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**BREAK-OUT SESSION**

THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND  
MEDIUM-SIZED ENTITIES

(SECTION 35: TRANSITION TO THE IFRS FOR SMEs)

by

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## Section 35: Transition to the IFRS for SMEs

Tell me, I'll forget  
Show me, I may remember  
Involve me, I'll understand

This proverb epitomizes the pedagogical foundation of the case method—a method of classroom instruction and learning based upon an active interchange and interaction between and among participants and instructor. This is the approach utilized in this presentation.

### Relevant Standards

- Section 35: Transition to the IFRS for SMEs

### Others:

- IFRS for SMEs
- Full Set of IFRSs

### Objectives of Presentation:

- to distinguish when an entity is a first-time adopter of the IFRS for SMEs;
- to identify the date of transition to the IFRS for SMEs;
- to understand what is required, what is permitted, and what is prohibited when selecting an entity's initial accounting policies in accordance with the IFRS for SMEs to prepare an opening statement of financial position;
- to demonstrate an understanding of the mandatory exceptions and optional exemptions to retrospective application of the IFRS for SME on first time adoption provided within Section 35;
- to provide the disclosures required for a first-time adopter of the IFRS for SMEs; and
- to demonstrate an understanding of significant judgments that are required in accounting for the transition to the IFRS for SMEs.

## REQUIREMENTS AND PRACTICAL EXAMPLES

### 1. Scope of this section

35.1 *This section applies to a first-time adopter of the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRSs or another set of generally accepted accounting principles (GAAP) such as its national accounting standards, or another framework such as the local income tax basis.*

A first-time adopter of the IFRS for SMEs is an entity that presents its first annual financial statements that conform to the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRSs or another set of accounting standards or whether it ever prepared general purpose financial statements at all in the past.

### 2. First-time adopter of the IFRS for SMEs

35.2 *An entity can be a first-time adopter of the IFRS for SMEs only once. If an entity using the IFRS for SMEs stops using it for one or more reporting periods and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this section do not apply to the re-adoption.*

Thus a reporting entity which has a 31<sup>st</sup> December year end will be required to produce an IFRS for SMEs compliant report for the financial year commencing 1<sup>st</sup> January 2011. The beginning of the earliest period for which full comparative information is required is therefore 1<sup>st</sup> January 2010.

### 3. First-time adoption

35.3 *A first-time adopter of the IFRS for SMEs shall apply this section in its first financial statements that conform to this IFRS.*

The purpose of Section 35 is to establish guidance and to ease the reporting burden for an entity's first financial statements prepared in accordance with IFRS for SMEs.

### 4. Determining whether the entity is a first-time adopter of the IFRS for SMEs

35.4 *An entity's first financial statements that conform to this IFRS are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the IFRS for SMEs [Refer: paragraph 3.3]. Financial statements prepared in accordance with this IFRS are an entity's first such financial statements if, for example, the entity:*

- (a) did not present financial statements for previous periods;*
- (b) presented its most recent previous financial statements under national requirements that are not consistent with this IFRS in all respects; or*
- (c) presented its most recent previous financial statements in conformity with full IFRSs.*

An entity cannot assert compliance with the IFRS for SMEs unless it complies with all the requirements of this IFRS. Determining whether an entity is a first-time adopter of the IFRS for SMEs is the first step in applying Section 35.

## 5. Complete set of financial statements

35.5 *Paragraph 3.17 of this IFRS defines a complete set of financial statements.*

In accordance with paragraph 3.17 a 'complete set of financial statements' includes:

- (a) a statement of financial position as at the reporting date (see Section 4).
- (b) either: (see Section 5):
  - (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; or
  - (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 (see Section 6).
- (d) a statement of cash flows for the reporting period (see Section 7).
- (e) notes, comprising a summary of significant accounting policies and other explanatory information (see Section 8).

In addition, paragraph 3.14 requires an entity to present comparative information in respect of the previous comparable period.

## 6. Comparative information

35.6 *Paragraph 3.14 requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Therefore, an entity's date of transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information in accordance with this IFRS in its first financial statements that conform to this IFRS.*

The IFRS for SMEs requires comparative information to be presented in compliance with the IFRS for SMEs for at least one year (see paragraph 3.14).

## 7. Procedures for preparing financial statements at the date of transition

35.7 *Except as provided in paragraphs 35.9–35.11, an entity shall, in its opening statement of financial position as of its date of transition to the IFRS for SMEs (i.e. the beginning of the earliest period presented):*

*(a) recognise all assets and liabilities whose recognition is required by the IFRS for SMEs;*

*(b) not recognise items as assets or liabilities if this IFRS does not permit such recognition;*

*(c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under this IFRS; and*

*(d) apply this IFRS in measuring all recognised assets and liabilities.*

### Case 1: Recognise all assets and liabilities (paragraph 35.7(a))

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative information (i.e. 20X3). On 1 January 20X2 the entity entered, as lessee, into the lease of a machine. If the entity had always accounted for the lease in accordance with the IFRS for SMEs, the lease agreement would have been classified as a financial lease and in the entity's statement of financial position at 31 December 20X2 the leased asset and the lease liability would have been measured at \$97 413 and \$88 649 respectively. The entity was not a reporting entity before and did not fully apply FAS 17. In its financial statements for the year ended 31 December 20X3 the entity accounted for all leases as operating leases. Consequently, the entity accounted for the lease payments as an expense in profit or loss evenly over the lease term. Because the lease required equally monthly payments the entity did not recognize an asset or liability in its statement of financial position.

#### Required

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

### Case 2: Not recognise items as assets or liabilities (paragraph 35.7(b))

An entity's financial statements for the year ended 31 December 20X4 are its first financial statements that conform to the IFRS for SMEs. Those financial statements include comparative information for only one year (20X3). An entity presented its financial statements for the year ended 31 December 20X3 in accordance with its local income tax requirements. In accordance with that previous financial

reporting framework the entity accounted for all expenditure on research and development activities as intangible assets.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 3: Reclassification of items (paragraph 35.7(c))**

The entity's financial statements for the year ended 31 December 20X4 are its first financial statements that conform to the IFRS for SMEs. Those financial statements include comparative information for only one year (20X3). The entity presented its financial statements for the year ended 31 December 20X3 in compliance with a local GAAP. In compliance with that previous financial reporting framework the entity presents the part of its deferred tax assets and deferred tax liabilities that are expected to be settled within 12 months of the reporting date as current assets and current liabilities respectively in its statement of financial position.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 4: Measuring recognised assets and liabilities (paragraph 35.7(d))**

An entity that previously prepared its financial statements in compliance with full IFRSs accounted for its property, plant and equipment using the revaluation model (i.e. carrying amount = fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation increases are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus). The entity's financial statements for the year ended 31 December 20X4 are its first financial statements that conform to the IFRS for SMEs. Those financial statements include comparative information for only one year (20X3). On the date of transition, the entity did not choose to apply the fair value or revaluation as deemed cost exemptions in paragraphs 35.10(c) and 35.10(d).

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

## 8. Accounting policies

35.8 *The accounting policies that an entity uses in its opening statement of financial position under this IFRS may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this IFRS. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this IFRS.*

Adjustments of items of income and expense related to transactions, to other events or to conditions that occurred before the date of transition to the IFRS for SMEs are recognised directly in retained earnings (or, if appropriate, in another category of equity) at the date of transition.

Adjustments of items of income and expense related to transactions, to other events or to conditions that occurred in the period between the date of transition to the IFRS for SMEs and the reporting date of the entity's first financial statements that comply with the IFRS for SMEs are recognised in profit or loss of the period in which they arise.

## 9. The changes in reporting practices that must not be applied retrospectively

35.9 *On first-time adoption of this IFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:*

- (a) derecognition of financial assets and financial liabilities. Financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition should not be recognised upon adoption of the IFRS for SMEs. Conversely, for financial assets and liabilities that would have been derecognized under the IFRS for SMEs in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose (a) to derecognise them on adoption of the IFRS for SMEs or (b) to continue to recognise them until disposed of or settled.*
- (b) hedge accounting. An entity shall not change its hedge accounting before the date of transition to the IFRS for SMEs for the hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section 12 Other Financial Instruments Issues, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 12.*
- (c) accounting estimates.*
- (d) discontinued operations.*
- (e) measuring non-controlling interests. The requirements of paragraph 5.6 to allocate profit or loss and total comprehensive income between non-controlling interest and owners of the*

*parent shall be applied prospectively from the date of transition to the IFRS for SMEs (or from such earlier date as this IFRS is applied to restate business combinations see paragraph 35.10).*

**Case 5: Exception—derecognition of financial assets (paragraph 35.9(a))**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative information (i.e. 20X3). The entity's financial statements for the year ended 31 December 20X3 were presented in accordance with local GAAP. In compliance with that previous financial reporting framework the entity derecognised particular financial assets—trade receivables that the entity sold to a bank before the date of transition to IFRS for SME at less than their face amount. The entity simultaneously agreed to buy back from the bank any part of those receivables that remained outstanding for more than 120 days. If the IFRS for SMEs had been applied, those trade receivables would not have been derecognised—they would have been measured at \$10 000 on 31 December 20X2 with a corresponding liability for the amount advanced from the bank.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 6: Exception—hedge accounting (paragraph 35.9(b))**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative information (i.e. 20X3). The entity's financial statements for the year ended 31 December 20X3 were presented in accordance with local GAAP. The entity had no active hedging relationships at the date of transition to the IFRS for SMEs. However, in conformity with its previous financial reporting framework, the entity has used a type of hedge accounting (recognised change in the fair value of the hedged item and the change in the fair value of the hedging instrument in profit or loss in the period of the change) for many items that would not qualify for hedge accounting in accordance with the IFRS for SMEs.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 7: Exception—accounting estimates (paragraph 35.9(c))**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative information (i.e. 20X3). The entity's financial statements for the year ended 31 December 20X3 were presented in accordance with local GAAP. In its statement of financial position at 31 December 20X3 the entity measured its environmental restoration liability at \$10 000 (20X2: \$9 500). The requirements for recognising and measuring the provision using its previous financial reporting framework are the same as those in Section 21 Provisions and Contingencies of the IFRS for SMEs.

In late 20X4 unexpected advances in technology greatly reduced the expected costs of environmental restoration. Consequently, the entity measured the liability at \$5 200 in its statement of financial position at 31 December 20X4. Had information about that new technology been available at 31 December 20X3 and at 31 December 20X2, the entity would then have measured the liability at \$5 000 and \$4 750 respectively.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 8: Exception—discontinued operations (paragraph 35.9(d))**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative information (i.e. 20X3). The entity's financial statements for the year ended 31 December 20X3 were presented in accordance with local GAAP. Local GAAP has no special requirements for discontinued operations. In early 20X2 the entity sold particular operations that satisfy the definition of a discontinued operation in the IFRS for SMEs.

**Required**

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

**Case 9: Exception—non-controlling interests (paragraph 35.9(e))**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include only one year of comparative

information (i.e. 20X3). The entity's financial statements for the year ended 31 December 20X3 were presented in accordance with local GAAP. In accordance with the previous financial reporting framework, the entity was required to present consolidated financial statements, but it was not required to allocate part of its consolidated total comprehensive income to the non-controlling interest.

### Required

Show the adjustments (if any) in its opening statement of financial position as of its date of transition to the IFRS for SMEs.

### 10. Changes in reporting practices that an entity can choose to apply, or not to apply in preparing the first financial report that conforms to the IFRS for SMEs

- 35.10 *An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this IFRS:*
- (a) Business combinations. A first-time adopter may elect not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to this IFRS. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.*
  - (b) Share-based payment transactions. A first-time adopter is not required to apply Section 26 Share-based Payment to equity instruments that were granted before the date of transition to this IFRS, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this IFRS.*
  - (c) Fair value as deemed cost. A first-time adopter may elect to measure an item of property, plant and equipment, an investment property, or an intangible asset on the date of transition to this IFRS at its fair value and use that fair value as its deemed cost at that date.*
  - (d) Revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP [i.e. its previous financial reporting framework] revaluation of an item of property, plant and equipment, an investment property, or an intangible asset at, or before, the date of transition to this IFRS as its deemed cost at the revaluation date.*
  - (e) Cumulative translation differences. Section 30 Foreign Currency Translation requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to the IFRS for SMEs (i.e. a 'fresh start').*
  - (f) Separate financial statements. When an entity prepares separate financial statements, paragraph 9.26 requires it to account for its investments in subsidiaries, associates, and jointly controlled entities either:*
    - (i) at cost less impairment, or*
    - (ii) at fair value with changes in fair value recognised in profit or loss.*

*If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts in its separate opening statement of financial position prepared in accordance with this IFRS:*

*(i) cost determined in accordance with Section 9 Consolidated and Separate Financial Statements, or*

*(ii) deemed cost, which shall be either fair value at the date of transition to the IFRS for SMEs or previous GAAP [previous financial reporting framework] carrying amount on that date.*

*(g) Compound financial instruments. Paragraph 22.13 requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this IFRS.*

*(h) Deferred income tax. A first-time adopter is not required to recognise, at the date of transition to the IFRS for SMEs, deferred tax assets or deferred tax liabilities relating to differences between the tax basis and the carrying amount of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.*

*(i) Service concession arrangements. A first-time adopter is not required to apply paragraphs 34.12–34.16 to service concession arrangements entered into before the date of transition to this IFRS.*

*(j) Extractive activities. A first-time adopter using full cost accounting under previous GAAP [previous financial reporting framework] may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to the IFRS for SMEs at the amount determined under the entity's previous GAAP [previous financial reporting framework]. The entity shall test those assets for impairment at the date of transition to this IFRS in accordance with Section 27 Impairment of Assets.*

*(k) Arrangements containing a lease. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to the IFRS for SMEs contains a lease (see paragraph 20.3) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.*

*(l) Decommissioning liabilities included in the cost of property, plant and equipment. Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the IFRS for SMEs, rather than on the date(s) when the obligation initially arose.*

### **Exemption—business combinations (paragraph 35.10(a))**

Entities can either apply FAS 22 or apply the IFRS for SMEs Section 19. The decision can be made on a case by case basis, but if the IFRS for SMEs is adopted for one combination, it must be adopted for all subsequent combinations.

Section 19 paragraph 23 of the Standard requires goodwill to be both tested for impairment and also amortised. Amortisation is presumed to be applied on a straight line basis at 10% of costs. In contrast FAS 22 paragraphs 44-45 require goodwill to be tested for impairment and amortised annually on a straight line basis of 5% of cost. The following case demonstrates how the entity might proceed.

#### **Case 10**

An entity's first financial statements that conform to the IFRS for SMEs are presented for the year ended 31 December 20X4. Those financial statements include one year of comparative information (i.e. 20X3).

The only business combination that the group entered into was the acquisition of 100 per cent of the equity of another entity on 1 January 20X2 in exchange for \$10 000. On 1 January 20X2 the carrying amount of the acquiree's net assets was \$5 000. At that time the fair value of its identifiable assets, liabilities and contingent liabilities was \$8 000.

In accordance with local GAAP, the entity, at initial recognition, measured the acquired goodwill at \$2 000. Under the previous financial reporting framework, the group amortised goodwill on a straight-line basis to a nil residual value over 20 years. If the IFRS for SMEs had been applied by the group, it would have amortised the \$2 000 goodwill on the straight-line basis to a nil residual value over 10 years. The entity tests the goodwill for impairment at 31 December 20X3 and 31 December 20X4 and determines its worth to be \$1 710 and \$1 550 respectively.

#### **Required:**

Notional journal entries required as at 1 January 20X4 and 31 December 20X4, if the entity chooses:

- (a) To apply the exemption allowed in the IFRS for SMEs relating to business combinations at transition.
- (b) Not to apply the exemption allowed in the IFRS for SMEs relating to business combinations at transition.

**Exemption—share-based payment transactions (paragraph 35.10(b))**

There are no FAS regulating share based payments. It seems unlikely in the extreme that any such transactions have taken place. In the event that there are such transactions prior to the date of transition they can be reported in this fashion subsequent to transition, or the requirements of the IFRS for SMEs can be applied.

**Exemption—fair value as deemed cost (paragraph 35.10(c))/revaluation as deemed cost (paragraph 35.10(d))**

Entities can retain any revaluation made under FAS 16 or revert to reporting on cost less depreciation less impairment as per IFRS for SMEs Section 17.

**Case 11**

An entity's first set of financial statements to conform to the requirements of the IFRS for SMEs is prepared for the financial year end 31 December 20X7. Those financial statements include one year's comparative information, i.e. for 20X6. The entity acquired an item of plant on 1 January 20X1 for \$10 000. It has an expected life of ten years and a zero scrap value. The entity applies depreciation on a straight line basis. On 31 December 20X5 the entity revalues the asset to \$8 000. Other estimates remain unchanged. The tax rate applied to the entity's income has been 30% since 20X1. There is no expectation that this will change in the foreseeable future.

**Required**

Show the journal entries as at 1 January 20X7 and 31 December 20X7 if:

- (a) The entity opts to regard the balance on the asset account at transition as its deemed cost.
- (b) The entity opts to restate the asset at its cost less depreciation at transition.

**Exemption—cumulative translation differences (paragraph 35.10(e))**

Section 30 paragraph 13 of the IFRS for SMEs require exchange differences arising from a monetary item that is part of the entity's net investment in a foreign operation to be reported in other comprehensive income and reported as a component of equity. FAS 21 paragraph 17 requires such exchange differences to be classified as equity. On disposal of the investment in the foreign investment the cumulative differences are taken to operating profit.

The IFRS for SMEs allows any balance in equity at transition relating to these exchange rate differences to be incorporated into equity.

### **Exemption—separate financial statements (paragraph 35.10(f))**

Only applies to entities that prepare consolidated/separate financial statements.

- Separate Financial Statements (relating to holding company's investments)
  1. FAS 27 allow investments to be carried at:
    - a. Cost
    - b. Valuation through the equity method
    - c. Fair value, with changes reported through profit and loss
  
  2. IFRS for SMEs Section 9 allows investments to be carried at:
    - a. Cost less impairment
    - b. Fair value, with changes reported through profit and loss
    - c. FAS 27 valuation as deemed cost

Note: Where an FAS 27 valuation as deemed cost is taken, no deferred tax asset/liability is to be recognised unless the temporary difference is expected to reverse in the foreseeable future.

### **Exemption—compound financial instruments (paragraph 35.10(g))**

Both FAS 32 and IFRS for SMEs Section 22 require the equity and liability elements of compound financial instruments to be reported separately.

### **Exemption—Deferred income tax (paragraph 35.10(h))**

FAS 12 apply the income statement approach to tax effect accounting. The IFRS for SMEs applies the balance sheet approach to tax effect accounting.

Deferred tax assets and liabilities need not be identified on transition if the entity would incur undue costs in doing so. This exemption could apply to entities in Fiji that have revalued noncurrent assets in the past and no longer have access to data relating to their acquisition cost.

**Exemption—Service concession arrangements (paragraph 35.10(i))** (Where a private interest operates a public asset)

There is no FAS regulation pertaining to such arrangements. IFRS for SMEs Section 34 identifies two forms of arrangement that could give rise to a financial asset, an intangible asset or both. On transition a reporting entity can continue to apply the method of reporting to service concession arrangements already in place.

### **Exemption—extractive activities (paragraph 35.10(j))**

IFRS for SMEs Section 35 requires the successful efforts method to be employed in reporting assets used in extracting raw materials. FAS are silent on this issue. If assets used in extracting raw materials have been reported on a full cost basis the entity can continue to do so on transition to the IFRS for SMEs, but the valuation is subject to impairment testing.

### **Exemption—Arrangements containing a lease (paragraph 35.10(k))/decommissioning liabilities included in the cost of property, plant and equipment (paragraph 35.10(l))**

- Arrangements containing a lease - the requirements of FAS 17 are the same as those of the IFRS for SMEs Section 20.
- Arrangements for decommissioning liabilities included in the cost of property plant and equipment - the requirements of FAS 16 are the same as those of the IFRS for SMEs Section 17.

The accounting requirements of the IFRS for SMEs and FAS 16 and 17 are the same. Consequently the exemptions offered on these issues are redundant in Fiji.

### **11. Impracticable for an entity to restate the opening statement of financial position at the date of transition**

35.11 *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 required by paragraph 35.7, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall 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 this IFRS. If it is impracticable for an entity to provide any disclosures required by this IFRS for any period before the period in which it prepares its first financial statements that conform to this IFRS, the omission shall be disclosed.*

'Impracticable' is a high hurdle—applying a requirement is impracticable only when the entity cannot apply it after making every reasonable effort to do so.

### **12. Explanation of transition to the IFRS for SMEs**

35.12 *An entity shall explain how the transition from its previous financial reporting framework to this IFRS affected its reported financial position, financial performance and cash flows.*

### **13. Reconciliations**

35.13 *To comply with paragraph 35.12, an entity's first financial statements prepared using this IFRS shall include:*

*(a) a description of the nature of each change in accounting policy.*

*(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this IFRS for both of the following dates:*

*(i) the date of transition to this IFRS, and*

*(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.*

*(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this IFRS for the same period.*

See Comprehensive Case Study below for illustration.

### **14. Errors made under its previous financial reporting framework**

35.14 *If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.*

### **15. Did not present financial statements for previous periods**

35.15 *If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this IFRS.*

## Disclosures on transition: Comprehensive Case Study

Entity Y started its operations on 1 January 20X0 and elected a reporting date of 31 December. The entity has been preparing its financial statements in accordance with local Fiji Accounting Standards (FAS) since 1 January 20X0.

In 20X4 the entity's management decided to adopt the IFRS for SMEs. The financial statements for the year ended 31 December 20X5 are the first set of financial statements presented by Entity Y that comply with the IFRS for SMEs, including an explicit and unreserved statement of compliance with the IFRS for SMEs. Those financial statements include only one year of comparative information (i.e. the year 20X4). The entity's date of transition to the IFRS for SMEs is 1 January 20X4.

In accordance with the previous financial reporting framework, Entity Y adopted some accounting policies that differ from the accounting policies required or allowed by the IFRS for SMEs. The following is the list of the effects of those material differences:

- (a) Depreciation of the entity's sales office in accordance with the previous financial reporting framework was calculated without reference to its residual value, and as a consequence, at 1 January 20X4 the carrying amount of property, plant and equipment was \$100 lower than what it would have been if the entity had applied the IFRS for SMEs. Profit for 20X4 was \$25 lower than if the IFRS for SMEs was used.
- (b) Intangible assets, in accordance with the previous financial reporting framework at 1 January 20X4, included \$150 for items that in accordance with the IFRS for SMEs would have been recognized in goodwill because they do not qualify for recognition as separate intangible assets. Profit for 20X4 is not affected.
- (c) Financial assets that Section 11 Basic Financial Instruments and 12 Other Financial Instruments Issues required to be accounted for at fair value through profit or loss were, in accordance with the previous financial reporting framework, carried at cost. As a consequence, at 1 January 20X4 the carrying amount is \$420 lower than if the IFRS for SMEs had been used. In 20X4 the increase in fair value of such financial assets was \$180.
- (d) Plant purchased on 1 January, 20X0 for \$3 000 with a projected life of 30 years, was revalued on 31 December 20X3 to \$3 900. There is no change in the expected life of the plant, which is expected to have a zero residual value. On transitioning to the IFRS for SMEs the entity opts to take the balance on the account as its deemed costs. The rate of income tax applied has been maintained at 30% over entity Y's entire operations. Entity Y has made a taxable profit in each of its operations.

The following information was extracted from the Balance sheet of Entity Y as at 31 December 20X3 (i.e. at 1 January 20X4, the date of transition to the IFRS for SMEs):

	FAS		FAS
	\$		\$
Property, plant and equipment	8 299	Interest-bearing loans	9 396
Goodwill	1 220	Trade and other payables	4 124
Intangible assets	208	Deferred tax liability	209
Financial assets	<u>3 471</u>	Other Liabilities	<u>621</u>
Total non-current assets	13 198	Total liabilities	14 350
Trade and other receivables	3 710		
Inventories	2 962		
Other receivables	333	Total assets less total liabilities	6 601
Cash and cash equivalents	<u>748</u>		
Total current assets	<u>7 753</u>	Issued Capital	1 500
Total assets	20 951	Retained earnings	<u>5 101</u>
		Total equity	6 601

The following information was extracted from the Income Statement for Entity Y for the year ended 31 December 20X4:

	FAS
	\$
Revenue	20 910
Cost of sales	<u>(15 283)</u>
Gross profit	5 627
Distribution costs	(1 907)
Other operating expenses	(2 842)
Finance income	1 446
Finance costs	<u>(1 902)</u>
Profit before extraordinary items	
and Income tax	422
Extraordinary item	(20)
Income tax expense	<u>(138)</u>
Net profit for the year	264

**Required**

**Part A:** Prepare the reconciliations of Entity Y's equity determined in accordance with the previous financial reporting framework and its equity determined in accordance with the IFRS for SMEs at the date of transition to the IFRS for SMEs at 1 January 20X4.

Note: A similar reconciliation of equity at the end of the latest period presented in the entity's most recent annual financial statements that were determined in accordance with its previous financial reporting framework is required in paragraph 35.13 (b) (ii).

**Part B:** Prepare the reconciliation of Entity Y's profit determined in accordance with its previous financial reporting framework for the latest period presented in the entity's most recent annual financial statements to its profit determined in accordance with the IFRS for SMEs for the same period (i.e. for the year ended 31 December 20X4).

## Answer sheet

### Reconciliation of equity at 1 January 20X4 (date of transition to the IFRS for SMEs)

Note	Previous financial reporting framework \$	Effect of transition to the IFRS for SMEs \$	IFRS for SMEs \$
Property, plant and equipment	8 299		
Goodwill	1 220		
Intangible Assets	208		
Financial Assets	<u>3 471</u>		
Total non-current assets	13 198		
Trade and other receivables	3 710		
Inventories	2 962		
Other receivables	333		
Cash and cash equivalents	<u>748</u>		
Total current assets	<u>7 753</u>		
Total assets	20 951		
Interest-bearing loans	9 396		
Trade and other payables	4 124		
Employee benefits	-		
Deferred tax liabilities	209		
Other liabilities	<u>621</u>		
Total liabilities	<u>14 350</u>		
Total assets less liabilities	6 601		
Issued capital	1 500		
Retained earnings	<u>5 101</u>		
Total equity	6 601		

## Reconciliation of total comprehensive income for 20X4

Note	Previous financial reporting framework \$	Effect of transition to the IFRS for SMEs \$	IFRS for SMEs \$
Revenue	20 910		
Cost of sales	<u>(15 283)</u>		
Gross profit	5 627		
Other income	-		
Distribution costs	(1 907)		
Other Operating Expenses	(2 842)		
Finance income	1 446		
Finance costs	<u>(1 902)</u>		
Profit for the year	422		
Extraordinary item	(20)		
Income tax expense	<u>(138)</u>		
Net profit for the year	264		