Synédrio
Consulting Services
Your business Our priority

IFRS for SME's Guide

Simplified reporting requirements

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Introduction

The International Financial Reporting Standard for Small and Medium-sized entities or the IFRS for SME's as it is known within the accounting and business world, was developed by the International Accounting Standards Board in acknowledgement of the difficulty and cost implications related to private companies in terms of preparing financial statements that are compliant with full IFRS.

Although the IFRS for SME's recognises that the users of private entity financial statements may have a focus that is different from that of users of the financial statements of listed or other publicly accountable entities, the quality of financial information contained in financial statements has not been compromised.

The Legislative Requirements

In terms of the Companies Act No. 71 of 2008 ("The Act"), which came into effect on 1 May 2011, the following financial reporting frameworks are permitted to be applied in the compilation of financial statements:

- IFRS;
- IFRS for SME's; or
- SA GAAP.

All entities apart from public companies, state-owned companies and certain non-profit companies are allowed to apply the IFRS for SME's, subject to meeting the scoping requirements of the standard.

The Scoping Requirements

The IASB defines small and medium-sized entities as the following:

- Entities that do not have public accountability, and
- publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

General purpose financial statements are those that present fairly financial position, operating results, and cash flows for external capital providers and others.

An entity has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. If an entity holds assets in a fiduciary capacity as an incidental part of its business, that does not make it publicly accountable. Entities that fall into this category may include public utilities, travel and real estate agents, schools, and charities.

The standard does not contain a limit on the size of an entity or balance when the entities consider the scoping requirements nor is there a restriction on the use of the financial statements by a public utility, not-for-profit entity or public sector entity.

A subsidiary whose holding company or group has adopted full IFRS may use the IFRS for SME's if the subsidiary itself does not have public accountability.

The standard does not require any approval by the owners of an eligible entity for this entity to use the IFRS for SME's in the compilation of financial statements.

IFRS for SME's versus full IFRS

The following table sets out the major differences between the IFRS for SME's standard and full IFRS:

Topical issue	IFRS for SME's	Full IFRS
Financial Statements	There is a similar requirement, with a relief provision which states that if the only changes to equity during the period are as result of profit or loss, payment of dividends, correction of prior-period errors or changes in accounting policy, a combined statement of income and retained earnings can be presented of both a statement of comprehensive income and a statement of changes in equity.	A statement of changes in equity is required, presenting a reconciliation of equity items between the beginning and end of the period.
Business Combinations	Transaction costs are included in the acquisition costs. Contingent considerations are included as part of the acquisition cost if it is probable that the amount will be paid and its fair value can be measured reliably.	Transaction costs are excluded under IFRS 3 (revised). Contingent consideration is recognised irrespective of the probability of payment.
Accounting for associates and joint operations	An entity may account for its investments in associates or jointly controlled entities using one of the following: - Cost model (cost less accumulated impairment losses); - Equity-accounting method; or - Fair value through profit or loss model.	Investments in associates are accounted for using the equity method. The cost and fair value model are not permitted except in separate financial statements. To account for joint arrangements, refer to the respective IFRS requirements.
Expense recognition	All research and development costs and all borrowing costs are recognised as an expense in profit or loss.	Research costs are recognised in profit or loss. Development costs are capitalised and amortised when specific criteria are met. Borrowing costs are capitalised if certain criteria are met.
Tangible and intangible assets	The cost model is the only permitted model and the revaluation model is not permitted. All intangible assets, including goodwill, are assumed to have finite lives and are amortised over the estimated useful live.	For tangible and intangible assets, there is an accounting policy choice between the cost model and the revaluation model. Goodwill and other intangibles with indefinite lives are reviewed for impairment and not amortised.

Topical issue	IFRS for SME's	Full IFRS
IAS 38: Intangible Assets	There is no distinction between assets with finite or infinite lives. The amortisation approach therefore applies to all intangible assets. These intangibles are tested for impairment only when there is an indication and not on an annual basis.	The useful life of an intangible asset is either finite or indefinite. The latter are not amortised and an annual impairment test is required.
IAS 40: Investment Property	Investment property is carried at fair value if this fair value can be measured without undue cost or effort.	Entities have an accounting policy choice between the fair value and cost method.
IFRS 5, 'Noncurrent assets held for sale and discontinued operations'	There is no separate standard dealing with this and no reclassification upon the decision to sell needs to be considered. The decision to sell an asset is considered an impairment indicator.	IFRS 5 requires non-current assets to be classified as held for sale where the carrying amount is recovered principally through a sale transaction rather than through continuing use when specific criteria is met.
Financial instruments – derivatives and hedging	There are two sections dealing with financial instruments: - a section for simple payables and receivables and other basic financial instruments; and - a section for more complex financial instruments. Most of the basic financial instruments are measured at amortised cost; the complex instruments are generally measured at fair value through profit or loss.	IAS 39, 'Financial Instruments: Recognition and measurement', distinguishes four measurement categories of financial instruments: - financial assets at fair value through profit or loss; - held to maturity investments; - loans and receivables; and - available-for-sale financial assets.
Employee benefits – defined benefit plans	Actuarial gains or losses require are recognised immediately and splits the expense into different components.	Actuarial gains or losses can be recognised immediately or amortised into profit or loss over the expected remaining working lives of participating employees.

Topical issue	IFRS for SME’s	Full IFRS
Income Taxes	A valuation allowance is recognised so that the net carrying amount of the deferred tax asset equals the highest amount that is more likely than not to be recovered. The net carrying amount of deferred tax asset is likely to be the same between full IFRS and IFRS for SMEs. A deferred tax is recognised upon the initial recognition of an asset. Management recognises the effect of the possible outcomes of a review by the tax authorities. This is measured using the probability-weighted average amount of all the possible outcomes. There is no probable recognition threshold.	A deferred tax asset is only recognised to the extent that it is probable that there will be sufficient future taxable profit to enable recovery of the deferred tax asset. No deferred tax is recognised upon the initial recognition of an asset. There is no specific guidance on uncertain tax positions. In practice, management will record the liability measured as either a single best estimate or a weighted average probability of the possible outcomes, if the likelihood is greater than 50%.

Transitioning Guidance

First-time adoption is the first set of financial statements in which the entity makes an explicit and unreserved statement of compliance with the IFRS for SME's: '...in conformity with the International Financial Reporting Standard for Small and Medium-sized entities'.

Transitioning Disclosure

Entities are required to disclose the effect of the transition on the entity's reported financial position.

To adhere to this requirement, the entity shall disclose:

- a description of the nature of each change in accounting policy previously applied;
- a reconciliation between its equity determined under the previous framework and equity determined under IFRS for SME's for both –
    - the date of transitioning to IFRS for SMEs, and
    - the end of the latest period presented in accordance with the entity's previous framework.
- a reconciliation of profit or loss determined in accordance with its previous framework for the latest period presented to the IFRS for SMEs based profit or loss for the same period.

If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments, the entity must apply the requirements for such adjustments in the earliest period for which it is practical to do so, and must identify the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to IFRS for SME's.

If it is impracticable for an entity to provide any disclosures required by IFRS for SME's for any period before the period in which it prepares its first financial statements that conform with IFRS for SME's, the omission must be disclosed.

All of the special exemptions in IFRS 1 relating to the first-time adoption of full IFRS are included in the IFRS for SME's.

Entities must not retrospectively change the previous accounting for any of the following:

- Derecognition of financial instruments;
- Hedge accounting;
- Accounting estimates;
- Discontinued operations; and
- Measuring non-controlling interests.

Voluntary exemptions from retrospective application:

- Business combinations
- Share-based payment transactions
- Fair value as deemed cost
- Revaluation as deemed cost
- Cumulative translation differences
- Separate financial statements
- Compound financial instruments
- Deferred income tax
- Service concession arrangements
- Extractive activities
- Arrangements containing a lease
- Decommissioning liabilities included in the cost of property, plant and equipment.

On the horizon

The International Accounting Standards Board has published amendments to its International Financial Reporting Standard for Small and Medium-sized entities. These amendments affect 21 of the 35 sections of the standard (not counting consequential amendments) and the glossary, however, most of the changes are rather minor.

The amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

A summary of the changes are set out below:

- The standard now allows an option to use the revaluation model for property, plant and equipment as not allowing this option has been identified as the single biggest impediment to adoption of the IFRS for SME's in some jurisdictions in which SME's commonly revalue their property, plant and equipment and/or are required by law to revalue property, plant and equipment;
- the main recognition and measurement requirements for deferred income tax have been aligned with current requirements in IAS 12 Income Taxes; and
- the main recognition and measurement requirements for exploration and evaluation assets have been aligned with IFRS 6 Exploration for and Evaluation of Mineral Resources to ensure that the IFRS for SME's provides the same relief as full IFRSs for these activities.

Why Synédrio Consulting Services

As an organisation we have adopted a philosophy of regarding your business and related operations as our own priority which indicates that we offer a quality service to all of our clients. We understand that at the outset we are providers of technical expertise and having the ability to solve problems however we want to quickly migrate into having the ability to put issues in context and to provide perspective and input even as it pertains to the strategy of your organisation ensuring that we do not merely offer a service as a consultant but rather as a trusted advisor.

Though an independent service provider, we believe in building strong relationships with all clients that allows for management to have the ability to consult with us on a broad range of issues. As trusted advisors we want our clients to turn to us when an issue first arises, often in times of great urgency: a crisis, a change, a triumph, or a defeat.

The service approach assumed by Synédrio Consulting Services focuses primarily on exceeding our clients' expectations by taking a closer look at their business, the risks it faces and the way in which these risks are managed in accordance to the trusted advisor framework adopted by the firm.

Our approach encompasses the following:

Building a sustainable business relationship

Our approach takes the form of a combined effort based on mutual trust in which both parties can freely express and discuss their concerns in order to foresee and solve problems before they transform into major issues.

Access to expertise

Our firm focuses on offering a tailored solution to address all potential opportunities identified in relation to your business needs. We have an array of experts which are well-equipped in the specific field in which these teams operate.

Flexibility

Our procedures are developed in such a manner that they can easily be adjusted to meet your needs.

Continuous communication

Discussions with directors will be held to review the level of service provided and to discuss issues affecting your business and service needs.

Quick response times

As a most valued client you are assured of speedy responses to your requests.

Your business, our priority.

Building a sustainable business relationship Mutual trust between our firm and our clients	**Acess to expertise** Qualified individuals with practical experience in an array of practical environments	**Flexibility** We do not believe in a one-size fits all approach but rather a tailored spesific solution.
Continous communication Communication on a regular basis forms the basis for a mutual trust relationship.	**Quick response times** We strive to offer timely solutions within the alotted time framework assigned to an engagement.	**Your Business Our Priority**

Comprehensive Solution Offering

Consulting solutions

- Internal control design.
- Fixed asset register and maintenance.
- Risk management.
- Technical research and opinions.
- Due diligence.
- Valuations.
- Management accounting services.
- JSE IFRS advisor function.
- IFRS reviews.
- Talent management and training.

Accounting solutions

- Financial management.
- Payroll administration including Employment tax administration.
- Statutory financial reporting.
- Monthly accounting services.
- Management accounts.
- Budgeting and cash flow forecasting.
- Value-Added Taxation administration.

Tax-related solutions

- Corporate taxes.
- Capital gains tax (CGT).
- Value-added tax (VAT).
- PAYE, UIF and SDL taxes and levies.
- Provisional tax.
- Individual or personal tax.
- Tax planning.
- Tax research and opinions.

Statutory solutions

- Company registrations and conversions.
- Name reservations or changes.
- Amendments to company information.
- Filing of documents with the CIPC.
- Preparation and submissions of annual returns.
- Issue of share certificates and amendments.
- Maintaining the register of directors.
- Maintaining the shareholder register.
- Deregistrations.
- CIPC disclosure documentation.
- Registration of trusts.

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