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# IFRS for SME's Update June 2020

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# May 2015 Update

- Standard first issued in 2009
- Review commenced in 2012
- Update released in May 2015
- Effective for annual periods beginning on or after 1 January 2017
- 80 countries permit or require SME's
- A further 14 investigating plans to adopt

- Next review – 2 years after effective date 2019 ( happening now)
- Urgent amendments....

# Review of IFRS for SME project

- Request for Information
  - Comments due by 27 Oct 2020
- Key issues
  - Alignment
  - IFRS 15 and 16
  - ECL
- Subsidiaries that are SME's
  - Disclosure initiative

Lets remind ourselves of  
the basics

# What is IFRS for SME's

- Separate reporting framework for SME's
- Separate from full IFRS
  - No cross references to full IFRS
  - Weigh-Less version (230pg vs 2800pg)
  - Stand alone, self contained
  - Organised by topic via 35 sections

# Wants to facilitate reporting for SME's by:

- Simplifying recognition and measurement in certain areas
- Providing significantly less guidance
- Excluding irrelevant topics
- Excluding certain more complex options that are included in full IFRS



# Who can use it?

**Any entity that does not have public  
accountability, and**

***Publish general purpose financial  
statements for external users***

Not available to Entities that have other regulatory frameworks that they need to comply with

# IASB point of view

- Wanted Standards for entities that
  - Do not have public accountability
  - But still publish general purpose financial statements
    - Still see these being for external users

# Public Accountability

- Trades (or intends trading) equity or debt instruments publicly
- Holds assets in a fiduciary capacity as one of its primary businesses
  - Eg bank, insurance companies, mutual funds
  - Excludes schools, estate agents, charities etc if assets held incidental to primary business

# Who in SA can use it?

- All **companies** that do not have public accountability
  - Therefore excludes state owned enterprises and listed companies
- All **other entities** provided
  - No public accountability and
  - not required to comply with any other framework

# Accounting policy selection

- Rare for IFRS for SME's to offer
- If don't have specific guidance in IFRS for SME's consider
  - FIRST: IFRS for SME's guidance on similar topic
  - SECOND: Definitions, recognition or measurement per S2 Concepts and Pervasive Principles
- May consider full IFRS – not required
- No requirement to consider other standard setters pronouncements

When you decide to walk the path less travelled .....

## **Need to follow IFRS for SME's in their entirety**

- No cherry picking
- No “gaap” that can override
- Auditors Report and Basis for presentation needs to disclose

# Impact of COVID 19 on the Financials

# Covid 19 and AFS

- ***“Never let a good crisis go to waste”  
(Winston Churchill)***
- ***“The secret of crisis management is not good vs. bad, it’s preventing the bad from getting worse” (Andy Gilman)***



# Areas impacted

- Going concern
- Subsequent events
- Impairments
  - Goodwill
  - Assets
  - Financial assets
- Accounting for estimates – changes in...

- Restructuring of businesses
  - Business combinations
- Fair values of assets
  - operational and investment
- Provisions
  - Onerous Contracts

- Impact of Forex
- Revenue
  - Contractual obligation
  - Forecasts
- Leases

# Disclosure Challenge

- Going concern vs Subsequent Event
  - Adjusting or non adjusting??
- Going concern basis
  - Basis of preparation
  - Audit report
  - Directors Report
  - Notes to AFS

# Going concern considerations

- **SUBSEQUENT EVENT**
- Loss of revenue
- Onerous contracts
- Impairments to assets
- Goodwill impairments
- Relief measures
- Access to supply
- Contractual penalties for failure to preform
- Valuations of assets
- Forex

# Impact on Impairments

- Cost accounting only
  - Goodwill,
  - Tangible assets,
  - Financial assets (later)
- Net realisable value vs Carrying amount
- Value in use
- Fair value less cost to sell
- Intention towards assets
- Cash generating units

# Indicators of Impairment

- IFRS for SME – only when there is an indicator
- IFRS: Annual reviews
  - Acquired goodwill
  - Indefinite useful intangible asset
  - Intangible assets not yet available for use

# External sources of information

- Significant decline in assets market value
- Significant adverse current or future changes in
  - the technological, market, economic or legal environment
  - in which the entity operates or
  - The market to which the asset is dedicated
- Increase in market interest rates, or other market rates of return on investments (decrease in RA)
- CV of net assets exceed entity's market capitalisation



# Internal sources of information

- Evidence of obsolescence or physical damage
- Current or future adverse changes in the extent or manner in which the asset is intended to be used
- Internal reports indicate that the economic performance is or will be **worse than expected**

- **Indicator of worse than expected performance**

- Acquisition costs or subsequent expenses higher than originally expected
- Significantly worse actual net CF's or operating profits
- Significant decline in budgeted net CF's or operating profits
- Existence of loss when current and prior figures aggregated
- Actual CF's are materially less than estimated before discounting

# Forecasting challenges with C-19

- Over what timeline????
- cash flows implications
- Relooking at business model, costs and expenses
- Access to financing
- Payment holidays
- What discount rate??

# Estimates

- Objective : Consistency
  - Prescribe criteria for selecting policies, treatments and disclosures of changes and errors
  - Prepare and present AFS on a consistent and comparable basis
  - All items of income and expense recognised to profit or loss, unless otherwise stated
  - Prospective vs. retrospective

# Changes in Accounting Estimates

- Estimates require revision
- Can't distinguish b/n  $\Delta$  in Acc policy or  $\Delta$  in estimate – treat as the latter
- Methods
  - Reallocation method
  - Cumulative catch up method
- Need to be practical
- reallocation method sanctioned, cumulative catch up superior
- IAS 20 Government Grants

# Disclosures

- Nature of change
- Amount of change of estimate that effects current period
- Effect on future reporting periods
- Impracticable?

# Restructuring

- Business combinations IFRS 3
- Fair values at date of acquisition
- Liquidation issues
- Loan accounts
- Recoverability issues
- Tax planning – beware unbundling issues

# Market/Fair Values

- Is there a market?
  - How do you assess cash flows?
  - Date specific
  - Discount rates??
  - Disclosure on impact
  - Assumptions and judgements
- Examples:
    - Investment Properties
    - Biological Assets
    - Financial Instruments
  - Inventory valuation (NRV)
  - Residual values for PPE
    - Impact on useful lives
  - Revaluation assessments
  - Recoverability of debtors...



# Provisions

- Present obligation
  - More likely than not
- Possible obligation??
  - Contingent liabilities
- Constructive vs legal
- Onerous contracts

# Provisions vs. Contingent Liabilities

## Provisions are

- liabilities for which
  - The amount or timing
  - For the expenditure that will be undertaken
  - Is uncertain

## Contingent liabilities are

- A possible obligation
  - whose existence will be confirmed by the occurrence or non occurrence
  - Of one or more uncertain events
- A present obligation not recognised because
  - Not probable or
  - Can't measure with reliability
- Legal claims

# Provisions vs. Contingent Liabilities

- Provisions need an OBLIGATING EVENT
  - Gives rise to a present obligation
- Identification of an obligating event
  - Exists where there is no realistic alternative
  - May be a legal obligation
  - May be a constructive obligation
  - Will always involve another party to whom obligation is owed.

# Prov vs CL Decision Diagram

<b>Reasonable estimate</b>	<b>Outflow</b>				
	virtually certain	More likely than not	Likely to as not	Less likely	remote
<b>Can</b>	Raise Prov	Raise Prov	Disclose Cont. Liab.	Disclose Cont. Liab.	Ignore
<b>Can't</b>	Disclose Cont. Liab.	Disclose Cont. Liab.	Disclose Cont. Liab.	Disclose Cont. Liab.	Ignore

- No obligating event = No provision
- Exception 1
  - Uncertain that obligating event has happened
  - Deemed to take place if it is **probable** that there will be an outflow of resources

- Exception 2

- Contingent liability of an acquiree are raised as liabilities in business combinations
- Seen as present obligations of the acquirer
- As implicitly been paid to assume (would have paid more)

# Contingent Liabilities and Business Combinations

- CL of acquiree whose fair valued can be measured reliably be recognised by acquirer
  - How much would third parties charge to assume responsibility
  - Probabilities of various outcomes
- Initial recognition = FV
- Subsequent recognition problematic
  - Higher as per IAS 37 and “amortised cost”

# Identifying provisions

- Distinguishing feature = uncertainty
  - Timing of future expenditure
  - Amount of future expenditure
- Accrued expenses
- **Obligations arising from past events existing independently of entity's future actions**
- Future operating losses
  - Impairment?



- A provision shall be **recognised** when and ONLY when
  - An entity has a legal or constructive obligation
  - To transfer economic benefits
  - As a result of past events, and
  - A reasonable estimate of the amount can be made

- Present obligation exists when
  - There is no realistic alternative
  - Legal or constructive obligation exist
- Constructive obligation =
  - Valid expectation
  - Protect reputation
  - Judgment required

# Measuring provisions

- Best estimate of settlement at Reporting Date
  - Prudent pre-tax basis
  - (careful about being overly conservative)
  - Discount if effects material

- Possible measurement tests
  - How much to settle immediately
  - Probability theory to compute expected value
  - Most likely amount
  - Experts
  - Past experience
- Review each balance sheet date
  - Change in estimate
  - Assess recognition criteria

- Used only for expenditures that related when originally created
- Gains from expected disposals not included, even if closely linked
- Future events
  - Changing technology etc?
- Discounting
  - Record provision at present value

# Provisions for restructuring

Defined as a programme

- that is planned and controlled by management and
- Materially changes
  - The business' scope
  - Manner in which business is conducted
- Could be a discontinued operation (notes)
- Business Combination – only existing prov.

- Onerous contracts
  - Lower of cost of fulfilling contract or penalties etc payable if failure to fulfil
- Reimbursement
  - Cant offset against contingent asset (only raised when virtually certain)
  - Expense can be offset in P&L (net recovery)

# Disclosure - Provisions

- Description
- Expected timing of outflows
- Indication of uncertainty
- Reimbursements?
- Reconcile OB to CB
- Increases in the discounted amount as a result of
  - Changes in discount rate
  - Passage of time
- Exception to disclosure
- Subsequent event announcement of restructuring



# Disclosure – Contingent Liabilities

- Unless outflow remote
- Description
- Information obtainable without undue effort or cost
  - Financial effect
  - Indication of uncertainties
  - Reimbursements?
  - Exception

# Rare exception to rules (prov, CL and CA)

- Would disclose seriously prejudice the position of the entity
- In negotiations with another party
- In respect of a dispute?
  
- If so, disclose:
  - General nature of dispute
  - Fact that info has not been disclosed
  - Reason why.

# Forex

- Impact of inventory
- Gains and losses in P&L
- Hedging
- Financial management
- Risk disclosures

# Revenue and leases

- Where is this going under IFRS for SME's...

# Back to the Standard

# Layout of Standard

- Section 1 – Scope
- Section 2 Concepts and Pervasive Principles
  - Objective of AFS of SME's
  - Qualitative characteristics
    - Understandability, Relevance, Materiality, Reliability, Substance over form, **Prudence**, Completeness, Comparability, **Timeliness**, **Balance between benefit and cost.**

- Financial Position
  - $OE = A - L$
- Performance
  - Income (revenue and gains)
  - Expenses (expenses and losses)
- Recognition
  - Probability
  - Measured with reliability
- Measurement
  - Common models: Historic Cost and Fair Value

- Initial Recognition
  - Cost unless an IFRS statement says otherwise
- Subsequent Measurement
  - Financial assets and liabilities
    - Cost or amortised cost allowed
  - Non financial
    - Allows Fair value
    - **Revaluation of PPE**



- Section 3 : General Standards of AFS Presentation
  - Fair Presentation
  - Compliance with IFRS for SME's (SA Standards of GAAP for SME's)
  - Going Concern
  - Frequency of Reporting – annual
  - Consistency of Presentation
  - Comparative info
  - Materiality and aggregation

# Complete set of AFS

Can use other titles.

Includes:

- Statement of financial position (Balance Sheet)
- Statement of Comprehensive Income (Income Statement)
- Statement of Changes of Equity
- Statement of Cash Flow
- Notes to AFS

# Can use the following: Statement of Income and Retained Earnings

Revenue	
Expenses	
Profit before tax	
Tax	
<b>Profit for the year</b>	
<b>Dividends/ Errors/Change in Policy</b>	
<b>Opening Retained Earnings</b>	
<b>Closing Retained Earnings</b>	

**WARNING**: Only if you don't have any items of revenue or expenses that DOESN'T go straight to equity

# Section 4 : SoFP-Balance Sheet

- Gives minimum disclosable items
- **Current** vs. non-current
  - Normal operating cycle
  - For trading
  - 12 months
  - Liabilities – settled on demand (have no right to extend terms)
- **Only 2 years disclosure required**

- Minimum disclosable items
  - Cash and cash equivalents
  - Trade and other receivables
    - (related parties)
  - Financial assets
  - Inventories
    - Merchandise, production supplies, materials, work in progress and finished goods
  - *Investment Properties @ FV*
  - *Investment Properties @ HDC*
  - PPE

- Minimum disclosable assets cont..
  - Intangible Assets
  - Biological Assets
  - Investments accounted for using the equity method
  - Trade and other payables
  - Financial liabilities
  - Current tax liabilities

- Minimum disclosable assets cont..
  - Provisions
    - Employee benefits
  - Deferred Tax (asset or liability)
  - NCI
  - Equity attributable to the parent
    - Classes of equity (Share capital and share premium, Retained Earnings and NDR's)
    - Normal details

- No prescription as to order, consider
  - Liquidity
  - Function
  - Amount, nature and timing
- *Prior year recon relief extended to share capital and biological assets*
- *Relief fro disclosing acc policy for termination benefits*
- Always welcome to disclose more.
- Other forms of entities



# Section 5 : SoCI Income Statement

- Nature vs. Function
- *Group items in OCI based on whether they are potentially reclassifiable in P&L*
- By function does not require further disclosure of:
  - depreciation,
  - amortisation and
  - employee benefitAs required by full IFRS

- Minimum disclosure
  - Revenue
  - Finance costs
  - Share of profit from associates/joint venture (equity accounted)
  - Tax expense
  - After tax profit/loss on discontinued operations and disposal groups
  - Profit and loss
- Separate disclosure
  - NCI vs. attributable to parent
- **Detailed Income Statement??????**

Section 6 : Statement of Changes in  
Owners Equity (SoCOE) and  
Statement of Income and Retained  
Earnings (SoIRE)

# Section 7 : Cash Flow Statement

- Direct vs. Indirect method

# Section 8 : Notes to the AFS

- Key sources of estimation uncertainty and judgment still there
- *Disclosing reasoning for undue cost or effort exemption*
- All the other usual suspects

# Section 9 : Consolidation

- Its all about **control**
  - Normal criteria
  - Benefit, Power, Link
- Uses Parent extension method
  - Same as always

SC	RE	FV adj	<b>Total</b>	NCI	Inv	(GW)
100	1000	200	<b>1300</b>	130	1500	(330)

# Do we or don't we???

- IFRS for SME's says yes unless:
  - The parent is itself a subsidiary; and
  - Its intermediate/ultimate parent produces consolidated AFS that comply with IFRS or IFRS for SME's)
- Separately disclose and treat as a financial instruments if
  - Subsidiaries were acquired with the intention of disposing of them within 1 year
  - Date of acquisition definition amended

- Reporting dates of parent and subs
  - IFRS for SME's: must be the same *unless impracticable to do so...*
  - Full IFRS: 3 month allowance, adjust for significant adjustments



- When a parent loses **control** of a sub, in calculating gain or loss on disposal
  - IFRS for SME's: proceeds – CA at date of disposal = gain or loss
  - Full IFRS: investment retained is measure at FV at date control lost

- Cumulative forex translation differences in OCI (FCTR)
  - IFRS for SME's: **NOT** reclassified to P&L on disposal of foreign op

- **Disclosures in consolidated AFS**

- Disclose CA of investments in subsidiaries not consolidated at reporting date in SoFP or notes

- Combined financial statements

- **Under common control**

# Separate AFS

- Investment in subsidiary, joint venture, and associate that is not held for sale
- Will be accounted for at
  - **Equity accounted**
  - Cost less impairment, or
  - Fair value through P/L
- Must apply same acc policy for all investments in a single class, but can have different policies for different classes
- Full IFRS = IAS39 FVTPL or AFS

# First Time Adoption



**Time Warp: to Section 35**

**Transition to IFRS for SME's  
(First time adoption)**

# Your are a 1<sup>st</sup> time adopter if:

You followed:

- SA GAAP
- SA GAAP for SME's
- IFRS
- "gaap"

- *An entity applied SME's in previous reporting period,*
  - *but whose most recent previous AFS did not contain an explicit and unreserved statement of compliance*
  - *must either 1<sup>st</sup> time adopt or*
  - *apply SME retrospectively as if no break*
- *Disclose reasons...*
- *Base requirement of change in accounting policy still applies*



# Date of transition

- Defined as:
  - “ the beginning of the earliest period
  - for which an entity presents
  - Full comparative information
  - Under IFRS”

**DATE THAT ALL IFRS CHANGES ARE CALCULATED**

# Picture this.....

Balance Sheet: Adopting 29 Feb 2020 as a reporting year

<b>28 Feb 2018</b>	<b>1 Mar 2018</b>	<b>28 Feb 2019</b>	<b>29 Feb 2020</b>
Previously reported	Transition Balance Sheet	IFRS for SME's	IFRS for SME's

# Key Provisions

- Opening IFRS balance sheet
  - **All IFRS transitions adjustments processed to Retained Earnings**
    - At transition date
- Publish or Perish
  - **Don't** need to publish Opening SoFP
  - **Do** need to publish recon of equity
    - Old (??) to new (IFRS for SME's)

Golden Rule

**RETROSPECTIVE APPLICATION**

Comparatives

Opening IFRS Balance Sheet

# Need to get your Balance Sheet right

- For all assets and liabilities:
- **RECOGNISE** those required by IFRS
- **DERECOGNISE** those not permitted by IFRS
- **RECLASSIFY**
- **MEASURE** using IFRS (NB!!)
- **COMPLY** with P & D
- Clean up balance sheet to **Retained Earnings**

# CAN'T change previous accounting for:

- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Estimates
- Assets classified as held for sale and discontinued operations
- *New: Government loans*
  - *Prospective per SME requirements*

# Buffet of choices: Optional exemptions

- *Event driven FV measurement of deemed costs for all assets or liabilities (EG valuation of a business for a planned sale)*
- Business Combinations
  - Don't need to change retrospective
- PPE
  - Revaluation dated before/at transition date = deemed cost

- Cumulative translation reserves
  - Don't have to retrospectively separate out equity
- Compound financial instruments
  - If liability settled, don't need to split
- Share based payments
  - Exempted if granted before transition date
- Deferred Tax
  - Exempted if undue cost or effort involved



- *Separate financial statements*
  - *Investment in subs, associates, and JV*
  - *FV, cost or equity accounted*
  - *At date of transition*
- *Operations subject to rate regulation*
- *Severe hyperinflation...*
- *Impracticable dilemma*
  - *Disclose challenge*

# Worksheet

<b>Account (TB)</b>	<b>28 Feb 2018</b>	<b>Errors</b>	<b>Adjust</b>	<b>Sub Total</b>	<b>Reclassify</b>	<b>1 Mar 2018</b>
<b>Fin Asset</b>						
<b>RE</b>						

# Disclosure

- Need to explain how transition affected:
  - Financial position
  - Financial performance
  - Cash flows
- Separate out errors from change of policy
  - Did we get PPE right?
  - Financial instruments: Fair value?

# Recons

- Set worksheet up to help with **recon** of
  - **Equity** previously reported to new B/S at transition date **and** latest reported date
  - **Profit or loss** (old GAAP to new IFRS) for latest reported period



**Back to Section 10**

**Change in Accounting Policy and Errors**

# Accounting Policies

# Section 10: Accounting Policies, Estimates and Error

- Change in accounting policy
  - Retrospective
- **Change in policy for PPE – Revaluation**
  - **prospective**
- Material Errors
  - Fundamental...
  - Retrospective
- Change in Estimates
  - Prospective
  - Reallocation methods vs. Cumulative Catch Up

# First Time Adoption

Mandatory Exemption from FULL RETROSPECTIVE application

An entity **shall not change** the accounting that it followed under its **previous** reporting framework for **estimates**



# Choosing an Accounting Policy

# Financial Instruments

# Section 11 and 12: Financial Assets and Liabilities

- Definition?
- Examples.....
- Compound financial instruments

# POLICY CHOICE for recognition and measurement

OR

## IAS 39

- FV through P/L
- Held to Maturity
- Originated by entity
- Available for Sale

## IFRS for SME's

- Amortised cost
- Cost
- Fair valued

## (IFRS 9?? Implications)

Disclosure always IFRS  
for SME's (No IFRS 7!!)

## Liabilities

- Still using cost and fair valuing
- Designate at initial recognition
- Cost or amortised cost (basic FI S11)
  - *Most simple loans will be amortised cost*
    - *Effective interest...*
  - Normal payables, receivables and similar debt instruments
  - Commitments to make or receive loans not settled cash, but the instrument used will be measured at cost
  - Equity instruments that are not publicly traded or **whose FV can otherwise be measured without undue cost or effort**(cost only)

- Initial recognition of basic FI
  - Transaction price, except for
  - Financing transactions which are initially measured at PV of DCF's
  - using market related interest rate for similar instruments
  - EG payments deferred beyond normal business terms or below market interest rates
- Transaction costs included in cost except for FVTPL FI (same as IFRS)
  - Expensed to p&L

- **Subsequent measurement** = amortised cost using effective interest method, **except for:**
  - Investments in non convertible pref shares or non puttable ords or prefs whose FV
    - Can be measured reliably = FVTPL
    - Cannot be measured reliably = cost less impairment
  - Commitments to receive loans
    - = cost less impairment

# *Fair Value Hierarchy*

- Current bid price – price in an active market
- Price in a binding sale agreement
  - Arms length (willing buyer/seller)
  - May need to adjust the price (when??)
- Another valuation technique
- **UNDUE COST OR EFFORT for financial instruments**
  - *No active market*
  - Disclose reasons



# Other financial Instruments S12

- Everything else fair valued through profit or loss (FVTPL)
- Examples
  - Derivatives
  - Hedging instruments
  - Asset backed securities
  - Commitments to
    - Make loans
    - Receive loans – can be settled net in cash

- Initial and subsequent measurement = FAIR VALUE!!
  - No FV adjustments to equity
  - Reclassification required of “Available for Sale”
  - In effect – only listed companies where you can get FV

# In or Out of S12??

- S12 now applies to leases to the extent that they result in losses due to contractual issues unrelated to
  - forex
  - Changes in lease payments based on variable market interest rates, or
  - Default by one of the counterparts
- Extends exclusions to
  - SBP
  - Reimbursement assets under provisions

- Impairment indicators for Financial Instruments
- Impairment – Amortised cost
  - CV – DCF
  - financial assets initial effective interest rate
- Impairment – Cost
  - Cost – FV
  - FV?? Only use cost if not reliably measured
  - Therefore, cost or zero!

- Reversal of impairment
  - Can reverse
  - unlike Big IFRS where
    - impairment losses on equity investments carried at cost can't be reversed

# Hedge Accounting

- Why are we wary of Hedge Accounting?
- What do we need to use Hedge Accounting?
  - Formal documentation (**MUST HAVE**)
    - Hedging relationship
    - Risk hedged
    - Hedged item
    - Hedging instrument
  - But there's a lot more.....

# Hedging – the “Must” List

- The entity **EXPECTS** the hedge to be effective
  - No subsequent testing as with IAS39
- Transaction involves a party **external** to the reporting entity
- Notional amount = designated amount
- **NO** prepayment, early termination, or extension features
- **Specified maturity date**, no later than...

# What can we hedge?

## **IAS 39**

- Cash flow (OCI issues),
- Fair value and
- Net investment in foreign operation (OCI issues)



# Hedging - IFRS for SME's

- **Interest rate risk** on
  - debt instrument (amortised cost)
- **Forex or interest rate risk** on
  - firm commitment or
  - highly probable future transaction
- **Price Risk** of a commodity that it
  - holds or
  - In a firm commitment or
  - highly probable future transaction to purchase or sell a commodity
- **Forex risk**
  - in a net investment in foreign operation

# Other Assets

# Section 13 : Inventories

- As we have always known them
- Ordinary course of business
- Cost determined:
  - FIFO and Weighted Average
  - Standard costs or retail method permitted to approx. Cost
  - Can use most recent purchase price if approx cost – unlike full IFRS
- Measure at: lower of cost, and FV less cost to complete and sell (NRV)

# Biological Assets

- Agricultural assets still fair valued, after harvest becomes cost of asset
  - Needed published price
- Fair value **NOT** readily determinable:
  - Measure at cost less accumulated impairment/depreciation
- *Prior year recon no longer necessary*
- *Disclose why FV not reliably determined without undue cost or effort*

# Section 14 : Investment in Associates

- **Introduced cost vs benefit concept**
- Significant influence:
  - Power to participate
  - 20% presumption

## **Policy choice for Group Accounts**

- Cost method
  - MUST use FV if published price available
- Equity method
- FV through profit or sale - if available

## Cost model in recognising Associates

- Measure at cost less impairments
- Income: only as much as is **distribution** relating to **since acquisition retained earnings**
- **Distributions in excess:**
  - Regarded as recovery of investment
  - Reduces cost of investment

# Section 15: Joint Venturers

## Joint control

- Contractual agreed sharing of control

## Types of Joint Ventures

- Jointly controlled operations
  - no change
- Jointly controlled assets
  - No change
- Jointly controlled entities

## **Policy choice for Group Accounts**

- Cost method
- Equity method
- FV through profit or sale
  
- **Introduced cost vs benefit concept**
- Proportionate consol not permitted!!



# Section 16: Investment Properties

- **No POLICY CHOICE**
  - Different from SA GAAP for SME's
- Deciding factor – is FV available and reliably determined
  - Yes = FV, No = HDC
- Property by property basis
- **Seperate item on the face of SoFP if held at HDC, no longer part of PPE!!!!**

- Move between FV and HDC **not** a change in policy
  - Change in circumstance
  - Not a one way door as with big IFRS
- Property held under operating lease
  - Meets IP definition
  - FV, provided no undue cost or effort
  - Big IFRS = all IP FV accounted

- Disclosure **not** required
  - Comparative recon between OB and CB (just current period required)
  - No cost model disclosure – asset treated as PPE
  - Amounts recognised in P&L
    - Rental income
    - Direct operating expenses
    - Cumulative changes in FV on sale of IP

# Section 17: Property, Plant and Equipment

**Definition**

**Recognition criteria**

*ACCOUNTING POLICY CHOICE:*  
*Cost vs. Revaluations*

- *Standby and spare parts??*
- Initial recognition – cost
  - Purchase price
  - Directly attributable expenses
    - Location, condition and intention
  - Discounts
  - Dismantling and restoration provisions
- Subsequent Expenditure
- Component Accounting
  - Replacement accounting
    - *Not practicable (use replacement as indicator)*
  - inspections

- Subsequent measurement
  - Depreciable amount
  - Residual values
  - Depreciation rates and methods
  - Review only if there is indication have changed

- Revaluation vs. Cost model
  - Whole class of assets
  - IP whose FV can't be established MUST use cost
  - “Sufficient regularity”
  - FV reliably measurable
  - Revaluations and devaluations vs impairments/reversals

- Zero book assets
  - OOPS.....
- Disclosure changes
  - IP: disclose why FV not obtainable
  - For revaluations:
    - Effective date of revaluation
    - Whether independent valuator involved
    - Methods and assumptions
    - CA if assets not revalued
    - Reval surplus – any restrictions on distribution



# Section 18: Intangible assets

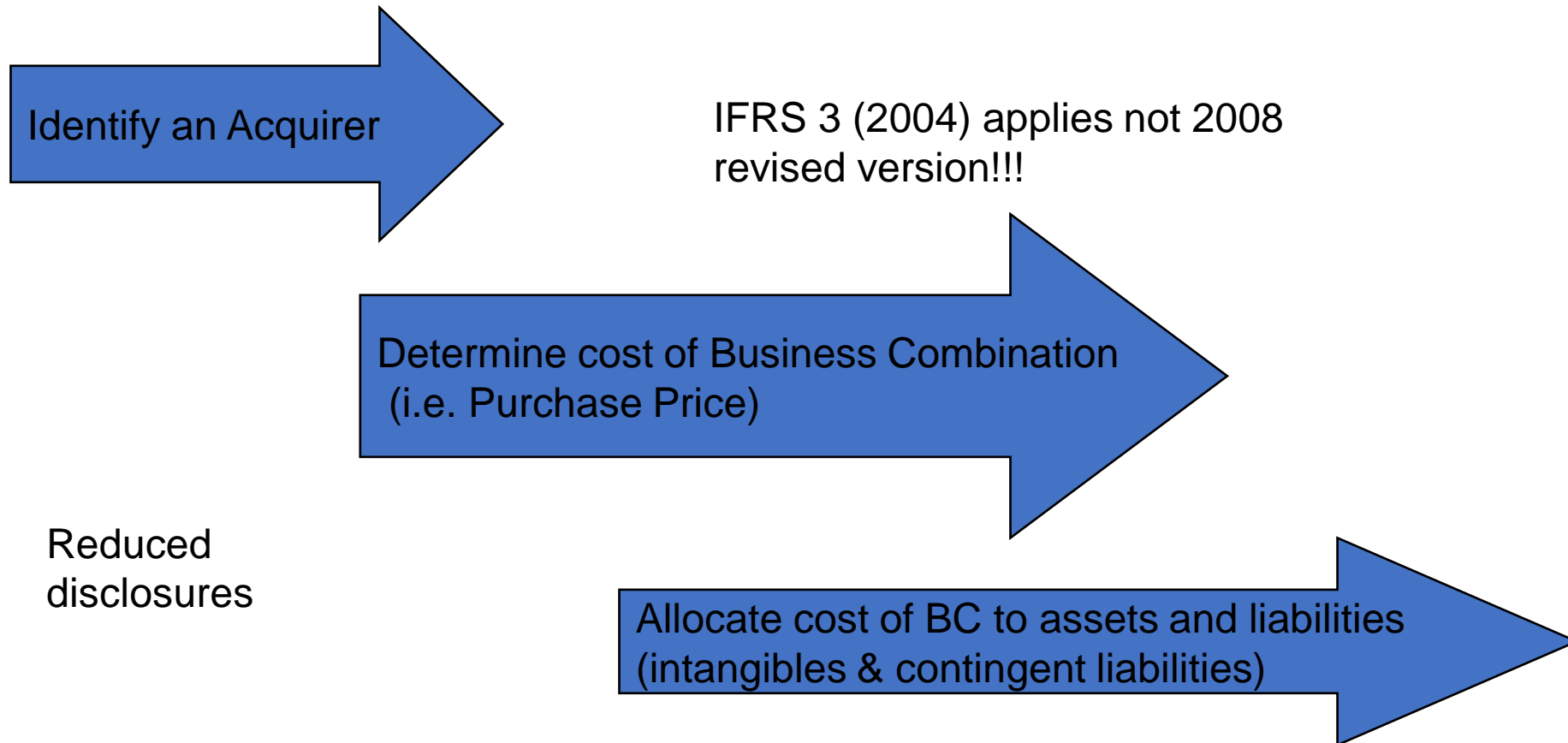
- Definition
- Recognition
  - Internally generated
    - R & D expensed unless capitalised to another asset
  - *Purchased through business combination*
    - *Must be recognised at acquisition unless FV not reliably measurable without undue cost or effort*

- Measurement

- Revaluation – not permitted
- All IA's have finite useful lives
  - *If useful life can not be reliably measured,*
  - *the life shall be determined based on managements best estimate*
  - *but shall NOT exceed 10 years*
- No annual review of useful lives etc

# Section 19: Business Combinations and Goodwill

Still uses the purchase method, meaning:



- Date of acquisitions (new) vs. date of exchange (old)
- Recognising assets and liabilities at FV except for
  - Deferred Tax
  - Employee Benefits
  - Contingent liabilities (only if FV reliably determined)
  - Intangible assets (refer undue cost or effort discussion)
- NCI = their portion of FV of net assets

# Goodwill

- Positive vs. Negative
- Need to disclose useful life and show recon separately
- Need to disclose factors that make up goodwill
- SME's
  - **Amortised** over useful life or 10 years max
  - No annual test for impairment – need indicators

# Section 20: Leases

- Finance vs. Operating
  - Don't need to apply IFRIC's, but IFRIC 4 built in to SME (*shall account for*)
- *Exempt from section – leases included in financial instruments (forex, changes in lease payments based on variable interest rates, or default)*
- Straight line operating leases, unless
  - Payments structured to increase in line with expected general inflation

# Other liabilities (plus debts vs equity)

# Section 21: Provisions and Contingencies

- What are:
  - Provisions
  - Contingent Liabilities
  - Contingent Assets
    - *Undue cost and effort – disclose financial effects of why?*
- No Change, sorry.



# Section 22: Liabilities & Equity

- Substance over legal form
- Unless there is an unconditional right to avoid delivering cash/financial asset to settle a contractual obligation = liability
- Remember to split compound financial instruments
  - Effective interest method to measure liability
  - Aligned with financial instruments

- Issuing of equity to extinguish liability....
  - Renegotiate creditor by issuing equity @ their FV
  - If can't get FV (undue cost and effort), use liability value
  - Part settled – allocate on a reasonable basis
  - Substantially alter liability – potentially new liability
  - Not applicable if related party transaction or original agreement called for equity

- Measuring the liability to pay non cash dividend @ the FV of the assets distributed (difference P&L adj)
  - Exemption from FV measurement if assets controlled by same parties before and after distribution
- Undue cost or effort argument
  - Look at what you know...

- Remember IFRICS don't apply
  - IFRIC 17 Distributions of Non Cash assets to Owners
- Guidance wrt Share Issues
  - Shares issued before consideration received
    - Off set receivable against equity
  - Consideration received before shares issued
    - Equity increased if no obligation to repay
  - Shares subscribed for but no consideration received
    - No increase in equity

# Revenue and other topics

# Section 23: Revenue

## “Ordinary course of business”

- Sale of goods
  - (5 point)
- Rendering of services
  - (4 points)
- Interest
  - (effective interest, time proportion basis)
- Dividends
  - When rights established
- Royalties
  - Per contract
- Includes construction contracts

- Construction of Real Estate
  - Big IFRS = % completion method
- IFRS for SME's = if entity required to provide services with construction material
  - Account for as sale of goods
  - Buyer not considered to obtain control or significant R&R of ownership of WIP
  - Transfer occurs on delivery of completed estate (Rev recog.)

# Revenue Issues

- Measurement
  - Fair value of consideration received
- Discounts?
- Deferred payments
  - Interest income
  - Over 90 days = extended credit



# Section 24 Government Grants

- Applies to all grants
  - No talk about basis or recycling
- Measurement
  - FV of asset received (receivable)
- Unconditional grant straight to income
  - if conditional recognise when conditions met
- Income recognition not met – deferred liability

# Section 25: Borrowing costs

- Expense (*delete - or capitalisation model acceptable*)
- BIG IFRS – Have to capitalise

# Section 26: Share based payments

- Wording clarified
- If choice in settlement
  - Transaction is accounted for as cash settled unless
    - Past practice entity uses equity to settle, or
    - Cash option has no commercial substance
- If SME's parent grants SBP award to employees of SME
  - SME recognises and measures SBP expense
  - based on reasonable allocation of expense recognised to group
- Government mandated plans changed to unidentifiable goods and services

# Section 27: Impairment of Non Financial Assets

- Look for indicator, no mandatory testing
- No indefinite useful life intangibles
- Disclosure relief
  - Just per class of asset in P&L and line item included in (Eg CoS)
  - No narratives about what why when or VIU vs NSP

- Exempts assets under construction contracts
- Adjusted for revaluations
- FV discussion – referred to financial instruments
- Includes the idea of a cash generating unit

# Section 28: Employee benefits

## **Defined benefit schemes**

- Corridor method not permitted
- Simplified approach for calculating PV of DBF obligation
- Comprehensive actuarial valuations not required
- Gains and losses on introduction or changes in plan recognised in P & L in current period
  - Not over vesting period
- Group plans: subs permitted to recognise charge based on reasonable allocation of the group charge
- Significant disclosure relief
  - No sensitivity analysis, no historical info, prior period recon

- Other long term employee benefits
  - Net changes in provision recognised in P&L unless related to cost of another asset
- Termination benefits
  - Don't need to disclose accounting policy

# Section 28: Income taxes

- Updated to be aligned with full IFRS
- Tax base (4 defns) vs tax basis (sale or settlement)
- Valuation allowance? (Probability of recoverability)
- OCI vs profit or loss?
- Offsetting Deferred Tax Assets and Liabilities??



# Section 30: Foreign Currency Translation

- Initial recognition
  - ALWAYS at SPOT
- Subsequent measurement
  - Non monetary
  - Monetary
- *Translation adjustments due to presentation currency can't be recycled*

# Section 31: Financial Reporting in Hyperinflationary Economies

- Inflation exceeds 100% for more than 3 years
- Just explanations and a few minor amendments to align with revaluation change

# Section 32: Events after the end of the period

Okay, this is getting boring – still no change!

Adjusting vs. Non Adjusting

# Section 33: Related party disclosures

Minor amendments

Management fees between group companies??

# Section 34: Specialised industries

- Agriculture
  - still need to Fair Value
- Extractive activities
  - Updated, inserted new paragraphs
- Insurances
  - Can't use IFRS for SME's
    - Why?
- Service Concession arrangements
  - Similar to full IFRS but definitions differ

# Discontinued Operations and Non Current Assets held for sale

- No IFRS 5 equivalent
- No NCAHS classification available
- Decision to sell asset = indicator of impairment
- Certain disclosures are required if
  - binding sale agreement exists for disposal of major part of business

# Earnings Per Share

- Not required, never were required!
- Want to present
  - Go back IAS 33

# Interim Financial Reporting

- Refers you back to IAS 34
- If one time deal, can use prior annual financial statements as comparatives



# Segment Reporting

- Not required
- If you want to present?
  - Go back to BIG IFRS (IFRS 8 Operating segments)
  - Can't do your own thing!

# Section 35: First time adoption

Remember, in essence it:

- Mimics IFRS 1 First Time adoption with IFRS
- Applies to earliest period presented

# QUESTIONS

**THANK YOU FOR YOUR PARTICIPATION**



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