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# IFRS for SMEs

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# IFRS for SMEs

## A general comparison

- The concepts and principles of IFRS for SMEs are based on the Framework for the Preparation and Presentation of Financial Statements and therefore are very similar to full IFRS.
- The statements needed to comprise a complete set of financial statements under IFRS for SMEs are also very similar to those required by IFRS.
- The most significant difference in the presentation of financial statements for SMEs is that there are less disclosure requirements in some instances.

# IFRS for SMEs

## A general comparison

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

# IFRS for SMEs

## A general comparison

IFRS for SMEs	IFRS
Section 19 Business Combinations and Goodwill	IFRS 3 Business Combinations
Section 9 Consolidated and Separate Financial Statements	IAS 27 Separate Financial Statements
	IFRS 10 Consolidated Financial Statements
	IFRS 12 Disclosure of Interests in Other Entities
Section 15 Investments in Joint Ventures	IFRS 11 Joint Arrangements
	IFRS 12 Disclosure of Interests in Other Entities
Section 14 Investments in Associates	IAS 28 Investments in Associates and Joint Ventures

# IFRS for SMEs

## A general comparison

IFRS for SMEs	IFRS
Section 17 Property, Plant and Equipment	IAS 16 Property, Plant and Equipment
Section 16 Investment Property	IAS 40 Investment Property
Section 18 Intangible Assets other than Goodwill	IAS 38 Intangible Assets
Section 20 Leases	IAS 17 Leases
Section 27 Impairment of Assets	IAS 36 Impairment of Assets
Section 13 Inventories	IAS 2 Inventories
Section 29 Income Tax	IAS 12 Income Taxes
Section 22 Liabilities and Equity	IAS 32 Financial Instruments: Presentation
Section 11 Basic Financial Instruments	IFRS 9 Financial Instruments
Section 12 Other Financial Instruments Issues	IFRS 9 Financial Instruments
Section 26 Share-based Payment	IFRS 2 Share-based Payment
Section 21 Provisions and Contingencies	IAS 37 Provisions, Contingent Liabilities and Contingent Assets
Section 28 Employee Benefits	IAS 19 Employee Benefits
Section 34 Specialised Activities	IAS 41 Agriculture
	IFRS 6 Exploration for and Evaluation of Mineral Resources
	IFRIC 12 Service Concession Arrangements

# IFRS for SMEs

## A general comparison

IFRS for SMEs	IFRS
Section 23 Revenue	IAS 18 Revenue
	<b>IFRS 15</b>
	IAS 11 Construction Contracts
	<b>IFRS 15</b>
Section 30 Foreign Currency Translation	IAS 21 The Effects of Changes in Foreign Exchange Rates
Section 25 Borrowing Costs	IAS 23 Borrowing Costs
Section 24 Government Grants	IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

# IFRS for SMEs

## Section 1 - Scope

An SME is defined as an entity that:

- Does not have public accountability, and
- Publishes general-purpose financial statements for external users.

Listed companies and public interest entities such as financial institutions may not use, no matter how small



# IFRS for SMEs

## Section 2 – Concepts and principals

The objective of financial statements under IFRS for SMEs is very similar to the objective under the framework of the full IFRS and which is:

- to provide information about the financial position, financial performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

Financial statements also show the results of the stewardship of management.

# IFRS for SMEs

## Section 2 – Concepts and principals

- Qualitative characteristics of financial statements are similar  
*Understandability, Relevance, Materiality, Reliability, Substance over form, Prudence, Completeness, Comparability, Timeliness, Balance between benefit and cost.*
- Definitions of elements of the financial statements are similar  
*Assets, Liabilities, Equity, Income and Expenses*
- Recognition, measurement and offsetting requirements are similar, with measurement being more prescriptive under IFRS for SMEs.

# IFRS for SMEs

## Section 3 – Financial statements presentation

The following concepts under IFRS for SMEs have a similar interpretation and application as under the full IFRS:

- **Fair presentation:** presumed to result if IFRS for SMEs is followed
- **Compliance:** State compliance with IFRS for SMEs only if the financial statements comply in full
- **Comparatives:** At least one year comparative financial statements and note data. Full IFRS requires the presentation of a 3<sup>rd</sup> balance sheet when restating but IFRS for SMEs does not.
- **Going concern:** Not specifically required as a basis for preparation but if not used as a basis, it has to be adequately disclosed.

# IFRS for SMEs

## Section 3 – Financial statements presentation

- A complete set of financial statements includes the same components as full IFRS including Notes.
- Full IFRS requires the presentation of a 3<sup>rd</sup> balance sheet when restating but IFRS for SMEs does not.
- If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.
- If there are no items of other comprehensive income in all periods presented, only an income statement need be presented.

# IFRS for SMEs

## Section 4 & 5 – Statement of FP and statement of comprehensive income

- Some differences in list of items to be presented in Statement of Financial Position (SFP) but materiality and aggregation concepts will result in eliminating these differences.
- Liquidity disclosures are not required under IFRS for SMEs (assets/liabilities maturing within a year when an unclassified balance sheet is presented).
- OCI only includes: exchange gains/losses on foreign operations, changes of FV of hedging instruments, actuarial gains/losses.
  - This excludes changes in FV of AFS securities if IAS 39 is applied.
- Additional disclosures under OCI with respect to taxation effects have been removed from IFRS for SMEs.

## IFRS for SMEs

### Section 6 & 7 – Statement of movement in equity and cash flows statements

- No differences other than allowing the presentation of a statement of Income and retained earnings when there are no changes in equity other than profit or loss, dividend payments, prior year adjustments, change in accounting policies.
- Generally the concepts of cash equivalents are similar, however full IFRS includes a requirement that there should be insignificant risk of changes in value of cash and cash equivalents. Therefore, under IFRS for SMEs, there is the possibility that certain marketable securities may meet the definition of a cash equivalent, but would fail under full IFRS. However, in practice differences are expected to be rare.

# IFRS for SMEs

## Section 8 – Notes to the financial statements

- There is no difference in respect of the presentation of notes. The primary benefit to IFRS for SMEs will be that the quantum of disclosures required by other sections of the standard will reduce the overall amount of disclosable items.
- Disclosure of accounting policies, major judgments and sources of estimation are required but there is less guidance under IFRS for SMEs.

# IFRS for SMEs

## Section 10 – Accounting policies, estimates and errors

- If IFRS for SMEs does not address an issue:
  - Choose policy that results in most relevant and reliable information
  - Try to analogize (correlate/match) from requirements in the IFRS for SMEs
  - Or use concepts/pervasive principles in Section 2
  - May look to guidance in full IFRS – but not required

*This could create a significant difference between financial statements prepared under IFRS for SMEs and full IFRS.*

- Full IFRS provides additional relief in respect of retrospective application of errors when it is impracticable to establish the cumulative effect of an error (*apply prospectively from the date it is practicable*). Other than this difference, errors should be accounted for on a similar basis.
- No difference in treatment of a change in estimate (prospective application).



# IFRS for SMEs

## Section 32 – Events after the end of the reporting period

- No differences in definition/classification or treatment (recognition and measurement) of adjusting and non-adjusting events after the end of the reporting period.
- Although it has no effect on overall balances, *IFRS for SMEs* allows for the segregation of retained earnings in respect of dividends declared after the end of the reporting period (albeit that they are not recognized). Unless properly disclosed, this may create confusion between recognized and non-recognized dividends in the statement of changes in equity (or statement of changes in income and retained income).

# IFRS for SMEs

## Section 33 – Related party disclosures

- The disclosure requirements for SMEs are significantly less onerous as there is no requirement to further analyze the total compensation for key management personnel.
- The related party transactions require less disaggregation for SMEs than under full IFRS, which may reduce the effort required.

# IFRS for SMEs

## Section 19 - Business combinations

*IFRS for SMEs* applies a purchase method of accounting for business combinations but there are several differences between the accounting treatment under *IFRS for SMEs* and *IFRS 3 Business Combinations*.

- Goodwill is amortized over its useful life under *IFRS for SMEs*. Where this can't be reliably estimated, a useful life of 10 years is assumed. This is likely to significantly reduce the work required for preparers as impairment tests will only be required where there are indicators of impairment.
- The other key difference compared to full IFRS is that acquisition costs will be capitalized, resulting in higher goodwill balances being recorded.
- Only one option to measure non-controlling interests as opposed to 2 options under full IFRS and which is to measure NCI at the NCI's proportion of the net identifiable assets, liabilities and provision for contingent liabilities of the acquiree at the date of the acquisition. The option to measure NCI at its acquisition-date fair value is not available.

# IFRS for SMEs

## Sections 9 - Consolidated & separate financial statements

- Under IFRS for SMEs combined financial statements are addressed.
- Exemptions from the requirement of consolidation are more flexible under IFRS for SMEs:
  - No need for approval of other shareholders
  - No requirement that parent company consolidated FS to be made public for use
  - If subsidiary acquired with intention to sell and the parent does not have any other subsidiary.
- Simplifications in the treatment of disposals of subsidiaries/loss of control which may result in different gain/loss on disposal.
- In separate FS, investments are measured at cost or at FVTPL. Under full IFRS cost or in accordance with IAS39/IFRS9 therefore allowing for FVTOCI.

# IFRS for SMEs

## Sections 14,15 - Investments in associates and JVs

- Under IFRS for SMEs *entities* can use the cost model (if no published price is available), the equity method or the fair value model (through P&L) to account for interests in jointly controlled entities and associates in consolidated financial statements, which gives entities much greater flexibility to select a policy most appropriate to their business.

# IFRS for SMEs

## Other differences

There are a number of differences in the accounting treatment of items in the statement of financial position. The key differences are as follows:

- Property, plant and equipment — does not permit the application of the revaluation model and review of residual value and depreciation method required only when there is indication of change.
- Investment Property — must be measured at fair value unless fair value cannot be measured reliably without undue cost or effort, in which case they are treated as PPE and measure at cost depreciation impairment.
- Intangible Assets — all internally generated intangibles, including research and development costs, must be expensed, which may be a significant issue for some entities (pharmaceuticals). Fair value model not permitted. All intangible assets must be amortized and the useful life is presumed to be 10 years if it cannot be measured reliably. If the useful life of goodwill or another intangible asset cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed ten years. Review of residual value and amortization method required only when there is indication of change.

# IFRS for SMEs

## Other differences

- *Impairment of Assets* — IFRS for SMEs does not permit the application of revaluation models and therefore all losses are immediately recognized in profit or loss. Annual impairment testing not required, only when there are indicators that an impairment may exist.
- *Borrowing Costs* — all borrowing costs to be expensed as they are incurred. For some entities, particularly in the construction industry this may result in significant expenses being recognized in profit or loss.
- *Financial Instruments* — *IFRS for SMEs* gives entities the choice of applying the requirements of the standard or applying IAS 39 *Financial Instruments: Recognition and Measurement* to the recognition and measurement of financial instruments. If IAS 39 is adopted, IFRS 7 is not required but rather the requirements of Sections 11 and 12 of IFRS for SMEs remain applicable.
- There is no concept of embedded derivatives under *IFRS for SMEs* and therefore no split accounting (contract measured at FV).
- *Government Grants* — all grants are measured at fair value and recognized in profit or loss.

# IFRS for SMEs

## Other differences

- The principles of revenue recognition are the same under *IFRS for SMEs*. IFRS for SMEs combines the requirements of IAS 18 Revenues and IAS 11 Construction Contracts.
- The principles of foreign currency translation are the same under *IFRS for SMEs*. However, recycling through profit or loss of any cumulative exchange differences that were previously recognized in equity on disposal of a foreign operation is not permitted whereas under full IFRS, exchange differences on a monetary item that forms part of a net investment in a foreign operation are reclassified from equity to profit or loss on disposal of the foreign operation



# IFRS for SMEs

## Section 35 - Transition to the IFRS for SMEs

- The transition rules apply equally to all entities whether they have previously applied IFRS or another GAAP. The rules are based on the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* but in some cases the section has been altered to make the transition requirements easier to apply.
- Under the transition rules, restatements of the opening statement of financial position do not need to be made if it is impractical to do so. In some cases this may relieve the need for restatement, although the ability to meet the impracticability hurdle may prove difficult.



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