.
- Entities may use titles and formats for the individual financial statements other than those specified in the *IFRS for SMEs*.
- The financial statements and notes should be clearly identified and distinguished from any other accompanying information.
- When information not required by the *IFRS for SMEs* is presented, the basis for preparing and presenting such information should be disclosed.

Key differences under full IFRSs

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

Section 4 Statement of Financial Position

- Scope**
- Sets out the information that is to be presented in the statement of financial position.
- Summary**
- Specifies minimum line items to be presented in the statement of financial position and includes guidance for including additional line items, headings and subtotals.
 - Requires a current/non-current distinction for assets and liabilities unless presentation based on liquidity provides more relevant and reliable information.
 - Specifies additional information that can be presented either in the statement of financial position or in the notes.
- Key differences under full IFRSs**
- Require the separate presentation of assets classified as held for sale or assets and liabilities included in a disposal group held for sale.

Section 5 Statement of Comprehensive Income and Income Statement

- Scope**
- Sets out the information that is to be presented in the statement of comprehensive income and income statement.
- Summary**
- Requires the presentation of total comprehensive income either in:
 - a single statement of comprehensive income; or
 - a separate income statement (presenting all items of income and expense) and a separate statement of comprehensive income (presenting all items recognised outside of profit or loss).
 - The only types of other comprehensive income recognised outside of profit or loss are:
 - foreign exchange gains and losses arising on translating the financial statements of a foreign operation;
 - some actuarial gains and losses; and
 - some fair value changes of hedging instruments.
 - Specifies minimum line items to be presented and includes guidance for including additional line items, headings and subtotals.
 - No item of income or expense may be described as 'extraordinary', but unusual items can be presented separately.
 - Analysis of expenses recognised in profit or loss may be presented by nature (such as depreciation, salaries, purchases of materials) or function (such as cost of goods sold, selling expenses, administrative expenses).
- Key differences under full IFRSs**
- More items of comprehensive income recognised outside profit or loss can arise (e.g. changes in the fair value of available-for-sale financial assets, and gains on the revaluation of property, plant and equipment and intangible assets).

Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings

- Scope**
- Describes the requirements for the presentation of changes in an entity's equity for a period.
- Summary**
- Requires the statement of changes in equity to present all changes in equity, including:
 - a reconciliation between the opening and closing balance of each component of equity;
 - total comprehensive income for the period;
 - transactions with owners in their capacity as owners, e.g. dividends, treasury share transactions, changes in ownership interest; and
 - the effects of changes in accounting policies and correction of errors.
 - If the only changes in equity arise from profit or loss, dividends, changes in accounting policies and the correction of errors, a combined statement of income and retained earnings may be presented.

- Key differences under full IFRSs**
- Do not allow the statement of changes in equity to be combined with the statement of comprehensive income.

Section 7 Statement of Cash Flows

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

- Key differences under full IFRSs**
- Encourage the direct method for presenting cash flows from operating activities.
 - Allow cash flows meeting certain conditions to be reported net.

Section 8 Notes to the Financial Statements

- Scope**
- Describes the principles underlying the information that is to be presented in the notes to the financial statements.
- Summary**
- Requires systematic presentation of information not presented elsewhere in the financial statements, as well as information on the:
 - basis of preparation;
 - specific accounting policies;
 - judgements made in applying the accounting policies; and
 - key sources of estimation uncertainty.

Key differences under full IFRSs

- None.

Section 9 Consolidated and Separate Financial Statements

- Scope**
- Defines the circumstances in which consolidated financial statements are presented and the procedures for preparing those statements.
 - Provides guidance on separate and combined financial statements.
- Summary**
- Consolidated financial statements present financial information about a group (parent and subsidiaries) as a single economic entity.
 - A subsidiary is an entity controlled by another entity (the parent) including special purpose entities. Control is the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.
 - Apart from the following two exceptions, a parent must present consolidated financial statements:
 - the parent has no subsidiaries other than the one that was acquired with the intention of disposing of it within one year; or
 - the parent itself is a subsidiary that is included in consolidated financial statements that comply with the *IFRS for SMEs* or full IFRSs.
 - A subsidiary is not excluded from consolidation simply because:
 - the parent is a venture capital organisation or similar entity;
 - the business activities of the subsidiary are dissimilar to those of other group entities; or
 - the subsidiary operates in a jurisdiction that imposes restrictions on the transfer of cash or other assets out of the jurisdiction.
 - A subsidiary acquired with the intention of disposing of it within one year is accounted for at fair value if it can be measured reliably; otherwise it is accounted for at cost less impairment.
 - Intragroup balances and transactions are eliminated in full on consolidation.
 - All entities in the group must use the same reporting date and apply uniform accounting policies.
 - NCI (sometimes called 'minority interest') is measured at the proportionate share of the net assets of the acquiree.
 - NCI is presented in equity, separate from the equity of the parent. Total comprehensive income is allocated between NCI and the owners of the parent even if it results in the NCI having a deficit balance.

- When a parent loses control over a subsidiary but continues to hold an investment in the former subsidiary, the investment is accounted for as a financial asset (provided it does not become an associate or a jointly controlled entity) and the carrying amount of the subsidiary at the date that control was lost is regarded as the cost of that investment.
- On disposal of a foreign subsidiary, foreign exchange differences recognised in equity are not recycled to profit or loss.
- Includes guidance for preparing separate and/or combined financial statements, although such statements are not required under the *IFRS for SMEs*.
- If separate financial statements are presented, investments in subsidiaries, associates or joint ventures are accounted for either at cost less impairment, or at fair value with changes in fair value recognised in profit or loss.

Key differences under full IFRSs

- A parent that itself is a subsidiary of an entity using IFRSs must obtain the consent of its owners to be exempt from preparing consolidated financial statements.
- Permit a maximum of three months for differences in group reporting dates. Includes guidance on the adjustments required when there is a difference.
- Do not have a temporary control exemption. However, if on acquisition a subsidiary meets the criteria to be classified as held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is accounted for at the lower of cost or fair value less costs to sell and presented as a disposal group held for sale.
- NCI is measured either at fair value or at the proportionate share of the net assets for each transaction.
- Require the assets and liabilities of a former subsidiary and any NCI in the subsidiary to be derecognised at their carrying amount. A continuing investment in the former subsidiary is initially measured at fair value. Any resulting difference is recognised as a gain or loss in profit or loss attributable to the parent.
- On disposal of a foreign subsidiary, the cumulative foreign exchange differences relating to that subsidiary and recognised in equity are recycled to profit or loss.
- Investments in subsidiaries, associates or jointly controlled entities in the separate financial statements are measured either at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.
- Do not include guidance and disclosure requirements in relation to combined financial statements.

Section 10 Accounting Policies, Estimates and Errors

Scope

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

Summary

- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- In the absence of specific guidance in the *IFRS for SMEs*, an entity should follow the following hierarchy when developing accounting policies:
 - requirements of the *IFRS for SMEs* dealing with similar and related issues (i.e. by analogy);
 - definition, recognition and measurement concepts and pervasive principles set out in Section 2.
- An entity may also consider the guidance in full IFRSs dealing with similar issues.
- Accounting policies must be applied consistently to similar transactions.
- An accounting policy is changed only if it is mandated by changes to the *IFRS for SMEs* or if it results in reliable and more relevant information.

- If a change in accounting policy is mandated by the *IFRS for SMEs*, the transitional provisions, if specified, are applied. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods unless restatement is impracticable. The change in policy will then be applied prospectively from the start of the earliest period practicable with a corresponding adjustment to equity.
- Changes in accounting estimates are accounted for prospectively in the current year, or future years, or both, depending on which periods the change affects.
- All material errors are corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the statement of financial position for the earliest period presented.

Key differences under full IFRSs

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

Section 11 Basic Financial Instruments

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

Scope

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

Summary

- Requires amortised cost measurement for all basic debt instruments and FVTPL for all investments in non-convertible preference shares and non-convertible and non-puttable ordinary and preference shares with a quoted price or reliably measureable fair value.
- Basic financial instruments are initially recognised at the transaction price, including transaction costs (except if measured at FVTPL). However, if the acquisition or issuance involves a financing transaction, initial measurement is at the present value of future cash payments discounted at a market rate of interest for a similar instrument.
- Subsequent to initial recognition, basic financial instruments are measured as follows:
 - debt instruments at amortised cost using the effective interest method;

- commitments to receive a loan that are within the scope of this section, at cost (if any) less impairment; and
 - investments in non-convertible and non-puttable shares at fair value if it is reliably measurable, otherwise at cost less impairment.
- Amortised cost is the present value of the financial instrument's future cash flows discounted at the effective interest rate (i.e. the rate that initially discounts estimated future cash flows to the initial carrying amount of the instrument). The interest expense (income) recognised in a period is the carrying amount at the beginning of the period multiplied by the effective interest rate for the period.
 - Financial assets and financial liabilities with no stated interest rate and that are classified as current are initially measured at an undiscounted amount.
 - Financial instruments measured at cost or amortised cost must be assessed for impairment at the end of each reporting period.
 - An impairment loss for instruments measured at amortised cost is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. For assets measured at cost, impairment is calculated as the difference between the carrying amount and the best estimate of the amount that would be received if the asset was sold at the reporting date.
 - An impairment loss is reversed if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. A reversal should not result in a carrying amount that is greater than what it would have been had no impairment been recognised.
 - When estimating fair value the following hierarchy is used:
 - quoted price for an identical asset in an active market;
 - a recent transaction price; and
 - a valuation technique.
 - Financial assets are derecognised when:
 - the contractual rights to the cash flows expire or are settled;
 - substantially all the risks and rewards of ownership have been transferred; or
 - despite retaining some risks and rewards, control of the financial asset has been transferred and the other party has the practical ability to sell the asset in its entirety without needing to impose additional restrictions on the transfer.
 - Any rights and obligations retained or created in a transfer that qualifies for derecognition are recognised separately.
 - Financial liabilities are derecognised only when the obligation is discharged, cancelled or expires.

Key differences under full IFRSs

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

Section 12 Other Financial Instruments Issues

Scope

- Applies to complex financial instruments and transactions not within the scope of Section 11. Examples of financial instruments within the scope of this section include:
 - asset-backed securities;
 - options, rights, warrants, futures contracts, interest rate swaps and forward contracts;
 - financial instruments designated as hedging instruments;
 - commitments to make a loan to another entity; and
 - commitments to receive a loan if they can be net settled in cash.
- Does not apply to:
 - interests in subsidiaries, associates or joint ventures;
 - employers' rights and obligations under employee benefit plans;
 - an entity's own equity; or
 - contracts for contingent consideration in a business combination (acquirer only).
- Contracts to buy, sell, lease or insure a non-financial item such as a commodity, inventory, property, plant or equipment are accounted for as financial instruments within the scope of Section 12 if they could result in a loss to the buyer, seller, lessor, lessee or insured party as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties.

Summary

- Financial assets and financial liabilities are initially recognised at their fair value, which normally is the transaction price when the entity becomes a party to the contractual provisions of the instrument.
- All financial instruments within the scope of this section are subsequently measured at fair value with changes in fair value recognised in profit or loss. There is an exception for equity instruments that are not publicly traded and whose fair value cannot be measured reliably, and contracts linked to and if exercised, physically settled with such instruments, which are measured at cost less impairment.
- Hedge accounting permits the gain or loss on the hedging instrument and hedged item to be recognised simultaneously in profit or loss. Hedge accounting is only permitted for the following risks:
 - interest rate risk of debt instruments measured at amortised cost;
 - foreign exchange or interest rate risk in a firm commitment or on a highly probable forecast transaction;
 - price risk of a commodity that is held in a firm commitment or highly probably forecast transaction to purchase or sell a commodity; and
 - foreign exchange risk in a net investment of a foreign operation.
- Defines four types of hedging instruments permitted for hedge accounting.
- Hedge accounting can only be applied if the hedge is expected to be highly effective at inception and at the beginning of each financial year (prospective test) but no specific effectiveness threshold is included. Also specifies other conditions to be satisfied to qualify for hedge accounting, and the procedures to be followed in accounting for the hedging instrument and hedged item. No retrospective effectiveness test is required.

Key differences under full IFRSs

- Scope excludes certain forward contracts between an acquirer and a vendor in a business combination and certain loan commitments.
- Require separate accounting for certain embedded derivatives (although in some instances, the entire contract can be measured at fair value through profit or loss).
- Specifically require the method for testing the effectiveness of a hedge to be included in the hedge documentation.
- Includes an 80%-125% threshold for a hedge to be highly effective.
- Retrospective hedge effectiveness testing is required in addition to a prospective test.
- More risks are eligible for hedging and hedging of the entire hedged item (i.e. exposure to all risks) is permitted. A single hedging instrument may be designated as a hedge of multiple risks.
- Permit hedge accounting for portfolios.
- A broader number of hedging instruments are available for designation, including purchased options, and foreign currency loans for a hedge of foreign currency risk.
- Do not require the notional amount or maturity of the hedging instrument to be equal to the notional amount or maturity of the hedged item.
- Hedge accounting is discontinued prospectively from date that conditions for hedge accounting are no longer met.

Section 13 Inventories

Scope

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

Summary

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

Key differences under full IFRSs

- An exemption from the measurement requirements of IAS 2 *Inventories* is allowed for producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products when these inventories are measured at net realisable value in accordance with well-established industry practices.
- Refer to net realisable value rather than estimated selling price less costs to complete and sell.
- Require the inclusion of borrowing costs in the cost of inventory in limited circumstances.

Section 14 Investments in Associates

Scope

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

Summary

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

- Investments measured at fair value are initially measured at the transaction price (excluding transaction costs), and subsequent changes in fair value are recognised in profit or loss.
- Investments in associates are classified as non-current assets.

Key differences under full IFRSs

- Require the separate classification and presentation of associates held for sale.
- Associates are accounted for using the equity method. The cost and fair value models are only permitted in the separate financial statements.
- Goodwill arising on the acquisition of an investment in an associate is not amortised.
- When significant influence is lost other than through partial disposal, any remaining investment is remeasured to fair value.

Section 15 Investments in Joint Ventures

Scope

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

Summary

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

Key differences under full IFRSs

- Require the separate classification and presentation of joint ventures held for sale.
- Interests in joint controlled entities are accounted for either using proportionate consolidation or the equity method. The cost and fair value models are only permitted in the separate financial statements.

Section 16 Investment Property

Scope

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

Summary

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

Key differences under full IFRSs

- Accounting policy choice between fair value and cost model, including for investment property under construction.
- Property interest held under an operating lease and classified as investment property triggers a fair value accounting policy for all investment properties.
- Borrowing costs incurred during construction of investment property must be included in its cost.

Section 17 Property, Plant and Equipment

Scope

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

Summary

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

Key differences under full IFRSs

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

Section 18 Intangible Assets other than Goodwill

Scope

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

Summary

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

Key differences under full IFRSs

- Require the capitalisation of certain expenditure incurred on internally generated intangible assets, i.e. development costs meeting specified criteria.
- Borrowing costs directly attributable to the production of an intangible asset must be capitalised as part of its cost.
- Intangible assets acquired free of charge or for nominal consideration by way of a government grant can initially be recognised at the nominal amount in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
- Accounting policy choice between the cost or revaluation model (only permitted if an active market exists).
- Intangible assets with an indefinite useful life are not amortised but tested annually for impairment.
- Review of residual value, useful life or amortisation methods should be performed annually.

Section 19 Business Combinations and Goodwill

Scope

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

Summary

- Business combinations are defined as the bringing together of separate entities or businesses into one reporting entity. A business is an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or other economic benefits to participants.
- Business combinations are accounted for using the purchase method (NB this is as described in IFRS 3 (2004) and not IFRS 3 (2008)), which involves the following steps:
 - identifying an acquirer;
 - measuring the cost of the business combination as the aggregate of the fair value of assets given, liabilities assumed and equity issued including transaction costs;
 - recognising the assets acquired and liabilities assumed at fair value; and
 - recognising any difference between the cost of the business combination and the acquirer's interest in the fair value of the assets and liabilities assumed, as goodwill. If the difference is negative ('negative goodwill'), the resulting gain is recognised in profit or loss.
- Contingent consideration is included in the cost if it is probable and can be measured reliably. Subsequent adjustments to the estimate are recognised against goodwill.
- Provisions for acquired contingent liabilities are recognised as part of the business combination if their fair value can be measured reliably.
- Goodwill is measured at cost less accumulated amortisation and impairment losses. If a reliable estimate of the useful life of goodwill cannot be made, it is presumed to be 10 years.

Key differences under full IFRSs

- Business combinations are accounted for using a revised acquisition method based on the fair value of the consideration transferred (method revised in 2008).
- Transaction costs are not capitalised as part of the consideration transferred but are expensed when incurred.
- Contingent consideration is initially recognised at fair value regardless of probability. Adjustments outside of the measurement period are recognised in profit or loss or other comprehensive income.
- Option to measure non-controlling interest either at fair value or proportionate share of net assets.
- A contingent liability is only recognised when it meets the definition of a liability in the *Framework for the Preparation and Presentation of Financial Statements*, with no requirement to be able to measure the fair value reliably.
- Non-controlling interest in the acquiree is included in the calculation of goodwill.
- In a business combination achieved in stages, any previously held interest in the acquiree is remeasured to fair value and included in the consideration transferred.
- Goodwill is not amortised but tested for impairment annually.

Section 20 Leases

Scope

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

Summary

- Lease classification is made at the inception of the lease and is not changed unless the terms of the lease change.
- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples of situations that would normally lead to a lease being classified as a finance lease are:
 - transfer of ownership by end of lease term;
 - option to purchase asset at price below fair value;
 - lease term is for major part of economic life of asset;
 - present value of minimum lease payments is substantially equal to the asset's fair value; and/or
 - leased asset is of specialised nature.
- All other leases are classified as operating leases.
- Lessees – finance leases:
 - asset and liability are recognised at the lower of the present value of minimum lease payments and the fair value of the asset;
 - asset is depreciated over shorter of lease term and useful life;
 - finance charge is recognised based on pattern that reflects a constant periodic rate of return; and
 - finance lease payments are apportioned between interest expense and the reduction in liability using the effective interest method.
- Lessees – operating leases:
 - lease payments are recognised as an expense on a straight-line basis over the lease term, unless the payments are structured to increase with expected general inflation to compensate for the lessor's expected inflationary cost increases or another systematic basis is more representative of the pattern of benefit.
- Lessors – finance leases:
 - receivable is recognised at an amount equal to the net investment in the lease. The net investment is the aggregate of the minimum lease payments receivable and any unguaranteed residual value, discounted at the interest rate implicit in the lease;
 - for leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the measurement of finance lease receivable;
 - manufacturer or dealer lessors recognise selling profit or loss consistent with the policy for outright sales;
 - finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment; and
 - finance lease payments are apportioned to reduce both the principal and unearned finance income.

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

Key differences under full IFRSs

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

Section 21 Provisions and Contingencies

Scope

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

Summary

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

Key differences under full IFRSs

- Provide significantly more guidance on provisions relating to restructurings.

Section 22 Liabilities and Equity

Scope

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

Summary

- Classifies issued financial instruments between liabilities (obligations) and equity (residual interest).
- Puttable instruments and instruments that impose on the entity an obligation to deliver a pro-rata share of net assets only on liquidation, and that (a) are subordinate to all other classes of instruments and (b) meet specific criteria, are classified as equity instruments even though they would otherwise meet the definition of a financial liability.
- Members' shares in co-operative entities are equity only if the entity has an unconditional right to refuse redemption of the members' shares or redemption is unconditionally prohibited by law, regulation or the entity's governing charter.
- The issue of shares is recognised as equity when another party is obliged to provide cash or other resources in exchange for the instruments. This applies equally to the sale of options, rights, warrants and similar equity instruments.
- Equity instruments are measured at the fair value of the cash or other resources received, net of the direct costs of issuing the equity instruments. If payment is deferred, the time value of money should be taken into account in the initial measurement if material.
- Capitalisation or bonus issues (stock dividends) and share splits do not result in changes to total equity and are recognised by reclassifying amounts within equity in accordance with applicable laws.
- Proceeds on the issue of a compound financial instrument are allocated between the liability and equity component. The liability component is measured at the fair value of a similar liability that does not have a conversion feature. The residual amount is allocated to the equity component.
- Treasury shares are measured at the fair value of the consideration paid and are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of treasury shares.
- Equity is reduced by the amount of distributions to owners, net of any income tax benefits.
- When an entity has an obligation to distribute non-cash assets to its owners, the liability is recognised at the fair value of the assets to be distributed (no common control exemption).
- Changes in a parent's controlling interest in a subsidiary that do not result in a loss of control are treated as equity transactions with the owners and no gain or loss is recognised.

Key differences under full IFRSs

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

Section 23 Revenue

Scope

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

Summary

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

Key differences under full IFRSs

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

Section 24 Government Grants

Scope

- Applies to the accounting for government grants. Government grants are assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions.
- Does not apply to government assistance provided in the form of income tax benefits.

Summary

- A grant that does not impose specified future performance conditions is recognised as income when the grant proceeds are receivable.
- A grant that imposes specified future performance conditions is recognised as income only when the performance conditions are met.
- Grants received before the revenue recognition criteria are satisfied are recognised as a liability.
- Grants are measured at the fair value of the asset received or receivable.

Key differences under full IFRSs

- Government grants are recognised when there is reasonable assurance that the entity complies with the conditions of the grant and the grants are receivable.
- Government grants are recognised as income over the period necessary to match them with the related costs that they are intended to compensate, on a systematic basis.
- Grants related to assets are recognised either as deferred income (with systematic recognition in profit or loss over the useful life of the asset), or as a deduction from the carrying amount of the asset (with recognition in profit or loss by way of a reduced depreciation expense).
- Provide guidance on non-monetary grants (permitting measurement at a nominal amount) and the repayment of government grants.

Section 25 Borrowing Costs

Scope

- Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.
- This includes interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings.

Summary

- All borrowing costs are recognised as an expense in the period in which they are incurred.

Key differences under full IFRSs

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Section 26 Share-based Payment

Scope

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

Summary

- Equity-settled share-based payment transactions:
 - for transactions with employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the equity instruments at the grant date; and
 - transactions with parties other than employees are measured at the fair value of the goods or services received at the date that the entity obtains the goods or services. Where that fair value cannot be measured reliably, the fair value of the equity instrument is used.

- Cash-settled share-based payment transactions:
 - liability is measured at fair value on grant date and at each reporting date, with changes recognised in profit or loss.
- Share-based payment transactions with cash alternatives are accounted for as cash-settled transactions unless the entity has a past practice of settling by issuing equity instruments or the option lacks commercial substance.
- Vesting conditions related to employee service or non-market performance conditions are taken into account when estimating the number of equity instruments expected to vest.
- All market conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the measurement date with no subsequent adjustments made.
- The fair value of equity instruments is determined according to the following hierarchy:
 - observable market prices;
 - observable market data, such as recent transactions or independent valuation of the entity; or
 - if obtaining a reliable measurement of fair value is impracticable use of a valuation method (entity's directors should use their judgment as to the most appropriate valuation method).
- If vesting conditions are modified to the benefit of employees, the incremental fair value granted is recognised over the remaining vesting period, in addition to the original grant date fair value. If the modification is not beneficial to the employees, the services received are accounted for as if the modification had not occurred.
- A cancellation or settlement of an equity-settled share-based payment transaction is accounted for as an acceleration of vesting.
- Where share-based payments are granted by a parent that presents consolidated financial statements under the *IFRS for SMEs* or full IFRSs, to the employees of a subsidiary, the subsidiary may recognise a reasonable allocation of the group expense.

Key differences under full IFRSs

- Specifically exclude transactions with employees in their capacity as owners, equity instruments issued in a business combination in exchange for control and contracts that can be settled net in cash or other financial instruments.
- Include a rebuttable presumption that the fair value of goods or services received from non-employees can be measured reliably.
- Fair value of equity instruments are determined based on market prices, taking into account all the terms and conditions of the award. Where market prices are not available, fair value is determined using a valuation technique. If the fair value cannot be determined reliably, the equity instruments can be measured at their intrinsic value.
- Arrangements in which the counterparty has a choice of settlement in cash or equity are treated as compound financial instruments.
- For group plans, subsidiaries are required to recognise the share-based payment expense based on the fair value of the equity instruments granted and the portion of the vesting period completed by the employee in the service of the subsidiary.

Section 27 Impairment of Assets

Scope

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

Summary

- Inventory:
 - impairment loss recognised in profit or loss when selling price less costs to complete and sell is lower than carrying amount at reporting date; and
 - when circumstances that led to impairment no longer exist, the impairment loss is reversed (the reversal is limited to the original amount of the impairment loss).
- Assets other than inventories:
 - if recoverable amount is lower than the carrying amount, the difference is recognised in profit or loss as an impairment loss;
 - recoverable amount is the higher of fair value less costs to sell and value in use;
 - fair value less costs to sell is the amount obtainable from the sale of an asset between knowledgeable willing parties less the costs of disposal;
 - value in use is the present value of future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life;
 - the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate does not reflect risks for which the future cash flow estimates have been adjusted;
 - assess at each reporting date whether there is an indication of impairment. If impairment is not indicated, there is no need to calculate recoverable amount;
 - if not possible to determine recoverable amount of asset, then determine the recoverable amount of the CGU to which it belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets (or groups of assets);
 - an indication of impairment may also signal that the useful life, depreciation method or residual value needs to be reviewed;
 - an impairment loss recognised for a CGU is allocated first to goodwill within the CGU and then pro-rata to the other assets based on their carrying amounts; and
 - reversal of prior impairment losses is permitted in certain instances.
- Goodwill:
 - goodwill acquired in a business combination is allocated to each CGU expected to benefit from the synergies of the combination;
 - for purposes of impairment testing, the carrying amount of a CGU is grossed up to include goodwill attributable to non-controlling interests;
 - if goodwill cannot be allocated to CGUs on a non-arbitrary basis, it is tested for impairment by determining the recoverable amount of either the acquired entity if it has not been integrated, or the entire group of entities if it has been integrated; and
 - reversal of an impairment loss recognised for goodwill is not permitted.

Key differences under full IFRSs

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

Section 28 Employee Benefits

Scope

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

Summary

- The cost of providing employee benefits is recognised in the period in which employees become entitled to the benefits.
- Short-term employee benefits:
 - recognised at the undiscounted amount of benefits expected to be paid in exchange for services;
 - costs of accumulating compensated absences are recognised when employees render service that increases their entitlement to future compensated absences;
 - costs of non-accumulating compensated absences are recognised when they occur; and
 - profit-sharing and bonus payments are recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefits plans are classified as either defined contribution or defined benefit plans.
- For defined contribution plans, expenses are recognised in the period in which the contribution is payable.
- Defined benefit plans:
 - defined benefit liability is recognised as the net total of the present value obligations under the plans minus the fair value of plan assets at the reporting date;
 - the projected unit credit method is applied to measure the defined benefit obligation if it can be done without undue cost or effort. Otherwise, the calculation may be simplified by ignoring estimated future salary increases, future service of current employees and possible in-service mortality of current employees;
 - curtailments or settlements that will result in changes to or elimination of the defined benefit obligation and any resulting gain or loss should be recognised in profit or loss;
 - plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies;
 - actuarial gains and losses may be recognised either in profit or loss or in other comprehensive income; and
 - all past service costs are recognised immediately in profit or loss.
- Other long-term employee benefits are recognised and measured in the same way as post-employment benefits under a defined benefit plan.

- Termination benefits are recognised when the entity is demonstrably committed either to terminate the employment of employees before normal retirement date or as a result of an offer to encourage voluntary redundancy.

Key differences under full IFRSs

- **Defined benefit plans:**
 - includes an accounting policy choice for actuarial gains or losses below a specified threshold to be deferred, and those in excess of a specified threshold to be amortised over the expected remaining working lives of employees;
 - past service cost is recognised as an expense over the average period until the benefits vest;
 - amount recognised for defined benefit liability includes unrecognised actuarial gains or losses and past service costs; and
 - requires the projected unit credit method to determine the present value of defined benefit obligations in all cases.

Section 29 Income Tax

Scope

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

Summary

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

Key differences under full IFRSs

- No exception from the recognition of deferred tax in respect of an asset or liability where it is not expected to have an effect on taxable profit when the entity recovers or settles its carrying amount.
- Tax basis of assets and liabilities are determined based on the manner of expected recovery or settlement of the carrying amount of the asset or liability.
- No taxable temporary differences arise from the initial recognition of assets and liabilities acquired outside of a business combination that at the time of the transaction do not affect accounting or taxable profit.
- Exemption from recognition of deferred tax from temporary differences arising from investments in subsidiaries, branches, joint ventures and associates, is not limited to foreign operations only. However, the exemption is restricted to where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
- Do not include specific guidance relating to uncertain tax positions.
- Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be sufficient to recover the carrying amount of the deferred tax asset. The use of a valuation allowance is not required but the net asset will be the same.
- Specific requirements for tax arising in a business combination and relating to share-based payment transactions.

Section 30 Foreign Currency Translation

Scope

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

Summary

- Functional currency is the currency of the primary economic environment in which an entity operates.
- On initial recognition, foreign currency transactions are recognised in the functional currency using the spot exchange rate at the date of the transaction.
- At the end of each reporting period:
 - monetary items are retranslated using the closing rate;
 - non-monetary items carried at historical cost continue to be measured using the exchange rate at the date of the transaction; and
 - non-monetary items measured at fair value are measured using the exchange rate on the date when fair value was determined.
- Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those used on initial recognition are recognised in profit or loss (unless part of the entity's net investment in a foreign operation).
- The exchange component of a gain or loss on a non-monetary item is recognised where the gain or loss on the non-monetary item is recognised. This can be either in profit or loss, or other comprehensive income.
- In the consolidated financial statements exchange differences arising on a monetary item that forms part of the net investment in a foreign operation is recognised in other comprehensive income and reported as a separate component of equity. Such exchange differences are not reclassified to profit or loss on disposal of the net investment.
- The effect of a change in functional currency is accounted for prospectively from the date of the change.

- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
 - assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
 - income and expenses for each period presented are translated at the exchanges rates at the date of the transactions; and
 - all resulting exchange differences are recognised in other comprehensive income in the consolidated financial statements, with no recycling on disposal.
- Goodwill arising from the acquisition of a foreign operation and any fair value adjustments on acquisition are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

Key differences under full IFRSs

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

Section 31 Hyperinflation

Scope

Applies to the financial statements of an entity whose functional currency is that of a hyperinflationary economy.

Summary

- Provides possible indicators of hyperinflation.
- Requires the financial statements of an entity whose functional currency is hyperinflationary to be stated in terms of the measuring unit current at the end of the reporting period.
- Comparative information for prior periods is restated into the same current measuring unit.
- Assets and liabilities not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.
- Monetary items are not restated because they are expressed in terms of the current measuring unit.
- All items in the statement of comprehensive income (and income statement if presented) are restated by applying the change in general price index from the date of initial recognition.
- The gain or loss on the net monetary position is included in profit or loss.

Key differences under full IFRSs

- None.

Section 32 Events after the End of the Reporting Period

Scope

Describes principles for recognising, measuring and disclosing events after the end of the reporting period.

Summary

- Events after the end of the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- The financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period (known as adjusting events).
- The financial statements are not adjusted to reflect events that arose after the end of the reporting period. The nature and impact of such events are disclosed (known as non-adjusting events).
- Dividends declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period.

Key differences under full IFRSs

- None.

Section 33 Related Party Disclosures

Scope Requires disclosure in the financial statements to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and transactions and outstanding balances with such parties.

Summary

- Disclosure is required of:
 - relationships between a parent and its subsidiaries;
 - key management personnel compensation in total; and
 - related party transactions.
- For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the relationship.
- Government-related entities are exempt from most of the general disclosure requirements.

Key differences under full IFRSs • Only minor differences when compared to IAS 24 as revised in November 2009. However, there is a difference in the definition of a related party when compared to IAS 24 (2003).

Section 34 Specialised Activities

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

Summary

- Agriculture:
 - biological assets, for which fair value is readily determinable without undue cost or effort, are measured at fair value less costs to sell. Changes in fair value less costs to sell are recognised in profit or loss;
 - all other biological assets are measured at cost less accumulated depreciation and impairment losses;
 - at point of harvest, agricultural produce is measured at fair value less costs to sell and accounted for as inventories.
- Extractive activities:
 - expenditure incurred for the acquisition or development of assets for use in extractive activities are accounted for in accordance with Section 17 and/or Section 18;
 - obligations for the dismantling or removal of items are accounted for in accordance with Section 17 and Section 21.
- Service concession arrangements:
 - provides guidance on how to account for arrangements whereby an operator develops, operates and maintains infrastructure assets of a government;
 - a financial asset is recognised to the extent that the operator has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services. The financial asset is measured at fair value and accounted for in accordance with Section 11 and Section 12;
 - an intangible asset is recognised to the extent that the operator receives a right to charge users for the public service. The intangible asset is recognised at fair value and accounted for in accordance with Section 18; and
 - revenue is recognised and measured in accordance with Section 23.

Key differences under full IFRSs

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

Section 35 Transition to the *IFRS for SMEs*

Scope

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

Summary

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

Key differences under full IFRSs

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

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