IFRS for SMEs
Application in Practice

By Liam McQuaid, FCA

Liam McQuaid outlines below a practical application of the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs) and reviews the transitional rules which apply when using the standard for the first time.

The IFRS for SMEs was issued by the International Accounting Standards Board (IASB) in July 2009. In this article I will set out:

- Recognition rules for a typical SME.
- Transition rules on first time adoption of the standard.

Recognition

The recognition rules for a typical SME are set out on Table 1.

Discounting long term receivables, depreciating goodwill over 10 years, expensing all borrowing costs and prohibiting the revaluation of property will be new rules for an SME.

Transition Exemptions

An entity may use the following optional exemptions on first time adoption of standard:

(a) Business combinations
(b) Share-based payments transactions
(c) Fair value as deemed cost
(d) Revaluation as deemed cost
(e) Cumulative translation differences
(f) Separate financial statements
(g) Compound financial instruments
(h) Deferred Income Tax
(i) Service concession arrangements

Table 1	Recognition rules for a typical SME
Property, Plant and Equipment	At cost less depreciation.
Investment Property	As above
Inventories	Lower of cost and estimated selling price less costs to complete and sell. Recognise impairment if it applies.
Receivables - Short term - Long term	 Undiscounted Cash Receivable. Discounted Cash Receivable.
Intangible Assets (Excluding Goodwill)	Recognise if: - Probable future benefits - Cost measured reliably - Not internally generated.
Goodwill	At cost less amortisation less impairment. Can assume 10 year life.
Borrowing Costs	Expense all.
Sale of Goods	Recognise if: - Risks transferred to buyer - No managerial involvement - Revenue measured reliably - Probable benefits - Cost measured reliably.
Post Employment Benefits Defined Contribution	Expense Contribution
Payables - Short term	Undiscounted amount owed.

Transition Exemptions

(j) Extractive activities
(k) Arrangements containing a lease
(l) Decommissioning liabilities included in the cost of property, plant and equipment.

An interesting exemption is (c) fair value as deemed cost. The new standard requires property plant and equipment to be valued at cost but if you have been using fair value to date fair value can be deemed to be cost. This is also the situation for (d) the revaluation can be deemed cost.

As regards (e) cumulative translations differences you may elect to deem the translations differences for all foreign operations to be zero.

There are also exemptions for financial instruments and deferred income tax.

When calculating deferred income tax if it involves undue costs or effort then there is no need to do it.

Accounting Changes Prohibited

An entity is not allowed to change accounting retrospectively for the following:

- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Accounting estimates
- Discounted operations
- Measuring non-controlling interest

Impracticable Option

If it is impracticable for an entity to restate the opening financial position the entity shall apply such adjustments in the earliest period for which it is practicable to do so.

The entity shall identify the data presented for prior periods that are not comparable and if it is impracticable to provide prior period disclosures the omission shall be disclosed.

Conclusion

The IFRS for SME's is a very user friendly standard and for most SME's the transition to the standard should be relatively easy. The transition exemptions on first time adoption will greatly assist companies and practitioners when applying the standard for the first time.

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