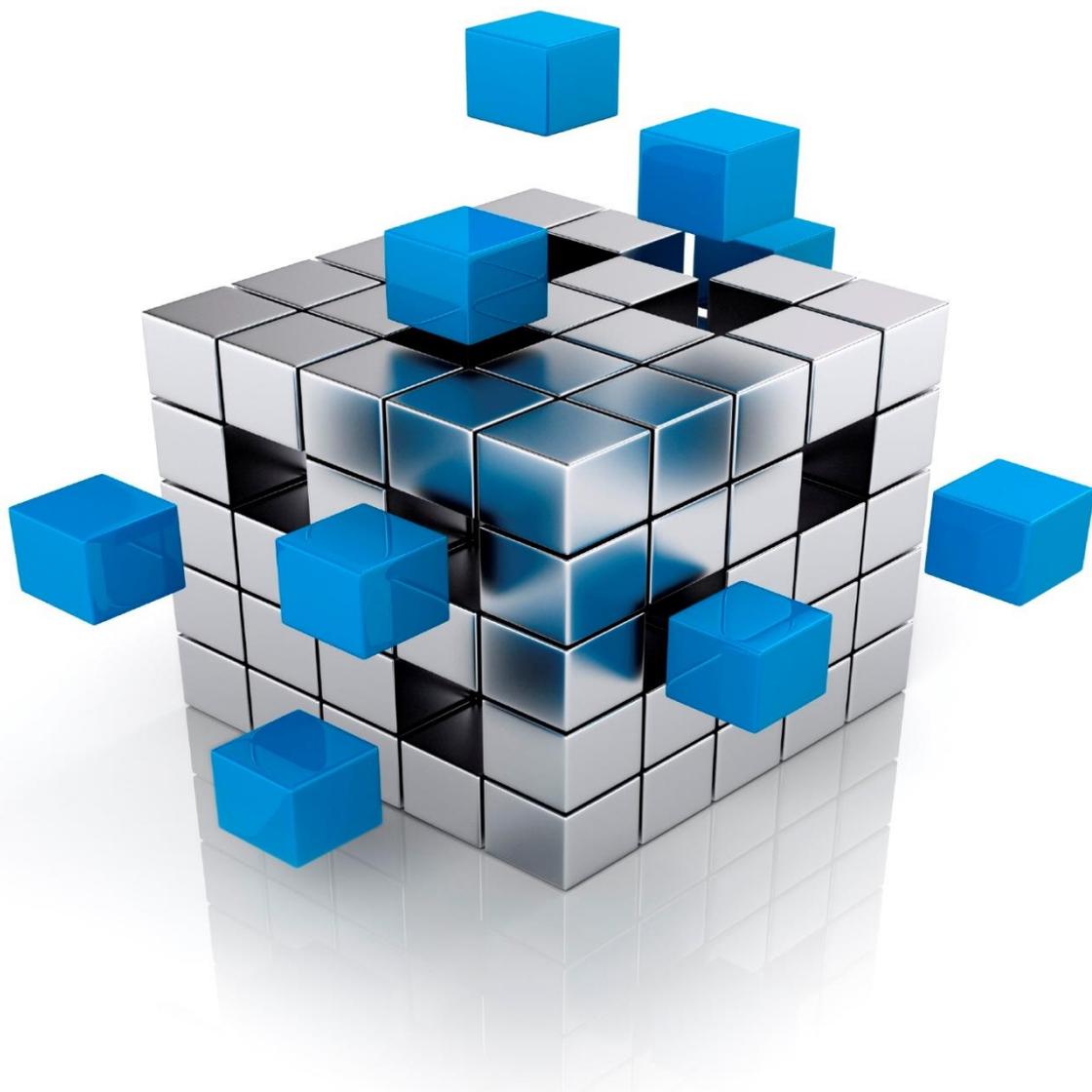


2014

IFRS for SMEs

November 2014

**BRIEF SUMMARY OF
INTERNATIONAL FINANCIAL REPORTING STANDARD
FOR SMALL AND MEDIUM-SIZED ENTITIES
(IFRS for SMEs)**



IFRS for SMEs

On 9 July 2009 the IASB published an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SMEs). SMEs are estimated to represent more than **95 percent** of all companies. The standard is a result of a five-year development process with extensive consultation of SMEs worldwide.

(Source: <http://www.ifrs.org>)



Scope and application

The IFRS for SMEs is intended for use by small and medium-sized entities (SMEs). The definition of SMEs does not contain any quantitative threshold (e.g. revenue, assets value, number of employees, etc.).

Generally, an entity is considered as SMEs if it:

- a. does not have public accountability;
- b. publishes general purpose financial statements for external users. Examples of external users include:
 -  Owners who are not involved in managing the business;
 -  Existing and potential creditors; and
 -  Credit rating agencies.

An entity is considered to have public accountability if:

- a. Its **debt** and **equity** instruments are traded in a **public market** or is in the process of doing such; or
- b. It **holds assets** in a **fiduciary capacity** for a **broad group of outsiders** as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. However, if the 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 publicly accountability, for example, travel or real estate agents, schools, charitable organizations, co-operative enterprises requiring a nominal membership deposit, etc.

Subsidiary whose parent uses full IFRS

A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that uses full IFRSs, is not prohibited from using IFRS for SMEs in its own financial statements if that subsidiary by itself does not have public accountability.

Why adopt IFRS for SMEs?



IAS 1 requires that an entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. [IAS 1.16]



Most cost effective than full IFRS



Reduced disclosures



Comparability and ease of consolidation for group



Simplified many of the recognition and measurement principles that are in full IFRSs



Simplified language and explanations

'IFRS for SMEs is roughly 10% the size of the full IFRS and contains approximately only 10% of the disclosure requirements of full IFRS'

Based upon above, it is advisable to adopt IFRS for SMEs, which are estimated to be relevant for over 95 percent of all companies around the world.

Topics not covered under IFRS for SMEs

The IFRS for SMEs do not address the following topics, as these are not generally relevant to SME.

-  Earnings per share;
-  Interim financial reporting;
-  Segment reporting;
-  Insurance; and
-  Non-current assets held for sale.

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.

Full IFRS Vs IFRS for SMEs

3,000 pages (Full IFRS)



230 pages (IFRS for SMEs)

Key differences

Sections under IFRS for SMEs	Under full IFRS
<p>3: Financial Statement Presentation</p> <ul style="list-style-type: none"> ❖ A complete set of financial statements includes each of the following for the current period and the previous comparable period: <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✚ 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. (IAS 1.10) ✚ Do not allow the combination of the statement of comprehensive income and statement of changes in equity under any circumstances.
<p>4: Statement of Financial Position</p> <ul style="list-style-type: none"> ❖ Requires a current/non-current distinction for assets and liabilities unless presentation based on liquidity provides more relevant and reliable information. 	<ul style="list-style-type: none"> ✚ Require the separate presentation of assets classified as held for sale or assets and liabilities included in a disposal group held for sale.
<p>5: Statement of Comprehensive Income and Income Statement</p> <ul style="list-style-type: none"> ❖ The only types of other comprehensive income recognised outside of profit or loss are: <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✚ More items of comprehensive income recognized 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).

6: Statement of Changes in Equity and Statement of Income and Retained Earnings	<ul style="list-style-type: none"> ✚ Do not allow the statement of changes in equity to be combined with the statement of comprehensive income.
7: Statement of Cash Flows	<ul style="list-style-type: none"> ✚ Encourage the direct method for presenting cash flows from operating activities. ✚ Allow cash flows meeting certain conditions to be reported net.
8: Notes to the Financial Statements	<ul style="list-style-type: none"> ✚ None
<p>9: Consolidated and Separate Financial Statements</p> <ul style="list-style-type: none"> ❖ Apart from the following two exceptions, a parent must present consolidated financial statements: <ul style="list-style-type: none"> • 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. ❖ All entities in the group must use the same reporting date and apply uniform accounting policies. ❖ NCI is measured at the proportionate share of the net assets of the acquiree. ❖ On disposal of a foreign subsidiary, foreign exchange differences recognised in equity are not recycled to profit or loss. ❖ 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. 	<ul style="list-style-type: none"> ✚ 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 derecognized at their carrying amount. A continuing investment in the former subsidiary is initially measured at fair value. Any resulting difference is recognized 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 recognized 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.
10: Accounting Policies, Estimates and Errors <ul style="list-style-type: none"> ❖ In the absence of specific guidance in the IFRS for SMEs, an entity should follow the following hierarchy when developing accounting policies: <ul style="list-style-type: none"> • requirements of the IFRS for SMEs dealing with similar and related issues (i.e. by analogy); 	<ul style="list-style-type: none"> ✚ 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.

<ul style="list-style-type: none"> • definition, recognition and measurement concepts and pervasive principles set out in Section 2. 	
11: Basic Financial Instruments	<ul style="list-style-type: none"> + Financial assets are classified as either: <ul style="list-style-type: none"> • 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.
12: Other Financial Instruments Issues	<ul style="list-style-type: none"> + 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

	<p>available for designation, including purchased options, and foreign currency loans for a hedge of foreign currency risk.</p> <ul style="list-style-type: none"> ✚ 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.
<p>13: Inventories</p> <ul style="list-style-type: none"> ❖ Borrowing costs must be expensed (see Section 25). 	<ul style="list-style-type: none"> ✚ Require the inclusion of borrowing costs in the cost of inventory in limited circumstances.
<p>14: Investments in Associates</p> <ul style="list-style-type: none"> ❖ Measured using one of the following accounting policies: <ul style="list-style-type: none"> ● cost model; or ● equity method; or ● fair value model. 	<ul style="list-style-type: none"> ✚ 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.
<p>15: Investments in Joint Ventures</p> <ul style="list-style-type: none"> ❖ Measured using one of the following accounting policies: <ul style="list-style-type: none"> ● cost model; or ● equity method; or ● fair value model. 	<ul style="list-style-type: none"> ✚ 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.
<p>16: Investment Property</p> <ul style="list-style-type: none"> ❖ Initial recognition at cost, subsequently, 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. ❖ Borrowing costs must be expensed (see Section 25). 	<ul style="list-style-type: none"> ✚ 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.
<p>17: Property, Plant and Equipment</p> <ul style="list-style-type: none"> ❖ Borrowing costs must be expensed (see Section 25). 	<ul style="list-style-type: none"> ✚ 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

	<p>amortization methods should be performed annually.</p> <ul style="list-style-type: none"> ✚ Separate depreciation of individual components is required when the cost of the component is significant in relation to the total cost of the asset.
<p>18: Intangible Assets other than Goodwill</p> <ul style="list-style-type: none"> ❖ An intangible asset is recognised if: <ul style="list-style-type: none"> • 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 ❖ 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. 	<ul style="list-style-type: none"> ✚ 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.
<p>19: Business Combinations and Goodwill</p>	<ul style="list-style-type: none"> ✚ 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 re-measured to fair value and included in the consideration transferred. ✚ Goodwill is not amortised but tested for impairment annually.

20: Leases	<ul style="list-style-type: none"> ✚ 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.
21: Provisions and Contingencies	<ul style="list-style-type: none"> ✚ Provide significantly more guidance on provisions relating to restructurings.
22: Liabilities and Equity	<ul style="list-style-type: none"> ✚ 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.
23: Revenue	<ul style="list-style-type: none"> ✚ Exclude revenue arising from extraction of mineral ores and changes in the value of current assets from the scope of IAS 18 Revenue.
24: Government Grants	<ul style="list-style-type: none"> ✚ 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.
25: Borrowing Costs	<ul style="list-style-type: none"> ✚ 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.
26: Share-based Payment	<ul style="list-style-type: none"> ✚ 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-

	<p>employees can be measured reliably.</p> <ul style="list-style-type: none"> ✚ 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.
27: Impairment of Assets	<ul style="list-style-type: none"> ✚ 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.
28: Employee Benefits	<ul style="list-style-type: none"> ✚ In practice, this is not applied in the UAE.
29: Income Tax	<ul style="list-style-type: none"> ✚ N/a in the UAE.
30: Foreign Currency Translation	<ul style="list-style-type: none"> ✚ 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.
31: Hyperinflation	<ul style="list-style-type: none"> ✚ None
32: Events after the End of the Reporting Period	<ul style="list-style-type: none"> ✚ None
33: Related Party Disclosures	<ul style="list-style-type: none"> ✚ Only minor differences
34: Specialised Activities	<ul style="list-style-type: none"> ✚ Agriculture: <ul style="list-style-type: none"> • 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.

About Astute

Astute Public Accountants was formed in the Emirate of Dubai by a group of qualified and experienced Chartered Accountants. Astute draws on the expertise of a number of professionals to provide [accounting](#), [consulting](#), [financial advisory](#), [tax advisory](#) and related services to its clients.

Astute has set things in motion to strengthen its presence in the UAE and to follow the developments in the Middle East region via the creation of a powerful platform, which provides broad spectrum of services and comprises of partners, director, managers and adequately resourced by the work force of qualified chartered accountants and experienced management consultants.

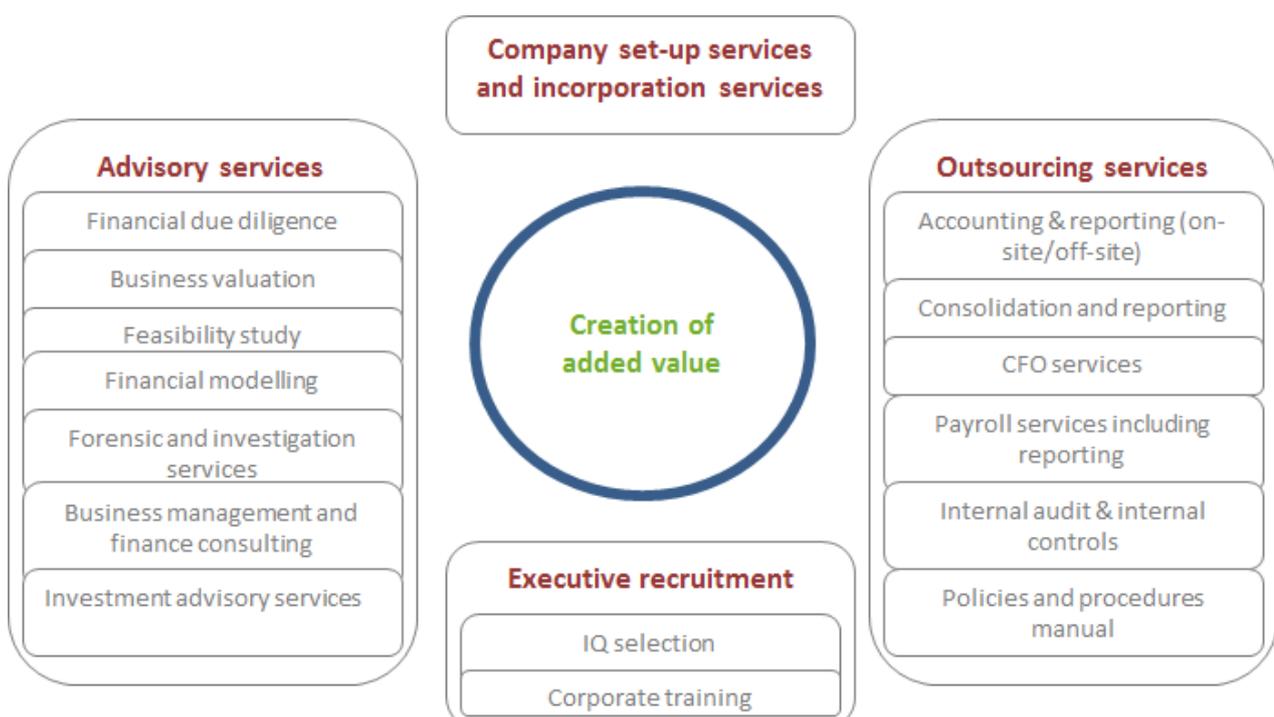
The partners in Astute hold memberships of renowned Institute of Chartered Accountants in England & Wales, Association of Chartered Certified Accountants and Institute of Internal Auditors.

The managing partner and the liaison partner have got vast and diversified experience to their credit in the Bookkeeping and Outsourcing, Assurance & Business Advisory, Risk Management and Transaction Advisory Services in big four auditing, accounting, tax and consulting firms in England, UAE and Pakistan.

Astute aims to be a leading, recognized and highly regarded accounting and consulting firm and the first choice in the region.

Our Services

We offer a broad range of accounting, business and international tax advisory services to large, medium and small scale companies, owner-managed and family businesses as well as high-net worth individuals in order to help them to mitigate risks and perform in the dynamic and challenging environments in which they do business. Diverse spectrum of services includes:



Our philosophy

- Exceeding the client expectations - value added services.
- Quality in services we render - service a client with quality, due care and diligence.
- Client relationship - committed to a long term relationship as client's trusted professional adviser.
- Establish a strong reputation, maintain professional ethics and integrity.
- Establish strong platforms of knowledge and its sharing with the clients.
- Attract and retain competent professionals.
- Be in service to the nation and the respected profession.

Our clients

We work with a broad range of clients including entrepreneurial clients, subsidiaries, and agencies. At Astute, the professional staff has got thorough knowledge and experience of various sectors of commerce and industry i.e. construction, healthcare, manufacturing, retail, distribution, FMCG, oil & gas, information technology, automotive industry, media, entertainment, real estate and hospitality sector clients.

Contact

Astute Public Accountants LLC
Office 211, P. O. Box: 238612
Dubai, United Arab Emirates
Tel: 971 (4) 238 1414
Fax: 971 (4) 238 1500
Email: contact@astuteme.com
Web: www.astuteme.com

UK Correspondent office

Taxaid Accountant Limited
Muddsar Shahzad, FCCA
Director

Mob: +44 7944 266 563
Email: contact@astuteme.com
73 Eardley Road, Streatham,
London SW16 6DB, United Kingdom
Company Reg # 08601618

Disclaimer

This publication contains information in summary form and is therefore for general guidance purposes. It is not intended to be a substitute for detailed research, professional advice and services and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business.

Every effort has been made to ensure the accuracy while compiling the information contained in this publication, however, the Author shall assume no liability to any person or entity that relies on the information contained in this publication. Any such reliance is solely at the user's risk. On any specific matter, reference must be to the appropriate advisor.