Amendments to IFRS for SME's

July 2015

Monthly Newsletter

Limited amendments to IFRS for SME's have been made after consideration of feedback received during the initial comprehensive review performed by the IASB.

<u>Major differences</u>

Statement of financial position

Investment properties must now be separately disclosed on the face of the statement of financial position.

Consolidated and separate financial statements

- All subsidiaries acquired with the intention to dispose of within one year shall be excluded from consolidation;
- Where group entities have differing reporting dates, the parent shall consolidate the subsidiary using the most recent financial statements, adjusted for the effects of significant transactions or events that occur between those financial statements and the consolidated statements;
- An entity may now account for an investment in subsidiaries, associates or jointly controlled entities in its separate financial statements using the equity method.

Clarification provided that banks, credit unions, insurance companies, security brokers/dealers, mutual funds and investment banks do not automatically have public accountability

Property, plant and equipment

- Spare parts, stand-by equipment and servicing equipment are now recognised as PPE when it meets the definition of PPE, otherwise they are classified as inventory;
- If it is not practical to determine the carrying amount of a replaced part, the cost of the replacement part can be used in order to derecognise the replaced part;
- An entity may now use the revaluation model.

Intangible assets other than goodwill

- Management must now use its best estimate of the useful life of an intangible asset, and this best estimate cannot exceed ten years. Management cannot merely default to ten years.

Business combinations and goodwill

- Non-controlling interest must be measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets;
- An intangible asset will be recognised separately, only if the fair value can be measured without undue cost or effort;
- Management must now use its best estimate of the useful life of goodwill, and this best estimate cannot exceed ten years.

A parent entity may use IFRS for SME's in its *separate* financial statements if it does not have public accountability, even if it presents consolidated statements based on full IFRS.

Liabilities and equity

- Clarification on when to classify an item as equity or a liability;
- Debt may be extinguished by issuing equity instruments to the creditor. These equity instruments will be measured at their fair value, unless the fair value cannot be estimated reliably without undue cost or effort. In this case, the equity will be measured at the fair value of the debt extinguished.

Employee benefits

- An entity does not have to disclose the accounting policy for termination benefits.

Income tax

- There is now alignment of the main principles with IAS 12 *Income taxes* for the recognition and measurement of deferred tax.

Related party Disclosures

- Alignment of the definition of related party with IAS 24 *Related Party Disclosures*.

<u>Effective date</u>

The effective date is for years beginning on or after 1 January 2017. Earlier application is permitted.