IFRS for small and medium-sized entities

Pocket guide 2009

PricewaterhouseCoopers

PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2009

IFRS technical publications

IFRS manual of accounting 2009
PwC's global IFRS manual provides comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples, extracts from company reports and model financial statements.

A practical guide to capitalisation of borrowing costs
Guidance in question and answer format addressing the challenges of applying IAS 23R, including how to treat specific versus general borrowings, when to start capitalisation and whether the scope exemptions are mandatory or optional.

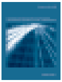
A practical guide to new IFRSs for 2009
40-page guide providing high-level outline of the key requirements of new IFRSs effective in 2009, in question and answer format.

A practical guide to segment reporting
Provides an overview of the key requirements of IFRS 8, 'Operating segments' and some points to consider as entities prepare for the application of this standard for the first time. Includes a question and answer section. See also 'Segment reporting – an opportunity to explain the business' below.

A practical guide to share-based payments
Answers the questions we have been asked by entities and includes practical examples to help management draw similarities between the requirements in the standard and their own share-based payment arrangements. November 2008.

Adopting IFRS – A step-by-step illustration of the transition to IFRS
Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.

Financial instruments under IFRS – A guide through the maze
High-level summary of IAS 32, IAS 39 and IFRS 7, updated in June 2009. For existing IFRS preparers and first-time adopters.



Financial reporting in hyperinflationary economies – understanding IAS 29
2006 update (reflecting impact of IFRIC 7) of a guide for entities applying IAS 29. Provides an overview of the standard's concepts, descriptions of the procedures and an illustrative example of its application.

IAS 39 – Achieving hedge accounting in practice
Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

IAS 39 – Derecognition of financial assets in practice
Explains the requirements of IAS 39, providing answers to frequently asked questions and detailed illustrations of how to apply the requirements to traditional and innovative structures.

IFRS 3R: Impact on earnings – the crucial Q&A for decision-makers
Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP.

IFRS disclosure checklist 2008
Outlines the disclosures required by all IFRSs published up to October 2008.

IFRS for SMEs – pocket guide 2009
Provides a summary of the recognition and measurement requirements in the 'IFRS for small and medium-sized entities' published by the International Accounting Standards Board in July 2009.

IFRS pocket guide 2009
Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

IFRS news
Monthly newsletter focusing on the business implications of the IASB's proposals and new standards. Subscribe by emailing corporatereporting@uk.pwc.com.

Illustrative interim financial information for existing preparers
Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer. Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 March 2009.

Illustrative consolidated financial statements

- Banking, 2006
- Corporate, 2008
- Insurance, 2008
- Investment funds, 2008
- Investment property, 2006
- Private equity, 2008

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

Segment reporting – an opportunity to explain the business
Six-page flyer explaining high-level issues for management to consider when applying IFRS 8, including how the standard will change reporting and what investors want to see.

SIC-12 and FIN 46R – The substance of control
Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.

Understanding financial instruments – A guide to IAS 32, IAS 39 and IFRS 7
Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

Understanding new IFRSs for 2009 – supplement to IFRS Manual of Accounting
455-page publication providing guidance on IAS 1R, IAS 27R, IFRS 3R and IFRS 8, helping you decide whether to early adopt. Chapters on the previous versions of these standards appear in the IFRS Manual.

IFRS for SMEs
Pocket guide – 2009

This pocket guide provides a summary of the recognition and measurement requirements in the 'IFRS for small and medium-sized entities' published by the International Accounting Standards Board in July 2009.

The information in this guide is arranged into nine sections:

1. Accounting framework of the IFRS for SMEs
2. Financial statements
3. Assets and liabilities
4. Business combinations, consolidated financial statements, and investments in associates and joint ventures
5. Liabilities and equity
6. Income and expenses
7. Currencies
8. Specialised activities
9. Main changes from the IFRS for SMEs exposure draft

Introduction

This pocket guide has been produced for potential users of 'International Financial Reporting Standards for small and medium-sized entities' (IFRS for SMEs). An IFRS for SMEs has clear benefits for investors, lenders and those seeking to raise finance through the transparency afforded by a consistently applied global set of financial reporting standards. Such benefits are not confined to the financial statements of entities with securities traded on public capital markets.

The IFRS for SMEs was published in July 2009. It is a matter for authorities in each territory to decide which entities are permitted or even required to apply IFRS for SMEs.

One aim of the IFRS for SMEs is to provide a standard for entities in countries that have no national GAAP. IFRS for SMEs will provide an accounting framework in such countries for entities that are not of the size nor have the resources to adopt full IFRS.

Another aim is to provide countries that already have an established national GAAP with an alternative, IFRS standard that will be recognised and understood across different territories. This will ease transition to full IFRS for growing entities once they become publicly accountable.

The volume of accounting guidance has been reduced by more than 85 per cent compared with the full IFRS. Much of the implementation guidance in full IFRS has been omitted, together with the detailed explanation and requirements relating to the more complex circumstances not usually applicable to SMEs. The IFRS for SMEs does not just reduce disclosure requirements; it also simplifies the recognition and measurement requirements – for example, in connection with financial instruments. When there is a policy choice, the IFRS for SMEs generally adopts the simpler option. IFRS for SMEs is written so that it is complete in itself and contains all the mandatory requirements for SME financial statements.

The term ‘small and medium-sized entities’ has different meanings in different territories. The definition in the context of the IFRS for SMEs is entities that do not have public accountability and publish general purpose financial statements. Every entity has some form of accountability, if only to its owners and the local tax authorities. Public accountability is defined to cover entities with or seeking to have securities traded in a public market or that hold assets in a fiduciary capacity as their main business activity. The definition is therefore based on the nature of an entity rather than on its size.

Where a transaction is not addressed by the IFRS for SMEs, management is expected to use judgement to determine its accounting policy. If such a transaction is covered in full IFRS, management may refer to the appropriate international standard if it wishes but is not required to do so by the IFRS for SMEs.

This pocket book looks at the key areas covered by the IFRS for SMEs and explains the basic requirements. It is written primarily for those who have little or no knowledge of full IFRS but who have a reasonable understanding of basic accounting concepts and terminology.

Contents

1 Accounting framework of the IFRS for SMEs

1.1 Scope

Any entity that publishes general purpose financial statements for external users and does not have public accountability can use the IFRS for SMEs. An entity has ‘public accountability’ if it files or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market or if, as a main part of its business, it holds assets in a fiduciary capacity for a broad group of third parties. Banks, insurance entities, securities brokers, and dealers and pension funds are examples of entities that hold assets in a fiduciary capacity for a broad group of third parties. Note that size is not the determining factor as to which entitles can use the IFRS for SMEs – the applicability is based entirely on whether the entity has public accountability or not.

1.2 Historical cost

The IFRS for SMEs mainly requires items to be measured at their historical cost. However, it requires the revaluation of investment property and biological assets to fair value, where such information is readily available. It also requires certain categories of financial instrument to be measured at fair value. All items are subject to impairment other than those carried at fair value.

1.3 Concepts

Financial statements are prepared on an accruals basis and on the assumption that the entity is a going concern and will continue in operation for the foreseeable future (which is at least 12 months from the end of the reporting period). Their objective is to provide information about the financial position, performance and cash flows of an entity that is useful to users in making economic decisions.

The principal qualitative characteristics that make information provided in financial statements useful to users are understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and achieving a balance between benefit and cost.

Information is material if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements.

Materiality depends on the size of the omission or misstatement judged in the particular circumstances.

1.4 Fair presentation

Financial statements should show a true and fair view, or present fairly the financial position, of an entity's performance and changes in financial position. This is achieved by applying the IFRS for SMEs and the principal qualitative characteristics explained in Section 1.3.

Entities are permitted to depart from the IFRS for SMEs only in extremely rare circumstances, if management concludes that compliance with one of the requirements would be so misleading as to conflict with the objective of the financial statements. The nature, reason and financial impact of the departure should be explained in the financial statements.

1.5 First-time adoption

A first-time adopter of the IFRS for SMEs is an entity that presents its annual financial statements in accordance with the IFRS for SMEs for the first time, regardless of whether its previous accounting framework was full IFRS or another set of generally accepted accounting principles.

First-time adoption requires full retrospective application of the IFRS for SMEs effective at the reporting date for an entity's first financial statements prepared in accordance with the IFRS for SMEs. To facilitate transition, there are 10 specific optional exemptions, one general exemption and five mandatory exceptions to the requirement for retrospective application.

The mandatory exceptions that a first-time adopter of the IFRS for SMEs must take relate to the accounting that it followed previously for derecognition of financial assets and financial liabilities, hedge accounting estimates discontinued operations and measuring of non-controlling interests.

There are 10 optional exemptions from the requirement for retrospective application. These relate to business combinations; share-based payment transactions; fair value as deemed cost for certain non-current assets; revaluation as deemed costs for certain non-current assets; cumulative translation differences; provisions relating to separate financial statements;

compound financial instruments; deferred income tax; service concession arrangements; and extractive activities.

The general exemption from retrospective application is on grounds of impracticability. The glossary defines ‘impracticable’ as being ‘when the entity cannot apply a requirement after making every reasonable effort to do so’.

Comparative information is prepared and presented on the basis of the IFRS for SMEs. Adjustments arising from the first-time application of the IFRS for SMEs are recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to the IFRS for SMEs.

If management chooses not to apply the IFRS for SMEs in some future period and then subsequently reverts to it, the concessions on first-time adoption are not available.

1.6 Selection of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Where the IFRS for SMEs does not specifically address a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy. This information must be relevant to the users’ needs and reliable. ‘Reliability’ means that the financial statements represent faithfully the financial position, financial performance and cash flows of the entity, reflect the economic substance of transactions, and are neutral, prudent and complete in all material respects (see Section 2.6).

2 Financial statements

The objective of financial statements is to provide information for economic decisions. A complete set of financial statements comprises 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 explanatory notes (including accounting policies).

There is no prescribed format for the financial statements. However, the Implementation Guidance for the IFRS for SMEs includes a full illustrative set of financial statements and a disclosure checklist. There are minimum disclosures to be made on the face of the financial statements as well as in the notes.

Financial statements disclose corresponding information for the preceding period ('comparatives'), unless there are other specific requirements.

2.1 Statement of financial position

The statement of financial position presents an entity's assets, liabilities and equity at a specific time.

Items presented in the statement of financial position

The following items, as a minimum, are presented in the statement of financial position.

- Assets – property, plant and equipment; investment property intangible assets; financial assets; investments; biological assets; deferred tax assets; current tax assets; inventories; trade and other receivables; and cash and cash equivalents.
- Equity – equity attributable to the owners of the parent; and non-controlling interests presented separately from the owner equity interests.
- Liabilities – deferred tax liabilities; current tax liabilities; financial liabilities; provisions; and trade and other payables.

Current/non-current distinction

Current and non-current assets and current and non-current liabilities are presented as separate classifications in the statement of financial position, unless presentation based on liquidity provides reliable and more relevant information.

An asset is classified as current if it is expected to be realised, sold or consumed in the entity's normal operating cycle (irrespective of length); primarily held for the purpose of being traded; expected to be realised within 12 months after the end of the reporting period; or is cash or cash equivalents (that is not restricted to beyond 12 months after the end of the reporting period).

A liability is classified as current if it is expected to be settled in the entity's normal operating cycle; primarily held for the purpose of being traded; due to be settled within 12 months after the end of the reporting period; or the entity does not have an unconditional right to defer settlement of the liability until at least 12 months after the end of the reporting period.

2.2 Statement of comprehensive income and income statement

Management can choose whether to present its total comprehensive income in one or two financial statements. A single statement of comprehensive income presents all items of income and expense in the period in the one statement; the two-statement approach comprises an income statement (including all items of income and expense recognised in the period except those recognised outside profit or loss) and a statement of comprehensive income (which presents the items recognised outside profit or loss). Changing between one and two statements is a change of accounting policy and is presented as such.

Items to be presented in the statement of comprehensive income

Management presents all income and expense recognised in a period either in a single statement of comprehensive income or in two statements.

Financial statements

The following items, as a minimum, are presented in the income statement:

- Revenue.
- Finance costs.
- Share of the profit or loss of associates and joint ventures accounted for using the equity method.
- Tax expense.
- A single item comprising the total of (1) the post-tax profit or loss of discontinued operations, and (2) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the net assets constituting the discontinued operation, and profit and loss for the period.

The statement of comprehensive income then starts with the profit or loss for the period and includes each item of other comprehensive income, share of the other comprehensive income of associates and jointly controlled entities and total comprehensive income.

If the single statement presentation is used, the same details are included in a single statement, which must include a subtotal of profit or loss for the period.

Under both approaches, profit or loss for the period is allocated to the amount attributable to non-controlling interest and to the owners of the parent.

Additional line items or subheadings are presented when such presentation is relevant to an understanding of the entity’s financial performance.

An analysis of total expenses is presented using a classification based on either the nature or function of expenses within the entity, whichever provides information that is reliable and more relevant.

Material and extraordinary items

The IFRS for SMEs requires the separate disclosure of items of income and expenses that are material. Disclosure may be in the statement of comprehensive income or in the notes. Such income and expenses may include restructuring costs; write-downs of inventories or property, plant and equipment (PPE); discontinued operations; litigation settlements;

reversals of provisions; and gains or losses on disposals of PPE and investments.

Extraordinary items are not permitted.

2.3 Statement of changes in equity

The statement of changes in equity presents a reconciliation of equity items between the beginning and end of the reporting period.

The following items are presented in the statement of changes in equity:

- Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests.
- For each component of equity, the effects of changes in accounting policies and corrections of material prior-period errors.
- For each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing changes resulting from (1) profit or loss, (2) each item of other comprehensive income, and (3) transactions with owners that do not result in a loss of control.

Details of distributions, the balance of retained earnings and a reconciliation of the carrying amount of each class of equity and each item recognised directly in equity are presented either in the statement of changes in equity or in the notes to the financial statements.

2.4 Statement of income and retained earnings

In many cases, the only changes to the equity of an entity during the period will be in:

- Income for the period.
- Retained earnings at the start of the period.
- Dividends declared and paid or payable during the period.
- Restatement of retained earnings for correction of prior-period errors.
- Restatement of retained earnings for changes in accounting policy.
- Retained earnings at the end of the period.

Where this occurs, management is permitted to present a statement of income and retained earnings in place of both the statement of comprehensive income and statement of changes in equity. If management is using the two performance statement approach, this does not remove the requirement for an income statement.

2.5 Statement of cash flows

The statement of cash flows presents the generation and use of cash by category (operating, investing and finance) over the reporting period.

Operating activities are the entity's principal revenue-producing activities. Investing activities are the acquisition and disposal of long-term assets (including business combinations) and investments. Financing activities are changes in equity and borrowings.

Management may present operating cash flows by using either the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital) or the direct method (gross cash receipts and payments).

Non-cash transactions include impairment losses or reversals, depreciation, amortisation, unrealised fair value gains and losses, and income statement charges for provisions.

Cash flows from investing and financing activities are reported separately gross (that is, gross cash receipts and gross cash payments).

2.6 Accounting policies, estimates and errors

If the IFRS for SMEs specifically addresses a transaction, other event or condition, an entity applies the IFRS for SMEs. However, if it does not, management uses its judgement in developing and applying an accounting policy that results in information that meets the qualitative characteristics explained in Section 1. Where there is no relevant guidance, management considers the applicability of the following sources, in descending order: the requirements and guidance in the IFRS for SMEs for similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in Section 2. Management may also, but is not obliged to, consider full IFRS.

Management chooses and applies consistently its accounting policies. They are applied consistently to similar transactions and events.

Changes in accounting policies

Changes in accounting policies as a result of an amendment to the IFRS for SMEs standard are accounted for in accordance with the transition provisions of that amendment. When specific transition provisions do not exist, management follows the same procedures as for correction of prior-period errors explained below.

When the IFRS for SMEs provides a choice of accounting policy for a specific transaction and management changes its choice, this is a change of accounting policy.

Critical accounting estimates and judgements

An entity discloses the nature and carrying amount of those assets and liabilities for which judgements, estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts within the next financial period.

Changes in accounting estimates

Changes in accounting estimates are recognised prospectively by including the effects in profit or loss in the period that is affected (that is, the period of the change and future periods, where relevant) except if the change in estimate gives rise to changes in assets, liabilities or equity. In this case, it is recognised by adjusting the carrying amount of the related asset, liability or equity in the period of the change.

Corrections of prior-period errors

Errors may arise from mistakes and oversights or misinterpretation of available information.

Material prior-period errors are adjusted retrospectively (that is, by adjusting opening retained earnings and the related comparatives). There is an exception when it is impracticable to determine either the period-specific effects or the cumulative effect of the error. In the latter case, management corrects such errors prospectively from the earliest date practicable. The error and effect of its correction on the financial statements are disclosed.

2.7 Notes to the financial statements

The notes are an integral part of the financial statements. Information presented in an entity's statement of financial position, statement of comprehensive income, statement of changes in equity (or statement of income and retained earnings) and statement of cash flows are cross-referenced to the relevant notes where possible.

Notes provide additional information to the amounts disclosed on the face of the primary statements. The following disclosures are included, as a minimum, within the notes to the financial statements:

- A statement of compliance with the IFRS for SMEs.
- Accounting policies.
- Critical accounting estimates and judgements.
- Information not presented in the primary statements but required by the IFRS for SMEs.

Changes in accounting policies, changes in accounting estimates and information about externally imposed capital requirements are also disclosed where applicable.

2.8 Related parties

The main categories of related parties are:

- Subsidiaries.
- Fellow subsidiaries.
- Associates.
- Joint ventures.
- Key management personnel of the entity and its parent (which include close members of their families).
- Parties with control or joint control or significant influence over the entity (which include close members of their families, where applicable).
- Post-employment benefit plans.

Related parties exclude finance providers and governments in the course of their normal dealings with the entity. There is also an exemption from the disclosure requirements where there is state control over the entity.

The names of the immediate parent and the ultimate controlling parties (which could be an individual or a group of individuals) are disclosed irrespective of whether there have been transactions with those related parties.

Where there have been related-party transactions, disclosure is made of the nature of the relationship, the amount of transactions, and outstanding balances and other elements necessary for a clear understanding of the financial statements (for example, volume and amounts of transactions, amounts outstanding and pricing policies). The disclosure is made by certain categories of related party and by major types of transaction. Items of a similar nature may be disclosed in aggregate (for example, short-term employee benefits) except when separate disclosure is necessary for an understanding of the effects of related-party transactions on the entity's financial statements.

Disclosures that related-party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

2.9 Events after the end of the reporting period

Events after the end of the reporting period may qualify as adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the end of the reporting period and lead to adjustments to the financial statements. Non-adjusting events relate to conditions that arose after the end of the reporting period and do not lead to adjustments, only to disclosures in the financial statements.

Dividends proposed or declared after the end of the reporting period are not recognised as a liability in the reporting period.

Management discloses the date on which the financial statements were authorised for issue and who gave that authorisation. If the owners or other persons have the power to amend the financial statements after issue, this fact is also disclosed.

3 Assets and liabilities

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The recognition of an asset or a liability depends on whether it is probable that any future economic benefit associated with the item will flow to or from the entity, and whether the item has a cost or value that can be measured reliably.

3.1 Non-financial assets

Inventories

Inventories are initially recognised at cost. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and conditions.

Cost of purchase of inventories includes the purchase price, import duties, non-refundable taxes, transport and handling costs and any other directly attributable costs less trade discounts, rebates and similar items.

Inventories are subsequently valued at the lower of (a) cost, and (b) selling price, less costs to complete and sell.

The cost of inventories used is assigned by using either the first-in, first-out (FIFO) or weighted average cost formula. Last-in, first-out (LIFO) is not permitted. The same cost formula is used for all inventories that have a similar nature and use to the entity. Different cost formulae may be justified where inventories have a different nature or use.

Investment property

Investment property is a property (land or a building, or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. A property interest held for use in the production or supply of goods or services or for administrative purposes is not an investment property, nor is an interest held for sale in the ordinary course of business.

Initial measurement

The cost of a purchased investment property is its purchase price plus any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs.

Subsequent measurement

Where the fair value of investment property can be measured reliably, without undue cost or effort, an entity carries such property at fair value, with changes in fair value recognised in profit or loss. Where fair value is no longer available without undue cost or effort, the property is deemed to be an item of property, plant and equipment and its accounting follows accordingly. Management should use the latest available fair value as its deemed cost until a reliable measure of fair value becomes available again. When an investment property interest is held under a lease, only the interest in the lease is recognised, not the underlying property.

Where investment properties are carried at cost, the property is treated as part of property, plant and equipment (PPE).

Transfers to or from investment property apply when the property meets or ceases to meet the definition of an investment property.

Property, plant and equipment

PPE consists of tangible assets that: (a) are held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and (b) are expected to be used during more than one period. This section also applies to investment property carried at cost as a result of undue cost or effort preventing it being carried at fair value.

Initial measurement

PPE is measured initially at cost. Cost includes: (a) purchase price, including legal and brokerage fees, import duties and other non-refundable taxes (net of discounts and rebates); (b) any directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which its is located.

Subsequent measurement

Classes of PPE are carried at cost less accumulated depreciation and any accumulated impairment losses. The depreciable amount of an item of PPE (being the gross carrying value less the estimated residual value) is depreciated on a systematic basis over its useful life.

PPE may have significant parts with different useful lives. Depreciation is calculated based on each individual part's life. Significant parts that have the same useful life and depreciation method may be grouped in determining the depreciation charge.

The cost of a major inspection or replacement of parts of an item occurring at regular intervals over its useful life is capitalised to the extent that it meets the recognition criteria of an asset. The carrying amount of the previous inspection or parts replaced is derecognised.

Intangible assets other than goodwill

An intangible asset is an identifiable non-monetary asset without physical substance. The identifiability criterion is met when the intangible asset is separable (that is, it can be sold, transferred, licensed, rented or exchanged), or where it arises from contractual or other legal rights.

Recognition

Expenditure on intangibles is recognised as an asset when it meets the recognition criteria of an asset.

Initial measurement of separately acquired intangible assets

Intangible assets are measured initially at cost. Cost includes (a) the purchase price (including import duties and non-refundable purchase taxes, net of trade discounts and rebates); and (b) any costs directly attributable to preparing the assets for its intended use.

Internally generated intangible assets

Internal expenditure arising on intangible assets, including any expenditure from research and development activities, is recognised as an expense, unless that expense forms part of the cost of another asset that meets the asset recognition criterion in the IFRS for SMEs. In such a case, the expenditure is added to that asset and measured subsequently in accordance with the requirements of the IFRS for SMEs.

The recognition criteria are strict. Most costs relating to internally generated intangible items cannot be capitalised and are recognised as an expense as incurred. Examples of such costs include start-up costs, training, advertising and relocation costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles and items similar in substance are not recognised as assets.

Subsequent measurement

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a systematic basis over the useful lives of the intangibles. This life is determined based on the contractual period of the asset or on other legal rights and cannot be indefinite. Where management cannot determine the useful life, that life is presumed to be 10 years.

The residual value of such assets at the end of their useful lives is assumed to be zero, unless there is either a commitment by a third party to purchase the asset or there is an active market for the asset.

3.2 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument is recognised when the entity becomes a party to its contractual provisions.

The IFRS for SMEs splits the financial instruments requirements into two sections: section 11 on basic financial instruments; and section 12 on additional financial instrument issues. Section 11 applies to all entities within the scope of the IFRS for SMEs; section 12 only affects larger and more complex entities.

Management has a choice of either applying the provisions of sections 11 and 12 of the IFRS for SMEs or applying the recognition and measurement provisions of IAS 39, ‘Financial instruments: Recognition and measurement’, but the disclosure requirements of the IFRS for SMEs.

It is likely that the accounting policy choice of opting to apply IAS 39 will only be taken by entities that belong to groups where the parent reports under full IFRS.

Basic financial instruments

Basic financial instruments are: cash; simple debt instruments (such as loans payable or receivable); a commitment to receive a loan; and an investment in non-convertible preference shares and non-puttable ordinary and preference shares.

A debt instrument qualifies as basic if it satisfies the following conditions:

- Unleveraged returns to holders that are easily determined;
- No contractual provision that could, by its terms, result in the holder losing the principal amount or interest attributable to the current or prior periods;
- Contractual terms that permit early repayment are not contingent on future events; and
- No conditional returns or repayment provisions other than those listed above.

Examples of basic debt instruments include demand deposits, accounts and loans payable and receivable, commercial paper, bonds and similar debt instruments.

Initial measurement

On initial recognition, a basic financial instrument is measured at transaction price, unless the arrangement is in effect a financing transaction. In this case, it is the present value of the future payment discounted using a market rate.

Subsequent measurement

At the end of each reporting period basic financial instruments are measured as follows:

- Debt instruments at amortised cost using the effective interest rate method.
- Commitments to receive a loan at cost (which could be nil) less impairment.
- Investments in non-convertible or non-puttable shares at fair value if the shares are publicly traded or fair value can be measured reliably, otherwise at cost less impairment.

Fair value

Fair value is calculated in accordance with the following hierarchy:

- The quoted price for an identical asset in an active market.
- If no active market exists, the price of a recent transaction for an identical asset.
- If neither of the above applies, by use of a valuation technique.

Impairment of financial instruments measured at cost or amortised cost

Where there is any objective evidence of impairment of financial assets measured at cost or amortised cost, an impairment loss is recognised immediately in profit or loss.

Assets and liabilities

For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. Where an asset is measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset in a sale at the reporting date.

Derecognition of financial assets

An entity only derecognises a financial asset when:

- The rights to the cash flows from the assets have expired or are settled;
- The entity has transferred substantially all the risks and rewards relating to the financial asset; or
- It has retained some significant risks and rewards but has transferred control of the asset to another party. The asset is therefore derecognised, and any rights and obligation created or retained are recognised.

Derecognition of financial liabilities

Financial liabilities are derecognised only when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Additional issues relating to financial instruments

All financial instruments in the scope of section 12 are measured at fair value both on initial recognition and at each reporting date except for situations where there is no longer a reliable measure of fair value. In this case, an entity continues to carry that instrument at its last available fair value, which is treated as cost, subject to impairment, until the instrument is derecognised or its fair value becomes available.

Hedge accounting

An entity may establish a hedging relationship, designating a hedging instrument and a hedged item in such a way that the criteria below are met and apply hedge accounting. This means that the gain or loss related to the hedged risks on the hedged item and hedging instrument are recognised in profit or loss at the same time.

A hedging instrument:

- Can take form of an interest rate swap, a foreign currency swap, a foreign currency or commodity forward exchange contract that is expected to be highly effective in offsetting the risk designated as the hedged risk.
- Involves a party external to the entity.
- Has a notional amount equal to the designated amount of the principal or notional amount of the hedged item.
- Has a specified maturity date no later than the maturity of the item being hedged, the expected settlement of a commodity transaction being hedged or the occurrence of the highly probably forecast transaction being hedged.
- Has no pre-payment, early termination or extension facilities.

To qualify for hedge accounting, an entity:

- Documents at the inception of the hedge the relationship between designated hedging instruments and hedged items;
- Identifies the risk hedged as:
  - an interest rate risk;
  - a foreign exchange rate in a firm commitment or a highly probable forecast transaction, or in a net investment in a foreign operation; or
  - a price risk of a commodity; and
- Expects the hedging instrument to be highly effective in offsetting the designated hedged risk.

The effectiveness of a hedge is the degree to which changes in fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

The entity documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For a fair value hedge (hedge of fixed interest risk or of commodity price risk of a commodity held), the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in profit or loss to offset the impact of the hedging instrument.

Gains and losses on instruments qualifying as cash flow hedges (hedges of variable interest rate risk or foreign exchange risk, or hedge of a net investment in a foreign operation) are included in equity and recycled to profit or loss when the hedged item affects profit or loss, or are used to adjust the carrying amount of an asset or liability at acquisition.

3.3 Impairment of non-financial assets

Assets are subject to an impairment test according to the requirements outlined below, with the following exceptions: deferred tax assets, employee benefit assets, financial assets, investment properties carried at fair value, and biological assets carried at fair value less estimated costs to sell.

Impairment of inventories

Inventories are assessed for impairment at each reporting date by comparing the carrying amount with the selling price less costs to complete and sell. Management then reassesses the selling price, less costs to complete and sell in each subsequent period, to determine if the impairment loss previously recognised should be reversed.

Impairment of assets other than inventories

An asset is impaired when its recoverable amount is less than its carrying amount. The reduction is an impairment loss and is recognised immediately in profit or loss.

Assets (including goodwill) are tested for impairment where there is an indication that the asset may be impaired. Existence of impairment indicators is assessed at each reporting date.

External indications of impairment include a decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment, increases in market interest rates, or when the entity's net asset value is above the value that might be expected in a sale of the entity.

Internal indications include evidence of obsolescence or physical damage of an asset, changes in the way an asset is used (for example, due to restructuring or discontinued operations) or evidence from internal reporting that the economic performance of an asset is, or will be, worse than expected.

When performing the impairment test of an asset, management estimates the fair value less costs to sell. The best evidence for this is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. Failing that, the value is based on the best available information to reflect the amount that an entity could obtain at the reporting date from disposal of the asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

The fair value of goodwill is derived from measurement of the fair value of the larger group of assets to which the goodwill belonged. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the acquirer's cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units.

At each reporting date after recognition of the impairment loss, management assesses whether there is any indication that an impairment loss may have decreased or may no longer exist. The impairment loss, other than goodwill, is reversed if the fair value less cost to sell of an asset exceeds its carrying amount. The amount of the reversal is subject to certain limitations. Goodwill impairment can never be reversed.

3.4 Provisions and contingencies

Recognition and initial measurement

A provision is recognised only when: the entity has a present obligation to transfer economic benefits as a result of a past event; it is probable (more likely than not) that an entity will be required to transfer economic benefits in settlement of the obligation; and the amount of the obligation can be estimated reliably.

The amount recognised as a provision is the best estimate of the amount required to settle the obligation at the reporting date. Where material, the amount of the provision is the present value of the amount expected to be required to settle the obligation.

A present obligation arising from a past event may take the form either of a legal or constructive obligation. An obligating event leaves management no realistic alternative to settling the obligation. If management can avoid the future expenditure by its future actions, it has no present obligation, and no provision is required. For example, management cannot recognise a provision based solely on intent or legislative requirement to incur expenditure at some future date.

When some or all of the amount required to settle a provision is reimbursed by another party, management recognises the reimbursement as a separate asset only when it is virtually certain that it will receive the reimbursement on settlement of the obligation. The reimbursement receivable is presented on the statement of financial position as an asset and is not offset against the provision. The amount of any expected reimbursement is disclosed. Net presentation is permitted in the statement of comprehensive income.

Management reviews provisions at each reporting date and adjusts them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date.

Contingent liabilities

A contingent liability is either a possible but uncertain obligation, or a present obligation that is not recognised as a liability because either it is not probable an outflow will occur or the amount cannot be measured reliably. Management does not recognise (but discloses) a contingent liability as a liability unless it has been acquired in a business combination.

Contingent assets

Contingent assets are not recognised. When the realisation of benefits is virtually certain, the related asset is not a contingent asset but meets the definition of asset and is recognised as such.

3.5 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by its employees. These benefits include salary-related benefits (such as wages, salaries, profit-sharing, bonuses, long-service leave and share-based payments), termination benefits (such as severance or redundancy pay) and post-employment benefits (such as retirement benefit plans).

Post-employment benefits include pensions, termination indemnities, post-employment life insurance and post-employment medical care. Pensions and termination indemnities are provided to employees through either defined contribution plans or defined benefit plans.

Whether an arrangement is a defined contribution plan or a defined benefit plan depends on its terms and conditions.

A defined contribution plan is a pension plan under which the entity pays fixed contributions into a separate entity. The entity has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Special consideration needs to be given to multi-employer and State plans, which are classified as defined contribution or defined benefit plans depending on the terms. However, where there is insufficient information available to use defined benefit accounting, defined contribution accounting is applied with additional disclosures.

Recognition and measurement: defined contribution plans

The cost of defined contribution plans is the contribution payable by the employer for that accounting period.

Recognition and measurement: defined benefit plans

The accrued benefit valuation method (the projected unit credit method) is required to be used for calculating defined benefit obligations where an entity is able to do so without undue cost and effort. Under this method, each period of service is considered to give rise to an additional unit of benefit entitlement, and each unit is measured separately to build up the final obligation.

Where the projected unit method is not used because of undue cost and effort, management is permitted to measure its obligations by making some simplifications by ignoring estimated future salary increases, future service and possible in-service mortality of current employees.

It is normal practice for entities to engage an actuary to perform the actuarial valuation needed to calculate its defined benefit obligation. However, the IFRS for SMEs does not require an actuary to be engaged. The defined benefit obligation is recorded at present values, taking into account future salary increases and using a discount rate derived from the yield on high-quality corporate bonds with a maturity consistent with the expected maturity of the obligations. In countries where no deep market in high-quality corporate bonds exists, the yield on government bonds is used.

Assets held by a long-term employee benefit fund and qualifying insurance policies are referred to as plan assets. These plan assets are subtracted from the defined benefit obligation to determine the net defined benefit liability. If this results in a net asset (surplus), this surplus can only be recognised to the extent that an entity is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Costs relating to defined benefit plans are recognised in profit or loss, unless the entity chooses to recognise actuarial gains and losses in other comprehensive income (OCI). That is, the part of the cost that relates to the re-measurement of the liability can be presented in OCI, but all other elements of the cost are recognised in the income statement.

Note: an actuary uses many assumptions in projecting how the assets and liabilities of the pension scheme will change over time. These assumptions include items such as mortality and discount rates and investment returns. The difference between the result projected by the actuary and the result actually achieved by the plan is referred to as the 'experienced actuarial gain' (if positive) or loss (if negative). A difference also arises because the underlying actuarial assumptions also change – for example, mortality rates have improved with people living longer. These changes in assumptions also result in a difference. These two differences taken together are referred to as the actuarial gain (or loss).

If a defined benefit plan has been introduced or amended in a period, the increase or decrease in the entity's defined benefit liability is recognised as an increase or decrease in profit or loss in that period. Gains and losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the curtailment or settlement occurs.

Other long-term benefits

The IFRS for SMEs also covers other long-term benefits, including long-service and sabbatical leave, jubilee and other long-service benefits, long-term disability benefits and compensation and bonus payments paid after 12 months or more after the end of the period in which they are earned. They are recognised as liabilities and are measured at the present value of the benefit obligation at the reporting date, less the fair value of any plan assets out of which obligations are to be settled directly.

3.6 Income taxes

Current tax is recognised as a current liability for tax payable on taxable profit for the current and past periods. It is measured at an amount that includes the effect of possible review by the tax authorities.

Management recognises (a) a deferred tax liability for temporary differences that are expected to increase taxable profit in future; (b) a deferred tax asset for temporary differences that are expected to reduce taxable profit in the future; and (c) a deferred tax asset for the carry-forward of unused tax losses and unused tax credits. This applies to all such items except for (a) unremitted earnings of investments in foreign subsidiaries, branches, associates and joint ventures, provided that the investment is of a permanent duration and it is unlikely that the temporary difference will reverse in the foreseeable future; and (b) a temporary difference arising from the initial recognition of goodwill.

Temporary deferred tax differences arise in a number of circumstances – for example:

- Where differences occur between the tax base of an asset or a liability and its carrying amount in the accounts.

- Where an item is recognised in the computation of profit for tax purposes in one accounting period and is recognised in the statement of comprehensive income in another period.

They also arise in certain other circumstances.

Current and deferred tax is recognised as a tax expense in profit or loss, unless the tax arises from an item recognised as other comprehensive income or directly in equity. In this case, the tax follows the recognition basis of the item from which it arises.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that apply or have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are not discounted. Management recognises a valuation allowance against deferred tax assets that are not likely to be recovered.

Where an entity is subject to different tax rates depending on different levels of taxable income, deferred tax assets and liabilities are measured at the average enacted or substantively enacted tax rate applicable to the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled.

Tax relating to dividends that is paid or payable to taxation authorities on behalf of the owners (for example, withholding tax) is charged to equity as part of the dividends.

3.7 Leases

A lease is an agreement in which the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time.

A lease is classified at inception as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership. All other leases are treated as operating leases. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form of the contract.

For sale-and-lease-back transactions resulting in a lease-back of a finance lease, any gain realised by the seller-lessee on the transaction is deferred and amortised through profit or loss over the lease term. Where the transaction results in an operating lease and the transaction is at fair value, any profit or loss is recognised immediately or deferred and amortised over the period the asset is expected to be used.

Lessee

A lessee in a finance lease records an asset and a liability in its financial statements at amounts equal to fair value of the leased property, or, if lower, at the present value of the leased property. The lessee depreciates this asset in accordance with its depreciation policy for similar assets or over the lease term if shorter. The lessee apportions minimum lease payments between finance charge and reduction of the outstanding liability.

The lessee in an operating lease records the rental payments as expense on a straight-line basis over the lease term unless either another systematic basis is more representative of the time pattern of the user's benefit or the payments are structured to increase with expected general inflation.

Lessor

The lessor records an asset leased under a finance lease at an amount equal to the net investment in the lease This is the gross investment in the lease, discounted at the interest rate implicit in the lease.

The lessor records operating lease assets according to the nature of the assets and depreciates them on a basis consistent with the normal depreciation policy for similar owned assets. Rental income is recognised on a straight-line basis over the lease term unless either another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished or the payments are structured to increase with expected general inflation.

4 Business combinations, consolidated financial statements, and investments in associates and joint ventures

4.1 Business combinations

Business combinations are the bringing together of separate entities or businesses into one entity. An acquirer is identified in all cases, and that entity obtains control of one or more other entities or businesses (the acquiree). Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.

A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase of the equity of another entity; the purchase of all the net assets of another entity; the assumption of the liabilities of another entity; or the purchase of some of the net assets of another entity that together form one or more businesses. It may be achieved by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a combination thereof. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

Business combinations between entities under common control are not covered by the IFRS for SMEs.

All business combinations are accounted for by applying the purchase method. The steps in applying the purchase method are: (1) identify the acquirer; (2) measure the cost of the business combination; and (3) allocate the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed at the acquisition date.

The cost of a business combination includes the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree, and any directly attributable costs. These costs are allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that date, except for non-current assets that are classified as held for sale. These are measured at fair value less costs to sell.

The criteria for recognition of items acquired are as follows:

- Assets other than intangible assets are recognised when it is probable that any associated future economic benefits will flow to the acquirer and their fair value can be measured reliably.
- Liabilities other than contingent liabilities are recognised when it is probable that an outflow of resources will be required to settle the obligation and their fair value can be measured reliably.
- Intangible assets or contingent liabilities are recognised when their fair value can be measured reliably.

Goodwill (the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities) is recognised as an intangible asset at the acquisition date. After initial recognition, the goodwill is measured at cost less accumulated amortisation and less any accumulated impairment losses. The useful life of goodwill cannot be indefinite; where an entity is unable to make a reliable estimate, the life is presumed to be 10 years.

Negative goodwill is recognised in profit or loss immediately after management has reassessed the identification and measurement of identifiable items arising on acquisition and the cost of the business combination.

4.2 Consolidated and separate financial statements

A subsidiary is an entity that is controlled by the parent. Control is presumed to exist when the parent holds more than 50 per cent of the entity's voting power; this presumption may be rebutted if there is clear evidence to the contrary.

All subsidiaries are consolidated. A subsidiary is consolidated from the date of acquisition until the date on which the parent ceases to control the subsidiary.

The consolidated financial statements present financial information about the group as a single economic entity. This requires the application of the consolidation procedures, elimination of the intra-group balances and transactions, and application of uniform reporting date and accounting policies.

A parent presents consolidated financial statements unless it is itself a subsidiary; the ultimate or intermediate parent of the entity produces consolidated financial statements either in accordance with full IFRS or in accordance with the IFRS for SMEs, or it has no subsidiaries other than any acquired with the intention of sale or other disposal within one year.

A special purpose entity (SPE) is an entity created to accomplish a narrow, well-defined objective. An entity consolidates an SPE when the substance of the relationship between the entity and the SPE indicates that the SPE is controlled by the entity.

Separate financial statements are those financial statements presented by a parent, or an investor in which the investments are accounted for as direct equity interests, rather than by inclusion of reported results and net assets of the investees. When a parent prepares separate financial statements, the investments in subsidiaries, jointly controlled entities and associates are accounted for either at cost or at fair value through profit or loss.

Combined financial statements are a single set of financial statements of two or more entities with common objectives and economic interest, and controlled by a single investor. If an entity prepares combined financial statements as conforming to the IFRS for SMEs, those statements must comply with all of the requirements of the standard, including elimination of inter-company transactions and balances, and application of same reporting date and accounting policies.

4.3 Investments in associates

An associate is an entity over which the investor has significant influence but which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. It is presumed to exist when the investor holds at least 20 per cent of the investee's voting power; it is presumed not to exist when less than 20 per cent is held. These presumptions may be rebutted if there is clear evidence to the contrary.

Associates are accounted for consistently using the cost model (cost less any accumulated impairment losses), the equity method or the fair value through profit or loss model. Investments in associates are classified as non-current assets.

4.4 Investments in joint ventures

A joint venture is a contractual agreement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is defined as the contractually agreed sharing of control of an economic activity. A venturer accounts for its investment based on the type of joint venture: jointly controlled operations, jointly controlled assets or jointly controlled entities.

Jointly controlled operations

Jointly controlled operations are operations that involve use of the assets and other resources of the venturers rather than the establishment of a separate entity. Each venturer uses its own property, plant and equipment, carries its own inventory, and incurs its own expenses and liabilities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Each venturer recognises in its financial statements the assets that it controls and the liabilities that it incurs, as well as the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

The holding of jointly controlled assets is a type of a joint venture where venturers have joint control of asset(s) contributed or acquired for the purpose of the joint venture. A venturer recognises in its financial statements its share of the jointly controlled assets, any liabilities that it has incurred, its share of any liabilities incurred jointly with the other venturers in relation to the joint venture, any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture and any expenses that it has incurred in respect of its interest in the joint venture.

Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The venturer reports in its financial statements its interest in a jointly controlled entity:

- At cost, less any accumulated impairment losses;
- Using the equity method; or
- At fair value through profit or loss.

Gains and losses on contribution or sale of assets to a joint venture by a venturer reflect the substance of the transaction. They are recognised to the extent of the interests of the other venturers, provided the assets are retained by the joint venture and significant risks and rewards of ownership of the contributed assets have been transferred. The venturer recognises the full amount of any loss when there is evidence of impairment loss from the contribution or sale.

5 Liabilities and equity

Equity is the residual interest in the entity's assets after deducting all its liabilities. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

A liability is a present obligation of an entity arising from past events that is expected to result in the outflow of economic benefits from the entity.

Some instruments issued by reporting entities may have the legal form of shares but in substance are debt. They are presented as liabilities except in certain strictly defined circumstances for puttable instruments.

5.1 Issue of equity shares

Equity instruments (for example, ordinary shares) are measured at fair value of cash or other resources received, net of transaction costs and any related income tax benefit.

5.2 Compound financial instruments

On issuing convertible debt or similar compound instrument that contain both a liability and an equity component, an entity allocates the proceeds between the liability component and the equity component at initial recognition.

5.3 Treasury shares

Treasury shares are the equity instruments that have been acquired or re-acquired by the entity. An entity deducts from equity the fair value of the consideration given for the treasury shares. The entity does not recognise a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

5.4 Non-controlling interest

In consolidated financial statements, any non-controlling interest in the net assets of a subsidiary is included in equity.

6 Income and expenses

6.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when it is probable that economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue arising from the sale of goods is recognised when an entity transfers the significant risks and rewards of ownership and managerial control, it is probable that economic benefits will flow to the entity, and the amount of revenue and costs are measured reliably.

Revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction. Revenue is recognised in the accounting periods in which the services are rendered under the percentage-of-completion method.

The transaction is not a sale and revenue is not recognised when, for example, the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions, the receipt of revenue from a particular sale is contingent on the buyer selling the goods, or the buyer has the power to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

Where an entity operates a loyalty award scheme, management allocates the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale.

It may be necessary to apply the recognition criteria to the separately identifiable components of a single transaction to reflect the substance of the transaction. For example, when a product's selling price includes an identifiable amount for subsequent servicing, a portion is deferred and recognised as revenue over the period during which the service is performed.

Interest income is recognised using the effective interest rate method. Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognised when the shareholder's right to receive payment is established.

Construction contracts

When the outcome of the construction contract can be estimated reliably, the revenue and contract costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. Where the outcome of the contract cannot be estimated reliably, recognition of the revenue can only be made to the extent of contract costs incurred that it is probable will be recovered; contract costs should be recognised as an expense in the period in which they are incurred.

6.2 Government grants

A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.

Government grants exclude assistance that cannot reasonably have a value placed on it and transactions with government that cannot be distinguished from normal trading transactions of the entity.

Management recognises government grants according to the nature of the grant as follows:

- A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.
- A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.
- Grants received before the income recognition criteria are satisfied are recognised as a liability.

Management measures grants at the fair value of the asset received or receivable.

6.3 Borrowing costs

Management recognises all borrowing costs as an expense in profit or loss in the period in which they are incurred.

6.4 Share-based payment

Share-based payments cover transactions that may be settled by some form of equity instrument (for example, shares) or in cash or other assets where the amount payable is based on the price of the entity's shares or by some combination of the two.

Recognition and initial measurement

Management recognises the goods or services received in a share-based payment transaction when it obtains the goods or as the services are received. Share-based payments granted to employees are recognised over the period of service that must be completed before they have become unconditionally entitled to the award.

Equity-settled share-based payment transactions are measured by reference to the fair value of the goods and services received, unless the fair value cannot be estimated reliably, or they are transactions with employees. In the latter case, their value is measured, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted.

Where obtaining fair value is impracticable, the directors use their judgement to apply the most appropriate valuation method to obtain fair value.

Cash-settled share-based payments are measured at the fair value of the liability.

Subsequent measurement

Equity-settled share-based payments are not re-measured except to incorporate the effect of non-market vesting conditions. The liability arising from cash-settled share-based payments is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

7 Currencies

7.1 Functional currency

All components of the financial statements are measured in the currency of the primary economic environment in which the entity operates (its functional currency). All transactions entered into in currencies other than the functional currency are treated as transactions in a foreign currency.

Foreign currency transactions

A transaction in a foreign currency is recorded in the functional currency using the exchange rate at the date of the transaction (average rates may be used if they do not fluctuate significantly). At the end of the reporting period, foreign currency monetary balances are reported using the exchange rate at the end of the reporting period. Non-monetary balances denominated in a foreign currency and carried at cost are reported using the exchange rate at the date of the transaction. Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate at the date when the fair values were determined.

Exchange differences are recognised as profit or loss for the period, except for those differences arising on a monetary item that forms part of an entity's net investment in a foreign entity (subject to strict criteria of what qualifies as net investment). In the consolidated financial statements, such exchange differences are classified separately in equity. They are not recognised in profit or loss upon disposal of the net investment.

7.2 Presentation currency

Management may choose to present its financial statements in any currency. If the presentation currency differs from the functional currency, management translates its results and financial position into the presentation currency.

If the functional currency is not the currency of a hyperinflationary economy, the assets and liabilities are translated at the closing rate at the end of the reporting period; the statement of comprehensive income is translated using exchange rates at the dates of the transactions. All resulting exchange differences are recognised as a separate component of equity.

When preparing consolidated financial statements that involve more than one entity, entities in the group may have different functional currencies. The financial statements of all entities are translated into the entity's presentation currency. The exchange differences arising from the translation in respect of each entity are recognised in other comprehensive income.

7.3 Hyperinflation

Hyperinflation is indicated by characteristics of the economic environment of a country. One of the indicators that an economy is hyperinflationary is if the cumulative inflation rate over three years is approaching or exceeds 100 per cent.

Where an entity's functional currency is the currency of a hyperinflationary economy, the financial statements are stated in terms of the presentation currency at the end of the reporting period. The corresponding figures for the previous period are also stated in terms of the measuring unit current at the end of the reporting period. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

8 Specialised activities

8.1 Agriculture

An entity involved in agricultural activity measures biological assets at fair value less estimated point-of-sale costs, where such fair value is readily determinable without undue cost or effort. Where fair value is not used, the entity measures such assets at cost less any accumulated depreciation and any accumulated impairment losses.

The agriculture produce harvested from biological assets is measured at fair value less estimated costs to sell at the point of harvest.

8.2 Extractive industries

An entity using the IFRS for SMEs that is engaged in an extractive industry recognises exploration expenditure as an expense in the period in which it is incurred. Entities accounting for expenditure on the acquisition or development of tangible and intangible fixed assets for use in the extractive activities follow the guidance in the IFRS for SMEs, section 17 (property, plant and equipment) and section 18 (intangible assets other than goodwill). When an entity has an obligation to dismantle or remove an item or restore a site, it follows the guidance in the IFRS for SMEs sections 17 and 21 (provisions and contingencies).

8.3 Service concession arrangements

A service concession is an arrangement in which a government or other public sector body (the grantor) contracts with a private operator to operate and maintain the grantor's infrastructure, such as roads, bridges, tunnels airports, energy distribution networks, prison and hospitals. Concession arrangements fall into two broad categories, which then determine the accounting that applies.

- The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor. The financial asset is measured at fair value. Management then follows the accounting for other financial instruments (sections 11 and 12 of the IFRS for SMEs).

- The operator recognises an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The intangible asset is measured at fair value. Management then follows the accounting for intangible assets (section 18 of the IFRS for SMEs).

9 Main changes since the IFRS for SMEs exposure draft

The following is a list of the main changes in requirements between the exposure draft and final standard. This list is not exhaustive.

- Removal of all cross references to standards applicable under full IFRS (except IAS 39).
- Restructuring of approach to financial instruments.
- Removal of requirement for measurement of non-current assets or disposal group held for sale (presentation similar to IFRS 5); disclosures about disposals are still required.
- Removal of revaluation option for PPE and for intangible assets.
- Presumption that all intangible assets (including goodwill) have an estimated useful life of 10 years, unless there is evidence to the contrary.
- Borrowing costs are recognised as expenses.
- Financial performance is reported either as one statement of comprehensive income or as two statements - an income statement and a statement of comprehensive income that starts with profit or loss for the period.
- All deferred tax is presented as non-current.
- Removal of requirement to disclose externally imposed capital requirements.
- Addition of material on puttable financial instruments and obligations arising on liquidation.
- Removal of option for proportional consolidation of jointly controlled entities.
- Removal of material on earnings per share, operating segments, interim financial statements and insurance.
- Addition of material on service concession arrangements.
- Removal of cost basis of accounting as accounting policy choice for investment property.
- Cash flows from business combinations are presented as investing activities not operating activities.
- Removal of mandatory requirement to consider full IFRS or, in particular, IAS 8 when selecting accounting policies.
- Addition of some allowances to simplify measurement of defined benefit obligations.
- Allowing directors to exercise judgement in obtaining fair values of share-based payments.

IFRS for SMEs – Pocket guide 2009 is designed only for the information of readers. While every effort has been made to ensure accuracy, some information that may be relevant to a particular reader may not be comprehensive or may have been omitted.

This guide is not intended as a study of all aspects of the 'International Financial Reporting Standard for small and medium-sized entities' and does not address the standard's disclosure requirements. The guide is not a substitute for reading the standard when dealing with points of doubt or difficulty.

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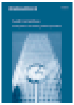

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