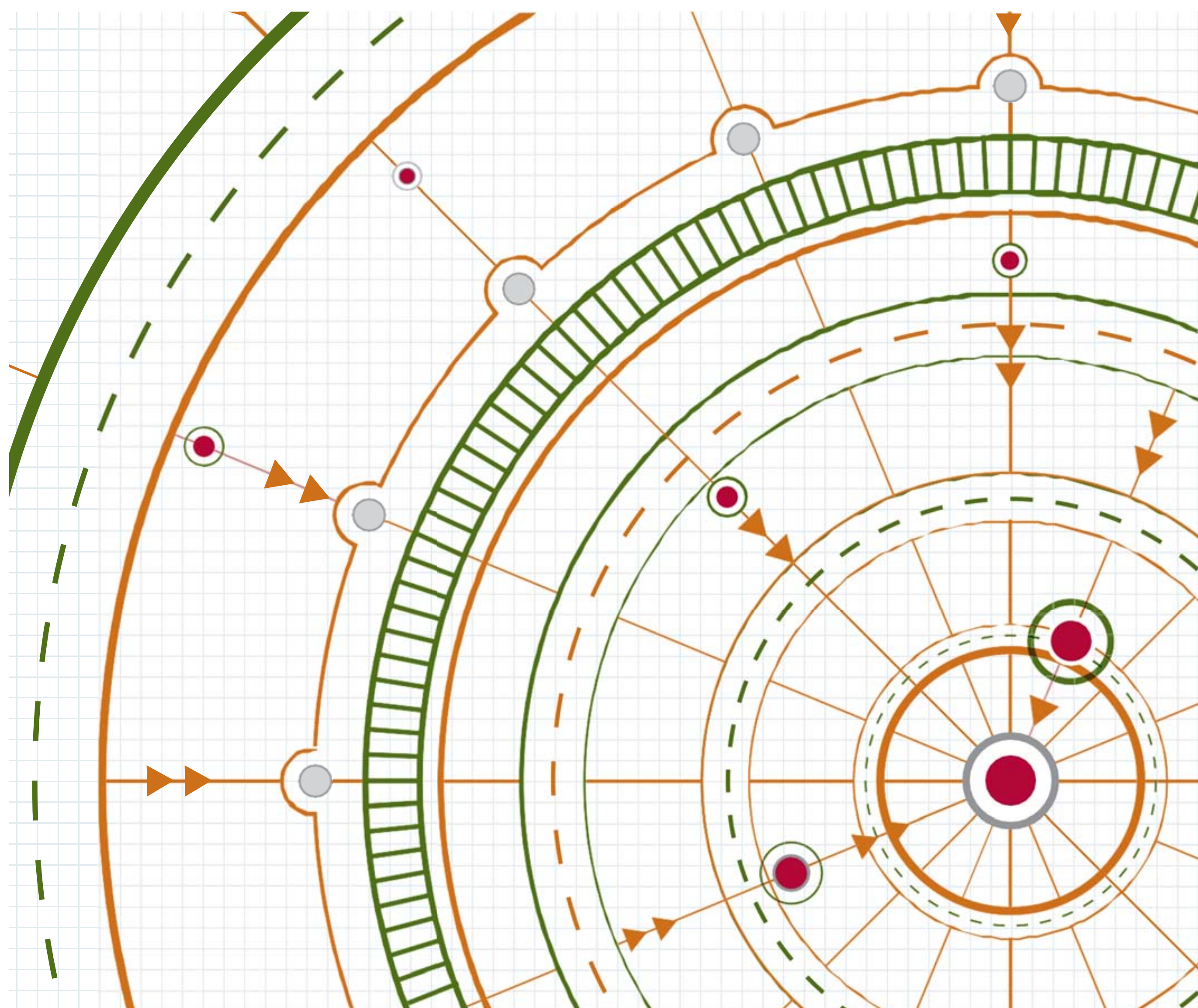
IFRS for SMEs® Standard (2015) + Q&As

IFRS® Foundation—Supporting Material for the *IFRS for SMEs* Standard

Module 3—Financial Statement Presentation



IFRS®

IFRS® Foundation Supporting Material for the *IFRS for SMEs*® Standard

including the full text of
Section 3 *Financial Statement Presentation*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and a case study

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Contents

INTRODUCTION 1
Which version of the *IFRS for SMEs* Standard? 1
This module 1
IFRS for SMEs Standard 2
Introduction to the requirements 3
What has changed since the 2009 *IFRS for SMEs* Standard 3
REQUIREMENTS AND EXAMPLES 4
Scope of this section 4
Fair presentation 4
Compliance with the *IFRS for SMEs* 5
Going concern 7
Frequency of reporting 12
Consistency of presentation 13
Comparative information 16
Materiality and aggregation 17
Complete set of financial statements 19
Identification of the financial statements 20
Presentation of information not required by this Standard 22
SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS 24
COMPARISON WITH FULL IFRS STANDARDS 26
TEST YOUR KNOWLEDGE 27
APPLY YOUR KNOWLEDGE 31
Case study 31
Answer to case study 32

Module 3—Financial Statement Presentation

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.

This module has been prepared by IFRS Foundation education staff.

The contents of Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 3. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs* Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on the general requirements for presenting financial statements applying Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in presenting financial statements. In addition, the module includes questions designed to test your understanding of the requirements and a case study that provides a practical opportunity to practise the requirements to present financial statements applying the *IFRS for SMEs* Standard.

Module 3—Financial Statement Presentation

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

- identify and distinguish the components of a complete set of financial statements from other information presented in the same published document;
- understand the general requirement for financial statements to present fairly an entity's financial position, financial performance and cash flows;
- assess an entity's ability to continue as a going concern;
- understand the accounting and financial reporting required when material uncertainties cast significant doubt on an entity's ability to continue as a going concern, and the requirements when it is determined that an entity is not a going concern;
- understand the requirements for consistency of presentation and comparative information in financial statements; and
- demonstrate an understanding of the significant judgements that are required in presenting financial statements, including judgements in assessing materiality and going concern.

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on

specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (April 2018) the SMEIG has not issued any Q&As relevant to this module

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 3 is to prescribe general requirements for the presentation of financial statements.

Section 3 specifies what comprises a complete set of financial statements. The section also includes requirements to clearly identify each of the financial statements and the notes. It specifies the minimum frequency required for presenting a complete set of financial statements.

The section specifies that the application of the *IFRS for SMEs* Standard (with additional disclosure when necessary) is presumed to result in financial statements that achieve a fair presentation of an entity's financial position, financial performance and cash flows. Additionally, an entity is required to make an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard.

Section 3 establishes requirements for an entity preparing financial statements to assess its ability to continue as a going concern, and it specifies disclosure of material uncertainties about an entity's ability to continue.

In addition, it provides guidance for assessing materiality and specifies requirements for the aggregation of similar items, consistency of presentation and the presentation of comparative information.

What has changed since the 2009 *IFRS for SMEs* Standard

This section of the *IFRS for SMEs* Standard was unchanged by the 2015 Amendments. However, this module reproduces other editorial changes.

Module 3—Financial Statement Presentation

REQUIREMENTS AND EXAMPLES

Scope of this section

3.1 This section explains **fair presentation** of **financial statements**, what compliance with the *IFRS for SMEs* requires and what a complete set of financial statements is.

Notes

Fair presentation is defined in the Glossary as 'the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses'.

Financial statements are defined in the Glossary as a 'structured representation of the financial position, financial performance and cash flows of an entity'.

Fair presentation

3.2 Financial statements shall present fairly the **financial position,** financial **performance** and **cash flows** of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for **assets, liabilities, income** and **expenses** set out in Section 2 *Concepts and Pervasive Principles:*

(a) the application of the *IFRS for SMEs,* with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs.

(b) as explained in paragraph 1.5, the application of this Standard by an entity with **public accountability** does not result in a fair presentation in accordance with this Standard.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

Notes

In some circumstances it is necessary to provide users of financial statements with more disclosures than those required by the *IFRS for SMEs* Standard in order to achieve a fair presentation of an entity's financial position, financial performance and cash flows. For example, depending on the circumstances, information on customer concentration may affect how a user of financial statements makes decisions. Where an entity makes most of its sales to a single customer or in a single geographical location or industry sector, it should consider whether disclosure of such a concentration of sales is necessary to achieve a fair presentation. If all sales were to a single customer and there were no alternative customers, then disclosure may be relevant.

Paragraphs 3.4 to 3.7 of the Standard set out what management should do in 'the extremely rare circumstances' when an entity's management concludes that compliance with the Standard would be so misleading that the financial statements would not present fairly the entity's financial position, financial performance and cash flows.

Module 3—Financial Statement Presentation

Compliance with the *IFRS for SMEs*

3.3 An entity whose financial statements comply with the *IFRS for SMEs* shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all the requirements of this Standard.

Notes

The *IFRS for SMEs* Standard is intended for use by small and medium-sized entities (SMEs). For a description of an SME please refer to paragraphs 1.1—1.3 and Module 1.

Example—compliance statement

Ex 1 **An entity prepares its consolidated financial statements for the year ended 31 December 20X2 in accordance with the *IFRS for SMEs* Standard.**

[Extract from] *Note 2. Basis of preparation and accounting policies*

These consolidated financial statements have been prepared applying the *IFRS for SMEs*® Standard.

Examples—compliance statement is appropriate

Ex 2 **An entity that does not have public accountability prepares its financial statements in compliance with the requirements of the *IFRS for SMEs* Standard.**

The entity makes an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard in the notes.

Ex 3 **An entity that does not have public accountability prepares its financial statements following the local GAAP of the jurisdiction in which it operates. The local GAAP is, except in name, word-for-word the same as the *IFRS for SMEs* Standard.**

The entity could make an explicit and unreserved statement of compliance with local GAAP, the *IFRS for SMEs* Standard, or both, in the notes.

Examples—compliance statement is not appropriate

Ex 4 **An entity that does not have public accountability prepares financial statements in compliance with the taxation requirements for calculating taxable income (and tax expenses) in the jurisdiction in which it operates. The jurisdiction's taxation requirements are different from the requirements of the *IFRS for SMEs* Standard.**

The entity's financial statements do not comply with the *IFRS for SMEs* Standard. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard.

Ex 5 An entity that has public accountability prepares its financial statements in compliance with the requirements of the *IFRS for SMEs* Standard.

The entity has public accountability. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard. That applies even when the entity is required by law to prepare its financial statements in accordance with the *IFRS for SMEs* Standard (see paragraph 1.5). Rather, the compliance statement could state that the financial statements have been prepared in accordance with local law.

Ex 6 An entity that does not have public accountability prepares its financial statements following the local GAAP of the jurisdiction in which it operates. The local GAAP is based mainly on the *IFRS for SMEs* Standard. However, there are some material differences between the requirements of the local GAAP and those of the *IFRS for SMEs* Standard.

The entity's financial statements do not comply with the *IFRS for SMEs* Standard. Therefore, it cannot describe its financial statements as complying with the *IFRS for SMEs* Standard. The financial statements could, however, state that they have been prepared in accordance with local GAAP.

3.4 In the extremely rare circumstances when management concludes that compliance with this Standard would be so misleading that it would conflict with the **objective of financial statements** of SMEs set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.5 unless the relevant regulatory framework prohibits such a departure.

3.5 When an entity departs from a requirement of this Standard in accordance with paragraph 3.4, it shall disclose the following:

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with the *IFRS for SMEs,* except that it has departed from a particular requirement to achieve a fair presentation; and

(c) the nature of the departure, including the treatment that the *IFRS for SMEs* would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2, and the treatment adopted.

3.6 When an entity has departed from a requirement of this Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 3.5(c).

3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in this Standard would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:

(a) the nature of the requirement in this Standard, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Notes

When management is assessing whether complying with a specific requirement in the *IFRS for SMEs* Standard would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, it may be helpful for management to consider:

(a) why it believes that the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement.

Going concern

3.8 When preparing financial statements, the management of an entity using this Standard shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the **reporting date**.

3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Notes

In the absence of a statement to the contrary, financial statements are assumed to be prepared on a going concern basis. In other words, it is presumed that an entity will continue its operations in the foreseeable future.

An entity is a going concern unless its management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Therefore, the going concern basis may be appropriate even when an entity is in financial difficulties. However, when there are material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern, the entity must disclose those uncertainties.

In some cases, there may be little doubt whether an entity is a going concern or not. Contrasting examples include: (i) an entity that is well established, very profitable, highly solvent and not subject to significant business and financial risks; and (ii) an entity whose management is committed to a plan to liquidate the entity or to cease operations.

In other cases, entity's management may be required to exercise significant judgement to assess whether the entity has the ability to continue as a going concern or if its management has no realistic alternative but to liquidate the entity or cease its operations. For example, in times of financial crisis, a general lack of available credit

faced by all entities can affect the ability of an otherwise profitable entity to continue as a going concern.

Doubts about an entity's ability to continue as a going concern require its management to conduct impairment tests of the entity's assets and to consider whether any contracts have become onerous. Moreover, if an entity is not a going concern, its management will need to determine the appropriate accounting policies to apply.

Example–going concern assumption is not appropriate

Ex 7 **Entity A is listed in Appendix A to the Economic Redistribution Act (ERA) which came into force on 15 December 20X2. The Appendix lists entities whose operations and assets the government intends to expropriate. The government has forbidden affected entities from disposing of their assets. Expropriation compensation is computed at the fair value of the tangible assets expropriated. No compensation will be paid for the intangible assets expropriated.**

Management intends to keep Entity A in commercial production until the expropriation of its assets. At that time, Entity A is expected to have no realistic alternative but to cease trading. Expropriation is expected to take place within three months of the end of the reporting period.

Management has not prepared the financial statements for the year ended 31 December 20X2 on the going concern basis. In particular, management has decided to recognise assets at the net present value of their expected cash flows and to additionally recognise as liabilities all contractual commitments that have become onerous.

How should the management of Entity A disclose information about its assessment of Entity A's status as a going concern and the basis of preparation in Entity A's annual financial statements for the year ended 31 December 20X2?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to Entity A's 31 December 20X2 financial statements:

Note 1 Basis of preparation and accounting policies

Basis of preparation

The financial statements have not been prepared on the going concern basis because, in accordance with the recent Economic Redistribution Act (the Act), the government is to expropriate all of the entity's assets. Expropriation is expected to take place before April 20X3. Following the expropriation of the assets, the entity will be liquidated. The Act provides for expropriation compensation equal to the fair value of the tangible assets expropriated. Management intends to keep Entity A in commercial production until the expropriation takes place. To reflect that imminent liquidation, the entity's assets are recognised at the net present value of their expected cash flows, which reflect three months' trading followed by realisation at fair value; and the entity's contractual commitments that are onerous are recognised as liabilities.

Example–material uncertainties

Ex 8 **Entity B is a large manufacturer of textile products for the local market.**

On 1 January 20X2, the newly elected government unexpectedly abolished all import tariffs, including the 50% tariff on all imported textile products. That and many other economic reforms implemented by the new government contributed to the value of the country's currency (CU[1]) appreciating significantly against most other currencies. The currency appreciation severely reduced the competitiveness of the entity's products.

Before 20X2, Entity B was profitable. However, because it was unable to compete with low-priced imports, Entity B reported a loss of CU3,000 for the year ended 31 December 20X2. Management restructured Entity B's operations in the second quarter of 20X2. That restructuring helped reduce losses for the third and fourth quarters to CU500 and CU480, respectively. At 31 December 20X2, Entity B's equity was CU1,000.

In 20X2, the local textile industry and labour union lobbied government to reinstate tariffs on imported textiles. On 15 December 20X2, the government announced that it would reintroduce limited textile import tariffs in 20X3. However, it emphasised that those tariffs would not be as protective as the tariffs enacted by the previous government.

In its latest economic forecast, the government predicts a stable currency exchange rate in the short term with a gradual weakening of the jurisdiction's currency in the longer term.

Management of Entity B undertook a going concern assessment at 31 December 20X2. Management forecasts that imposition of a 10% tariff on the import of textile products would, at current exchange rates, result in Entity B returning to profitability.

The management of Entity B concluded that it was appropriate to prepare the financial statements for the year ended 31 December 20X2 on the going concern basis, but that because of the material uncertainties, it would need to disclose those uncertainties.

How should the management of Entity B disclose the information about the going concern assessment in Entity B's 31 December 20X2 annual financial statements?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to Entity B's 31 December 20X2 financial statements:

Note 1 Basis of preparation

The financial statements have been prepared on the going concern basis following management's assessment at 31 December 20X2 which assumed that the government will reintroduce limited textile import tariffs and that the currency exchange rate will remain constant.

On 15 December 20X2, the government announced that limited import tariffs will be imposed in 20X3. However, the government emphasised that the tariff would not be as

[1] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

protective as the 50% tariff in effect before 20X2. Provided that the CU does not strengthen, management forecasts that a 10% tariff on all textile products would result in Entity B returning to profitability.

At 31 December 20X2, Entity B had net assets of CU1,000. If import tariffs are not imposed and currency exchange rates remain unchanged, Entity B's liabilities could exceed its assets by the end of the third quarter of 20X3.

On the basis of its assessment of these factors, management believes that it is appropriate to prepare these financial statements on a going concern basis.

Notes–events after the end of the reporting period

Full IFRS Standards state that an entity shall not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is no longer appropriate. While the *IFRS for SMEs* Standard does not explicitly state as such, paragraph 3.8 requires an entity's management, when preparing financial statements, to assess the entity's ability to continue as a going concern. Furthermore, when making this assessment, its management is required to take into account all available information about the future, 'which is at least, but is not limited to, twelve months from the reporting date'.

Preparing an entity's financial statements on a going concern basis when events after the reporting period indicate that the going concern assumption is not appropriate could also conflict with the objective of general purpose financial statements. In those circumstances (in accordance with paragraphs 3.4 or 3.7) an entity would not prepare its financial statements on that basis.

Examples—after the end of the reporting period

Ex 9 **Entity C was incorporated many years ago with the sole objective of mining a single gold reef to which it has mining rights. At 31 December 20X5, Entity C was in a sound financial position and expected to continue its mining operations for approximately 20 more years (ie the gold reef was expected to be depleted by the end of that period).**

On 1 January 20X6, the mine was rendered permanently inoperable by an earthquake that resulted in the collapse and flooding of the mine. As a result of that event, on 15 February 20X6, Entity C was placed in liquidation.

Management is preparing Entity C's financial statements for the year ended 31 December 20X5 and has concluded that it is not appropriate to use the going concern basis of preparation.

How should the management of Entity C disclose the information about its assessment of the entity's status as a going concern in Entity C's financial statements for the year ended 31 December 20X5?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to Entity C’s 31 December 20X5 financial statements:

Note 1 Basis of preparation

On 15 February 20X6, the entity was placed in liquidation as a result of earthquake damage that caused the permanent closure of Mine X, the entity’s single business. The financial statements have therefore not been prepared on a going concern basis. The mine asset has been written off and other assets have been written down to their salvage value. Provision has been made for liabilities expected to be incurred in winding up the entity. Liquidation is expected to be completed by the end of July 20X6.

Ex 10 **Entity D is a small, regional, sea-bed dredging diamond-mining operation.**

On 10 January 20X6, the newly elected government announced that it will cancel all local sea-bed dredging diamond mining licences that do not meet specified criteria by 30 June 20X6. Entity D currently does not satisfy all of the new licence criteria. In particular, Entity D’s shareholders are not representative of the region’s population and its financial resources are inadequate (ie its debt-to-equity ratio is higher than the level specified by the new government).

In mid-January 20X6, Entity D instigated negotiations for the acquisition of the assets and liabilities of a competitor (Entity E), in exchange for shares in Entity D. It concluded that the acquisition would result in the enlarged Entity D satisfying all the requirements to retain both Entity D’s and Entity E’s regional sea-bed dredging diamond-mining licences.

At the time of authorising the 20X5 annual financial statements for issue, Entity D had reached agreement in principle with Entity E for the acquisition of its business. Negotiations of the final details of the acquisition are in their final stages. Management of Entity D considers it highly likely that the acquisition will occur and that the local sea-bed dredging diamond mining licences will be retained. Consequently, the management of Entity D has concluded that it would be appropriate to prepare the 20X5 financial statements on a going concern basis.

How should the management of Entity D disclose the information about its assessment of Entity D’s status as a going concern in Entity D’s 31 December 20X5 annual financial statements?

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to Entity D’s 31 December 20X5 financial statements:

Note 1 Basis of preparation

On 10 January 20X6, the government announced that it will cancel regional sea-bed dredging diamond-mining licences that do not meet specific criteria by 30 June 20X6. Entity D currently does not satisfy all of the new licence criteria. In particular, Entity D’s shareholders are not representative of the region’s population and its financial resources are inadequate because its debt-to-equity ratio is higher than the level specified by the government. However, Entity D is negotiating the acquisition of the assets and liabilities of an entity in exchange for shares in Entity D. If concluded, the acquisition will result in the enlarged Entity D satisfying the government’s new licence criteria.

Management considers it highly likely that the acquisition will take place and the local sea-bed dredging diamond-mining licences will be retained. Agreement in principle has been reached for the acquisition of the other entity's operations, and negotiations are in their final stages. The financial statements have therefore been prepared on a going concern basis.

Frequency of reporting

3.10 An entity shall present a complete set of financial statements (including comparative information–see paragraph 3.14) at least annually. When the end of an entity's **reporting period** changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

(a) that fact;

(b) the reason for using a longer or shorter period; and

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Notes

Annual financial statements are usually prepared at a recurring date each year (eg 31 December). However, that is not always so.

In some jurisdictions, entities may choose a 52– or 53–week reporting period (eg ending on the last Saturday of December each year). Such reporting periods may serve practical considerations (eg enabling physical inventory counts to be taken on a day when the entity is not ordinarily open for business).

In some jurisdictions a subsidiary is required to have the same reporting date as its parent. In such cases, when an entity is acquired by another entity (its parent), it is required to change its reporting date to be coterminous with that of its parent.

When an entity does change its reporting date so that it has a longer or shorter period than the comparative period, in addition to the required note disclosure, it may choose to highlight the change by referring to the length of the period at the top of any relevant column of figures. For example, at the start of a note giving information about certain expenses for the period, it may use '13 months to 31 December 20X8' at the top of the current period's figures, and '12 months to 30 November 20X7' at the top of the comparative period's figures, rather than simply '20X8' and '20X7'. Alternatively, it may disclose the first and last day of the reporting periods (eg '1 December 20X7 to 31 December 20X8' and '1 December 20X6 to 30 November 20X7', respectively).

Example–reporting period

Ex 11 **In 20X8, Entity A was acquired by Entity B. To align its reporting date with that of its parent, Entity A changed the end of its annual reporting period from 30 November to 31 December. Consequently, Entity A's reporting period for the period ended 31 December 20X8 is 13 months.**

On the basis of those facts, the following disclosure is appropriate.

Extract from the notes to Entity A's 31 December 20X8 financial statements:

Note 1 Basis of preparation and accounting policies

...

Reporting period

On 1 March 20X8 all of the issued share capital of the entity was acquired by Entity B. To align the entity's reporting period with that of Entity B, the entity changed the end of its reporting period from 30 November to 31 December. Amounts presented for the 20X8 reporting period are for a 13-month period. Comparative figures are for a 12-month period. Consequently, comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

Consistency of presentation

3.11 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of **accounting policies** in Section 10 *Accounting Policies, Estimates and Errors;* or

(b) this Standard requires a change in presentation.

Notes

An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability over time is not impaired. For example, a significant acquisition or disposal of a business or a review of the presentation of the financial statements might suggest that the financial statements need to be presented differently.

3.12 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an entity shall disclose the following:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

Notes

A change in the classification of an asset resulting from a change in use of an asset (eg the start of development with a view to sale in the ordinary course of business for a transfer from property, plant and equipment to inventories) is not a reclassification of the kind envisaged by paragraph 3.11. In such cases the entity does not reclassify comparative amounts—while the asset is property, plant and equipment it must be accounted for and presented as property, plant and equipment.

Example–change in classification

Ex 12 **Entity A, a clothing retailer, used to have a very simple structure and a single product line. Entity A has therefore always presented expenses by nature. Over the last several years Entity A has increased the breadth of its activities which led to a change in internal reporting to match the increased complexity. In 20X8, Entity A performed a comprehensive review of its financial statements and concluded that these changes in internal reporting should also be reflected in its external reporting. Consequently, Entity A changed the manner in which it classifies expenses in its statement of comprehensive income. For 20X8, and subsequently, expenses are presented by function, rather than by nature. A summary of expenses prior to reclassification is provided as follows.**

Summary of Expenses	*20X8*	*20X7*
	CU	*CU*
Changes in inventories of finished goods	1,000	(400)
Raw materials and consumables used	40,000	35,000
Employee benefits expense:		
Administration staff	10,000	9,000
Sales staff	15,000	16,000
Depreciation expense:		
Administration buildings and fittings	8,000	8,000
Retail outlets	12,000	12,000
Other costs	15,000 (a)	13,000 (a)

(a) 70% selling costs and 30% administration costs

How should the entity disclose information about the change in classification in its financial statements for the year ended 31 December 20X8

On the basis of these facts, the following disclosures are appropriate.

Extract from the entity's statement of comprehensive income

	For the year ended 31 December 20X8		***For the year ended 31 December 20X7***	
			as restated	
	CU		*CU*	
Revenue	X		X	
Cost of sales	(41,000)	(a)	(34,600)	(b)
Gross profit	**X**		**X**	
Distribution costs	(37,500)	(c)	(37,100)	(d)
Administrative expenses	(22,500)	(e)	(20,900)	(f)
Profit before tax	**X**		**X**	

…

Calculations that do not form part of the statement of comprehensive income:

(a) CU1,000 changes in inventories of merchandise + CU40,000 purchases of merchandise = CU41,000

(b) CU35,000 purchases of merchandise less CU400 changes in inventories of merchandise = CU34,600

(c) CU15,000 employee benefits expense + CU12,000 depreciation + 70% of CU15,000 other costs = CU37,500

(d) CU16,000 employee benefits expense + CU12,000 depreciation + 70% of CU13,000 other costs = CU37,100

(e) CU10,000 employee benefits expense + CU8,000 depreciation + 30% of CU15,000 other costs = CU22,500

(f) CU9,000 employee benefits expense + CU8,000 depreciation + 30% of CU13,000 other costs = CU20,900

Extract from the notes in the entity's 31 December 20X8 financial statements:

Note 1 Basis of preparation and accounting policies

...

Change in classification

In 20X8, following a comprehensive review of its financial statements, the entity changed the manner in which it classifies expenses in the statement of comprehensive income from an analysis by nature to an analysis by function.

Given the expansion of the entity's activities over the previous years, the entity's internal reporting structures were adjusted to meet the increased complexity of the business. The management of the entity concluded that it is appropriate to reflect the change in internal reporting in its external reporting. In the management's view, classification by function provides information that is reliable and more relevant to users of the financial statements. It presents the trading performance of the retail outlets and provides financial information about the administrative and selling functions of the entity.

3.13 If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.

Notes

Applying a requirement is impracticable when an entity cannot apply the requirement after making every reasonable effort to do so (see the Glossary). For example, information to determine the prior-year effect is neither available nor can it be recreated, perhaps because the information that would be needed to do so was not collected in the prior year and cannot be collected subsequently.

Comparative information

3.14 Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Notes

Disclosing information for the prior period as well as for the current period increases the usefulness of the financial statements as it enables comparisons to be made.

Examples of when comparative amounts must be restated include:

- changes in accounting policy:
  - a voluntary change in an accounting policy (see paragraphs 10.11(c)); and
  - a change in policy arising from an amendment to the *IFRS for SMEs* Standard when the Standard requires retrospective application (see paragraphs 10.11(a) and 10.11(b)). Paragraph A1 in Appendix A sets out the reliefs from providing retrospective application when implementing the 2015 Amendments.)
- the correction of a prior period error (see paragraphs 10.21 and 10.22).

If an entity discovers an error in the financial statements of a prior period, the error is corrected by retrospective restatement (ie the comparative information is restated). Retrospective restatement provides useful information—the information is more relevant, more reliable and more comparable.

Similarly, retrospective application of a change in accounting policy provides useful information—the revised prior period information is more relevant, more reliable and more comparable to the information for the current period than information prepared under the predecessor policy would be.

Retrospective application of changed accounting policies and retrospective restatement of prior period errors provides useful information because:

- profit or loss for the period of the change does not include the effects of changes in accounting policies or errors relating to prior periods; and
- information presented about prior periods is prepared on the same basis as information about the current period, and is therefore comparable and provides the most useful information for trend analyses of income and expenses.

As mentioned in paragraph 3.14, the *IFRS for SMEs* Standard permits or requires an entity not to disclose comparative information in respect of the previous comparable period in some specific circumstances. Examples of disclosures for which comparative information need not be provided include:

- the reconciliation of the number of an entity's shares outstanding at the beginning and at the end of the period (see paragraph 4.12(a)(iv));
- the reconciliation between the carrying amount of investment property at the beginning and at the end of the reporting period (see paragraph 16.10(e));
- the reconciliation between the carrying amount of each class of property, plant and equipment at the beginning and at the end of the reporting period (see paragraph 17.31(e));
- the reconciliation between the carrying amount of each class of intangible asset at the beginning and at the end of the reporting period (see paragraph 18.27(e));
- the reconciliation between the carrying amount of goodwill at the beginning and at the end of the reporting period (see paragraph 19.26);
- disclosures about each class of provision (see paragraph 21.14);
- the reconciliation of the opening and closing balances of a defined benefit obligation (see paragraph 28.41(e));
- the reconciliation of the opening and closing balances of the fair value of defined benefit plan assets and of any reimbursement right recognised as an asset in respect of the plan (see paragraph 28.41(f)); and
- the reconciliation of changes in the carrying amounts of biological assets between the beginning and end of the reporting period (see paragraph 34.7(c)).

Materiality and aggregation

3.15 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Notes

Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in the statements or in the notes thereto. An item that is not sufficiently material to warrant separate presentation in the statements may nevertheless warrant separate presentation in the notes.

3.16 Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Notes

Financial statement users are assumed to have a reasonable knowledge of business, economic activities and accounting and a willingness to study financial information with reasonable diligence (see paragraph 2.4).

An entity need not provide a specific disclosure required by the *IFRS for SMEs* Standard if the information is 'not material'. Moreover, an entity need not apply its accounting policies when the effect of not applying them is immaterial (see paragraph 10.3).

Examples–immaterial items

Ex 13 **In 20X9, before the entity's 20X8 financial statements were approved for issue, the entity discovered an error in the calculation of the depreciation expense for the year ended 31 December 20X8. As a result, the entity's reported profit before tax for the year ended 31 December 20X8 of CU652,317 was overstated by CU150. Management ignored the error.**

The error is probably not material—it is highly unlikely that an error of this magnitude could influence the economic decisions of users made on the basis of the financial statements.

Ex 14 **The facts are the same as those in example 13, except, in this example, the error was discovered in 20X9, after the entity's 20X8 financial statements were approved for issue.**

The prior period error is probably not material—it is highly unlikely that a prior period error of this magnitude could influence the economic decisions of users made on the basis of the financial statements.

Examples–material items

Ex 15 **In 20X9, before the entity's 20X8 financial statements were approved for issue, the entity discovered a systemic error in the calculation of a defined benefit obligation in respect of the employees' pension scheme. Further investigation revealed that the calculation had been incorrectly performed since the defined benefit plan was started in 20X0. The cumulative effect of the error on the retained earnings of the entity at the beginning of 20X8 is an overstatement of CU600,000. The entity reported total equity of CU950,000 at 31 December 20X7.**

The error is material—it could influence the economic decisions of users made on the basis of the financial statements.

Ex 16 **In 20X9, before the entity's 20X8 financial statements were approved for issue, a class action was filed against the entity. The class action seeks compensation for a community experiencing health problems allegedly caused by pollution from the entity's plant. Legal counsel advised management that there is a 30% probability that the action will be successful. If successful, the court is likely to award the community compensation of between CU1,000,000 and CU2,000,000.**

In its draft financial statements for the year ended 31 December 20X8, the entity neither recognised a liability for the class action nor disclosed any information about it. The draft financial statements reported profit for the year of CU600,000.

The omitted information is material—it could influence the economic decisions of users made on the basis of the financial statements.

Complete set of financial statements

3.17 A complete set of financial statements of an entity shall include all of the following:

(a) a **statement of financial position** as at the reporting date;

(b) either:

(i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**.

(ii) a separate **income statement** and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

(c) a **statement of changes in equity** for the reporting period;

(d) a **statement of cash flows** for the reporting period; and

(e) notes, comprising a summary of significant accounting policies and other explanatory information.

3.18 If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period **errors**, and changes in accounting policy, the entity may present a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).

3.19 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.

3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.

3.21 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.

3.22 An entity may use titles for the financial statements other than those used in this Standard as long as they are not misleading.

Notes

Section 4 contains requirements for the statement of financial position; Section 5 for the statement of comprehensive income and income statement; Section 6 for the statement of changes in equity and statement of income and retained earnings; Section 7 for the statement of cash flows; and Section 8 contains requirements for notes to the financial statements.

Identification of the financial statements

3.23 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) whether the financial statements cover the individual entity or a **group** of entities;

(c) the date of the end of the reporting period and the period covered by the financial statements;

(d) the **presentation currency,** as defined in Section 30 *Foreign Currency Translation;* and

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

Notes

The presentation currency is the currency in which the financial statements are presented.

An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. That approach is acceptable if the entity also discloses an appropriate level of rounding and does not omit material information.

Example –identification of financial statements

			Reference to
XYZ (formerly XY)			3.23(a)
Consolidated statement of financial position at 31 December 20X2			3.23(b) & (c)
	31 December 20X2	**31 December 20X1**	3.23(c)
	CU'000	CU'000	3.23(d) & (e)

…

3.24 An entity shall disclose the following in the notes:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and

(b) a description of the nature of the entity's operations and its principal activities.

Example–other disclosures

Ex 17 **Extract from the notes in A Limited's consolidated financial statements for the year ended 31 December 20X8:**

Note 1 General information

A Limited (the Company) is a limited company incorporated in Jurisdiction Y.
The address of its registered office and its principal place of business is:

First Floor

30 Cold Street

Ice City

AB11 1YZ

Jurisdiction X

A Limited consists of the Company and its wholly-owned subsidiary, B Limited.
Its principal activities are the manufacture and sale of ice cream and the provision of tours around its creamery.

Presentation of information not required by this Standard

3.25 This Standard does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.

Notes

An entity that prepares its financial statements in compliance with the *IFRS for SMEs* Standard is not required to present segment information and is not required to present earnings per share. However, an entity that chooses to present either segment information or earnings per share, or both, is required to describe the basis for preparing and presenting that information.

An entity that chooses to present segment information could elect to prepare its segment information applying the requirements of IFRS 8 *Operating Segments* of full IFRS Standards, but it is not required to do so. The entity could also prepare and present segment information on another basis. An entity that chooses to present segment information must describe the basis for preparing and presenting that information.

Similarly, an entity that chooses to present earnings per share could elect (but is not required) to calculate and present earnings per share in accordance with the requirements of IAS 33 *Earnings per Share* of full IFRS Standards. The entity could also prepare and present earnings per share on another basis. An entity that chooses to present earnings per share must describe the basis for preparing and presenting that information.

Neither full IFRS Standards nor the *IFRS for SMEs* Standard mandates which entities should publish interim financial reports, or how frequently or how soon after the end of an interim period they should be prepared. Those matters are decided by others (eg national governments). In other words, the preparation and presentation of interim financial reports is not required for an entity to comply with the requirements of the *IFRS for SMEs* Standard.

Applying paragraph 3.25, an entity that elects to prepare interim financial reports (or is required to do so) may prepare the report applying IAS 34 *Interim Financial Reporting* or another basis of interim reporting. An entity that prepares and presents interim financial reports must describe the basis for preparing and presenting that information.

Examples–earnings per share

Ex 18 **An entity that claims compliance with the *IFRS for SMEs* Standard elects to present earnings per share in accordance with IAS 33 *Earnings per Share*. The entity discloses that fact and adequately describes the basis for preparing and presenting earnings per share in its annual financial statements.**

The entity is compliant with the requirements of paragraph 3.25 of the *IFRS for SMEs* Standard.

Ex 19 **An entity that claims compliance with the *IFRS for SMEs* Standard presents basic earnings per share in accordance with IAS 33 *Earnings per Share*. However, contrary to the requirements of IAS 33, the entity does not present diluted earnings per share. The entity discloses, in its annual financial statements, the fact that it presents basic earnings per share and describes the basis for preparing and presenting basic earnings per share**

The entity is compliant with the requirements of paragraph 3.25 of the *IFRS for SMEs* Standard.

Ex 20 **An entity that wishes to claim compliance with the *IFRS for SMEs* Standard presents earnings per share in accordance with IAS 33 *Earnings per Share*. However, the entity does not disclose that fact in its annual financial statements. Furthermore, it does not describe the basis for preparing and presenting earnings per share.**

In this case, the entity does not comply with the requirements of paragraph 3.25 of the *IFRS for SMEs* Standard. Disclosure is required of the basis for preparing and presenting earnings per share. Consequently, the entity should not state that it has complied with the *IFRS for SMEs* Standard.

Ex 21 **An entity that wishes to claim compliance with the *IFRS for SMEs* Standard presents earnings per share in its financial statements. It calculates earnings per share by dividing 'maintainable earnings' by the number of ordinary shares in issue at the end of the reporting period. The entity computes 'maintainable earnings' by removing from net profit for the period specified items that it considers not to be indicative of the future maintainable earnings of the entity. The entity discloses, in its annual financial statements, the fact that it presents earnings per share and describes fully the basis for preparing and presenting earnings per share, including how it has calculated maintainable earnings.**

In this case, the entity complies with the requirements of paragraph 3.25 of the *IFRS for SMEs* Standard.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

An example in Section 3 is paragraph 3.9 which requires disclosure of 'material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern'.

In many cases little difficulty will be encountered when addressing the issues covered in Section 3. However, in some cases, a significant exercise of judgement will be required, for example, materiality assessments and assessments about an entity's ability to continue as a going concern.

Materiality assessments

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. An entity need not provide a specific disclosure required by the *IFRS for SMEs* Standard if the information would not be material. In addition, an entity's accounting policies need not be applied when the effect of not applying them is immaterial. Materiality assessments are made on the assumption that financial statement users have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.

The materiality of information depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

In September 2017 the Board issued Practice Statement 2 *Making Materiality Judgements*. The Board discussed whether the Practice Statement should be addressed to entities applying the *IFRS for SMEs* Standard. However, given the *IFRS for SMEs* Standard is a stand-alone accounting framework that does not refer to the concept of primary users in the *Conceptual Framework for Financial Reporting* and does not include recent changes to full IFRS Standards, the Board decided that the Practice Statement is not intended for entities applying the *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard permits, but does not require, entities to refer to guidance available in full IFRS Standards. Those entities may therefore refer to the

guidance in the Practice Statement in the same way they consider the requirements and guidance in full IFRS Standards dealing with similar and related issues in developing and applying accounting policies when the *IFRS for SMEs* Standard does not specifically address a transaction, other event or condition.

Going concern assessments

As set out in paragraphs 3.8 and 3.9, when preparing financial statements, the management of an entity must make an assessment of the entity's ability to continue as a going concern. Even when an entity is in financial difficulty, the going concern basis of preparation may still be appropriate. An entity is a going concern unless its management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When an entity faces financial difficulties, assessing whether it remains a going concern can be onerous. Its management will need to consider a wide range of factors, including future profitability, liquidity, covenants etc.

When an entity is assessed not to be a going concern (ie its management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so), the financial statements are not prepared on the going concern basis. When an entity's ability to continue as a going concern is in doubt (even though the entity might prepare its financial statements on the going concern basis), the entity must disclose information about those uncertainties.

COMPARISON WITH FULL IFRS STANDARDS

When preparing financial statements for periods beginning on 1 January 2017, the main difference between the requirements of full IFRS Standards (see IAS 1 *Presentation of Financial Statements*) and the *IFRS for SMEs* Standard (see Section 3 *Financial Statement Presentation*) are that the *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards.

IAS 1 and Section 3 of the *IFRS for SMEs* Standard are based on the same principles for the presentation of financial statements. However, since the *IFRS for SMEs* Standard is drafted in simpler language and includes much less guidance on how to apply the principles, differences between IAS 1 and Section 3 may arise in practice. Section 3 deals only with general presentation issues. Other issues covered by IAS 1 are set out in Sections 4–6 and 8 of the *IFRS for SMEs* Standard.

Applying the *IFRS for SMEs* Standard, if the only changes to an entity's equity during the periods for which financial statements are presented are those that arise from (1) profit or loss, (2) payment of dividends, (3) corrections of prior period errors, and (4) changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity. That simplified form of presentation is not available to entities that report by applying full IFRS Standards.

Applying full IFRS Standards, management includes in its financial statements a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (see IAS 1 paragraph 10(f)). The *IFRS for SMEs* Standard does not have an equivalent requirement (ie in those circumstances, an entity need not present a statement of financial position as at the beginning of the comparative period).

Some entities that prepare their financial statements in compliance with full IFRS Standards must prepare segment information in accordance with IFRS 8 *Operating Segments*. The *IFRS for SMEs* Standard does not require segment information to be presented in financial statements.

Similarly, some entities that prepare their financial statements in compliance with full IFRS Standards present earnings per share applying IAS 33 *Earnings per Share*. The *IFRS for SMEs* Standard does not require earnings per share to be presented in financial statements.

An entity complying with the *IFRS for SMEs* Standard that chooses to present segment information or earnings per share, or both, must describe the basis for preparing and presenting that information.

Module 3—Financial Statement Presentation

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for presenting information in financial statements applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all items mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

Mark the box next to the most correct statement.

Question 1

Fair presentation requires a faithful representation of the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Section 2.

According to the *IFRS for SMEs* Standard, fair presentation is presumed to result from:

☐ (a) compliance with the *IFRS for SMEs* Standard by an entity that has public accountability.

☐ (b) compliance with the *IFRS for SMEs* Standard, with additional disclosures when necessary, by an entity that has public accountability.

☐ (c) compliance with the *IFRS for SMEs* Standard by an entity that does not have public accountability.

☐ (d) compliance with the *IFRS for SMEs* Standard, with additional disclosures when necessary, by an entity that does not have public accountability.

Question 2

In which of the following situations can an entity that does not have public accountability claim compliance with the *IFRS for SMEs* Standard in its financial statements?

☐ (a) the entity prepares its financial statements in accordance with local GAAP that has substantially converged with the *IFRS for SMEs* Standard.

☐ (b) the entity prepares its financial statements in accordance with local GAAP that is, except in name, word-for-word the same as the *IFRS for SMEs* Standard.

☐ (c) the entity prepares its financial statements in accordance with the *IFRS for SMEs* Standard.

☐ (d) in both cases (b) and (c) above.

Question 3

An entity that is not publicly accountable must make an explicit and unreserved statement of compliance with the *IFRS for SMEs* Standard:

☐ (a) if the entity complies with all the requirements of *IFRS for SMEs* Standard.

☐ (b) if the entity complies with the vast majority of the requirements of *IFRS for SMEs* Standard.

☐ (c) if the entity complies with the national GAAP based on *IFRS for SMEs* Standard with some specific differences.

☐ (d) if the entity complies with full IFRS Standards.

Question 4

In which of the following situations is the entity not a going concern?

- ☐ (a) management intends to liquidate the entity.
- ☐ (b) management intends to cease the entity's operations.
- ☐ (c) management has no realistic alternative but to cease the entity's operations.
- ☐ (d) all of cases (a) to (c) above.

Question 5

When the classification of items in its financial statements is changed, the entity:

- ☐ (a) must not reclassify the comparative amounts.
- ☐ (b) can choose whether to reclassify the comparative amounts.
- ☐ (c) must reclassify the comparative amounts, unless it is impracticable to do so.

Question 6

Items of dissimilar nature or function:

- ☐ (a) must always be presented separately in financial statements.
- ☐ (b) must not be presented separately in financial statements (ie must be aggregated in the financial statements).
- ☐ (c) must be presented separately in financial statements if those items are material.

Question 7

Materiality depends on:

- ☐ (a) the nature of the omission or misstatement.
- ☐ (b) the size of the omission or misstatement.
- ☐ (c) the size and nature of the omission or misstatement judged in the surrounding circumstances.

Question 8

If the changes to the equity of an entity during the periods for which financial statements are presented arise only from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy:

- ☐ (a) the entity presents the income statement but not the statement of changes in equity.
- ☐ (b) the entity presents the statement of comprehensive income but not the statement of changes in equity.
- ☐ (c) the entity presents the income statement and the statement of changes in equity.
- ☐ (d) the entity presents the statement of comprehensive income and the statement of changes in equity.
- ☐ (e) the entity presents a single statement of income and retained earnings.
- ☐ (f) the entity may present the statement/s listed in either (c), (d) or (e).

Question 9

Except when the *IFRS for SMEs* Standard permits or requires otherwise, an entity must disclose comparative information for:

☐ (a) the previous comparable period for all amounts reported.

☐ (b) the previous comparable period for all amounts reported and for all narrative and descriptive information.

☐ (c) the previous comparable period for all amounts reported, and, when it is relevant to an understanding of the current period's financial statements, for all narrative and descriptive information.

☐ (d) the previous two comparable periods for all amounts reported.

Question 10

An entity shall present:

☐ (a) the statement of cash flows more prominently than the other statements.

☐ (b) the statement of financial position more prominently than the other statements.

☐ (c) the statement of comprehensive income more prominently than the other statements.

☐ (d) each financial statement with equal prominence.

Module 3—Financial Statement Presentation

Answers

Q1 (d) see paragraph 3.2
Q2 (d) see paragraphs 3.3, 1.5 and 3.2
Q3 (a) see paragraphs 3.3, 1.5 and 3.2
Q4 (d) see paragraph 3.8
Q5 (c) see paragraphs 3.11 and 3.12
Q6 (c) see paragraph 3.15
Q7 (c) see paragraph 3.16
Q8 (f) see paragraphs 3.17 - 3.19
Q9 (c) see paragraph 3.14
Q10 (d) see paragraph 3.21

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting financial statements applying the *IFRS for SMEs* Standard by completing the case study provided.

Once you have completed the case study, check your answers against those set out beneath it.

Case study

SME C is the wholly-owned subsidiary of SME B.

In 20X9, SME A acquired a controlling interest in SME B. To align the end of their reporting period with that of their parent, SME B and SME C immediately changed the end of their reporting periods from the last day of November to the last day of December. Furthermore, SME B and SME C changed their names to SME AA and SME AAA, respectively.

The entities prepare their financial statements applying the requirements of the *IFRS for SMEs* Standard.

All three entities operate in Jurisdiction A. The currency unit of Jurisdiction A is the functional currency and the presentation currency of the entities.

Prepare an extract from the notes to SME AA's 31 December 20X9 consolidated financial statements with respect to these developments.

Answer to case study

SME AA (formerly SME B)
Notes to the consolidated financial statements
for the 13-month period ended 31 December 20X9

Note 1. Basis of preparation and accounting policies

Basis of preparation

These consolidated financial statements have been prepared applying the *IFRS for SMEs* Standard issued by the International Accounting Standards Board. Amounts in the financial statements are presented in currency units (CU) of Jurisdiction A.

Name change

In 20X9, the group came under the control of SME A. To align their names with that of their new parent, the company and its wholly-owned subsidiary, SME C, changed their names to SME AA and SME AAA, respectively.

Reporting period

In 20X9, the group came under the control of SME A. To align the end of its reporting period with that of its parent, the company changed the end of its reporting period from the last day of November to the last day of December. The company's wholly-owned subsidiary, SME AAA (formerly SME C), also changed the end of its reporting period from the last day of November to the last day of December.

Consequently, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes are for a 13-month period ended 31 December 20X9.

The comparative figures are for the 12-month period ended 30 November 20X8. The figures are therefore not entirely comparable.

Basis of consolidation

The group consists of SME AA (formerly SME B) and its wholly-owned subsidiary SME AAA (formerly SME C). These consolidated financial statements have been presented as those of a single economic entity. The effects of all intragroup transactions are eliminated.