ACCOUNTING UPDATE

IFRS for SMEs, IFRIC & FINANCIAL INSTRUMENTS

Introduction

This accounting update covers
- Updates to the International Financial Reporting Standard for Small to Medium-sized Entities (IFRS for SME);
- A summary of the discussions held and conclusions reached by the International Financial Reporting Interpretations Committee (IFRIC) at their meeting held in May this year; and
- The Financial Instruments Guide which has been released by the IFRS foundation.

IFRS for SMEs - updates

The IFRS for SMEs 2009 has finally been updated. The International Accounting Standards Board (IASB) commenced its initial comprehensive review of the standard in 2012 and it has now released “limited amendments”. The changes, which were published in May of this year, are effective for annual periods beginning on or after 01 January 2017, and may be applied for earlier periods. Should you choose to early apply you will need to disclose as much in your financial statements.

The amendments are for, the most part, to be applied retrospectively unless it is impracticable to do so, in which case they may be applied in the earliest period for which it is practicable to do so. There are also a few amendments for which the standard specifically prescribes prospective application. These can be found in paragraph A2 of Appendix A to the 2015 Amendments to the IFRS for SMEs.

It is impractical to cover all the amendments in this newsletter. Many of the amendments affect only a few paragraphs and sometimes only a few words in each of the sections of the standard. The more substantial amendments are covered below. The IFRS foundation have published the 2015 Amendments to the IFRS for SMEs which includes only those sections and paragraphs affected and are currently working on a Spanish translation of the document.

The most substantial changes affect:

- **Section 17 Property, Plant and Equipment**
  
  The use of the revaluation model has been included as an option, previously only the cost model was available.

- **Section 29 Income Taxes**
  
  The main recognition and measurement requirements for deferred income tax have been amended to align with those of IAS 12 Income Taxes.

- **Section 34 Specialised Activities**
  
  The main recognition and measurement requirements for exploration and evaluation assets have been amended to align with IFRS 6 Exploration for and Evaluation of Mineral Resources.
In addition to the above changes, the remaining changes that were made can be broadly categorised as:

**Amendments that introduce accounting policy options (based on those available in the IFRS)**
- In addition to the above mentioned, entities can now select the equity accounting method for investments in subsidiaries, associates and jointly controlled entities in their separate financial statements.

**Amendments that change requirements, in addition to the changes to section 29 Income taxes above**
- Inclusion of a requirement to present investment property, measured at cost less accumulated depreciation and impairment, as a separate line item on the face of the statement of financial position.

**Amendments that make available the use of the undue cost or effort exemption currently available in some sections of the standard**
- The exemption can now be applied to the requirement to recognise intangible assets separately in a business combination.

**Amendments that make available other exemptions to the requirements of the IFRS for SMEs (based on exemptions available in the IFRS)**
- An exemption that simplifies the accounting requirements when part of an item of property, plant and equipment is replaced. One can now use the cost of the replacement part as an indication of the cost of the replaced part at the time it was acquired/constructed.

**Amendments that modify presentation or disclosure requirements**
- There is now a requirement for entities to disclose their reasoning for the use of the undue cost or effort exemption.

**Amendments for first time adopters**
- Three new options and two new areas of guidance have been included for first time adopters.

**Amendments that provide minor clarifications**
- Section 2 *Concepts and Pervasive Principles* – additional clarification on the undue cost or effort exemption.

The extracts given above are not a complete list of the amendments made. For more information on what’s happening in the IFRS for SMEs domain, visit the IFRS website: [IFRS for SMEs Update](https://www.ifrs.org).
IFRIC – discussions and decisions

The Interpretations Committee met in London on the 12th of May this year to discuss the following issues:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Issues relating to the requirements for scope and presentation in IFRS 5

There were five issue covered under this agenda point and the conclusion on the five issues was that a paper summarising all the issues be presented to the IASB for their thoughts on whether the issues should be tackled through the normal processes of the Interpretations Committee or whether it would be more beneficial to undertake a broader project on IFRS 5.

<table>
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<tr>
<th>Issue:</th>
<th>Conclusion reached by the Committee:</th>
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<tr>
<td>Scope</td>
<td>IFRS 5 was intended to include all non-current assets (or disposal groups) which an entity was committed to lose control of, no matter the form of the transaction.</td>
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<td>Presentation of intra-group transaction between continuing and non-continuing operations</td>
<td>There are no specific requirements or guidance in IFRS 5 or IAS 1 which override the consolidation requirements of IFRS 10 and thus an entity must eliminate intra group transactions in full prior to determining the presentation of continuing and discontinued operations.</td>
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<td>Application of disclosure requirement of IFRS 12 to subsidiaries classified as held for sale</td>
<td>Paragraph 5B of IFRS 5 states that the disclosure requirements of other standards do not apply to assets held for sale unless such standards make specific provision that the requirements apply regardless of IFRS 5, 5B. Thus, as IFRS 12 Disclosure of Interests in Other Entities does not make such provision, paragraph 5B of IFRS 5 stands. This issue is going to be raised with the IASB.</td>
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<td>Extent of allocation of impairment losses to assets within a disposal group</td>
<td>In dealing with impairment losses IFRS 5 specifically refers to paragraphs of IAS 36 Impairments, however no reference is made to the paragraph of IAS 36 which limits the amount of an impairment loss which can be allocated to the specific assets with a cash generating, thus the limit does not apply to assets within a disposal group.</td>
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<td>Change in a plan to sell a disposal group made up of a subsidiary and other non-current assets</td>
<td>There are inconsistencies in the recognition requirements relating to the effects of a re-measurements (required upon a change to a plan to sell) for subsidiaries (retrospective recognition) and non-current assets (recognition in the current period). It was also unclear as to whether the retrospective recognition applied to the measurement and presentation requirements, or the measurement requirements only. Tentatively decided that this should be brought up with the IASB for a possible revision of IFRS 5.</td>
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IFRS 11 Joint Arrangements - Becoming a joint operator through the acquisition of an additional interest in an existing joint operation

The Committee was asked to clarify whether in the situation described above the existing interest in the assets and liabilities of the joint arrangement should be re-measured to their fair value. The Committee noted the ambiguity of the requirements on re-measurement, as well as the varying applications in practise and that this was not isolated to the above situation. Thus a decision was made to prepare a staff paper identifying all transactions for which there is a perceived lack of guidance or varying applications in practice, in accounting for previously held interests, which would be presented at a future meeting of the IFRIC.

IAS 16 Property, Plant and Equipment - Accounting for net proceeds and costs of testing for property, plant and equipment

The Committee was requested to clarify whether the net proceeds on the sale of items produced while testing an item of PPE under construction should be recognised in profit or loss or deducted from the cost of the PPE item. The situation currently is that the net proceeds can be deducted from the cost only if the items are produced as a result of the testing of the PPE items physical or technical performance and not its financial viability. A tentative decision was reached to develop a draft interpretation providing clarification on the meanings of the following words used in IAS16: ‘testing’ and ‘functioning properly’; as they are the determining factors in deciding on the appropriate accounting treatment of such proceeds.

IAS 21 The Effects of Changes in Foreign Exchange Rates - Draft Interpretation Foreign Currency Transactions and Advance Consideration

The discussion here centred around whether to include any guidance on the presentation of gains and losses on: the retranslation at year end or the settlement of foreign denominate monetary items in the draft interpretation mentioned above. The Committee decided no guidance be included as this was not the focus of the draft interpretation which is being written to provide guidance on the date of a foreign currency transaction in terms of IAS 21.

IAS 23 Borrowing Costs - Borrowing cost on completed qualifying assets

Clarification was requested as to whether specific borrowings which remain unpaid after the completed construction of the qualifying asset for which they were obtained should be included in general borrowings when calculating the capitalisation rate to be applied to general borrowings. The majority of the committee agreed that the specific borrowings should be included and tentatively decided that the wording in the Standard be clarified through an annual improvement; the proposed revision will be presented at a future meeting of the IFRIC.

IFRS 10 Consolidated Financial Statements - Single-asset, single lessee lease vehicles

Clarification was required on whether, based on the interaction of IFRS 10 and IAS 17 Leases, a structured entity created to lease a single asset to a single lessee should be consolidated. The IFRIC noted that this decision should be made based on the control principle (does the lessee control the lessor [the structured entity]) and that the guidance provided in IFRS 10 with regards to control was sufficient to determine whether control existed, thus no further action was deemed necessary.
IAS 24 Related Party Disclosures - Definition of close family member

The question as to why a person’s parent had not been specifically included in the definition of a close family member was raised. The IFRIC concluded that the definition was principle based and allowed for judgement and that the list provided was not exhaustive nor did it precluded a person not on the list from being deemed a close family member, thus no further action was considered necessary.

For the full deliberations on the above matters please see the IFRIC Update released on the IFRS Foundation website.

Financial Instruments

The IFRS Foundation and IASB have issued, for purchase, the ‘Financial Instruments 2015 Guide’. In describing the dual volume guide, the IFRS Foundation had this to say: “This guide offers a unique single reference point for all those who need to have an in depth knowledge of reporting and accounting for financial instruments in accordance with IFRS”. The guide is available on the IFRS Foundation website for a retail price of £58.00.