Agenda Paper 12.1

asian-oceanian standard-setters group

THE NINTH ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS

29-30 November 2017 China

IFRS for SMEs Working Group

By Tan Bee Leng

AOSSG Working Group: Specific Topic – IFRS for SMEs

- The new WG comprises:
  - Malaysia (Leader)
  - Cambodia
  - Indonesia
  - Nepal
  - Pakistan
  - Syria

Workdone

- Analysis of Application of *IFRS for SMEs* in AOSSG
- Survey on Application of *IFRS for SMEs* in AOSSG

Analysis of Application of *IFRS for SMEs* in AOSSG

Analysis of Application of *IFRS for SMEs* in AOSSG

Objective

To consider the extent of *IFRS for SMEs* application in AOSSG.

Key Findings

	Number of AOSSG jurisdictions	
IFRS for SMEs permitted	9	12
IFRS for SMEs with modifications permitted	1	
SMEs not required to use full IFRS are required to use IFRS for SMEs	2	
IFRS for SMEs not used (under consideration)	14 (3)	Brunei, Mongolia & Thailand
Total	**26**	

(see Appendix 1 for the details)

Analysis of Application of *IFRS for SMEs* in AOSSG

IFRS for SMEs permitted	IFRS for SMEs with modifications permitted	SMEs not required to use full IFRS are required to use IFRS for SMEs	IFRS for SMEs under consideration	IFRS for SMEs not used
Cambodia	Malaysia	Pakistan	Brunei	Australia
Dubai		Saudi Arabia	Mangolia	China
Hong Kong			Thailand	India
Iraq				Indonesia
Kazakhstan				Japan
Nepal				Korea
Philippines				Macao
Singapore				New Zealand
Sri Lanka				Syria
				Uzbekistan
				Vietnam

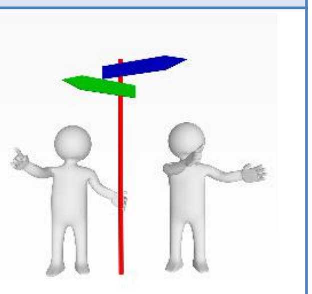
Survey on Application of *IFRS for SMEs* in AOSSG

Objective of the Survey

- To facilitate the AOSSG in providing input and feedback to the IASB on *IFRS for SMEs*:
  - on what is working and what isn't working in relation to *IFRS for SMEs* in the AOSSG region; and
  - whether the IASB should incorporate changes in each of the major new IFRS (IFRS 9, IFRS 15 & IFRS 16) and any modifications if these Standards were to be incorporated into *IFRS for SMEs*.

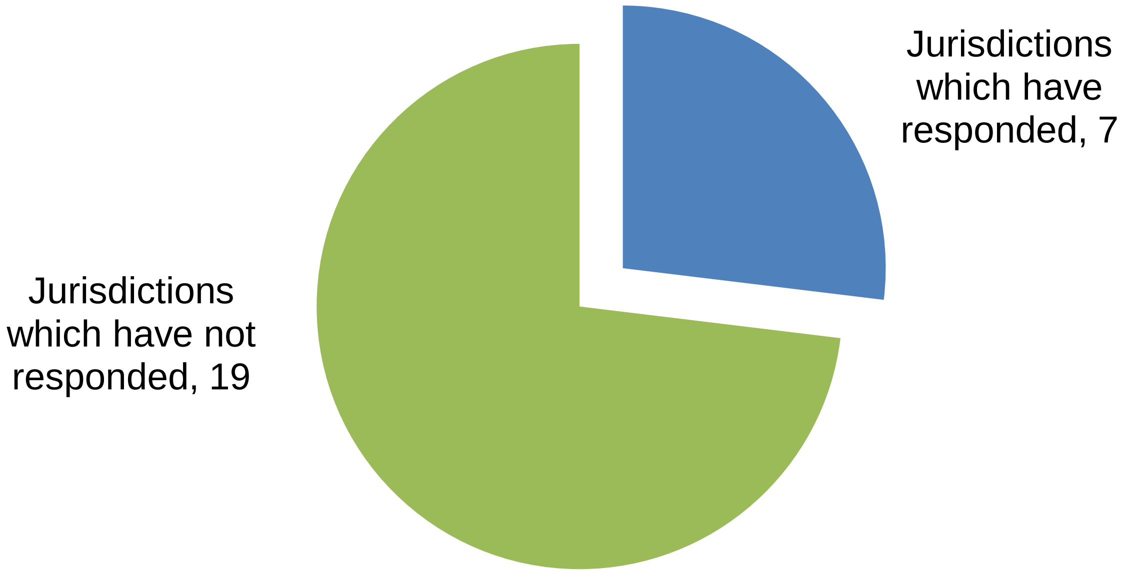
(See Appendix 2 for the Survey questions)

Key Findings

7 out of 26 jurisdictions (**27%)** responded. Only **3** respondents had Comments. 	**5** respondents use local GAAP. 
2 respondents noted some areas are complex or unduly burdensome to apply. 	<u>Undue cost or effort exemptions:</u> **2** respondents noted some areas are not helpful **1** respondent suggested improvement to the Training Material. 
3 respondents do not agree to incorporate IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011). 	**3** respondents have divergent views to incorporate IFRS 9, IFRS 15 and IFRS 16. 

About the Survey – Participants

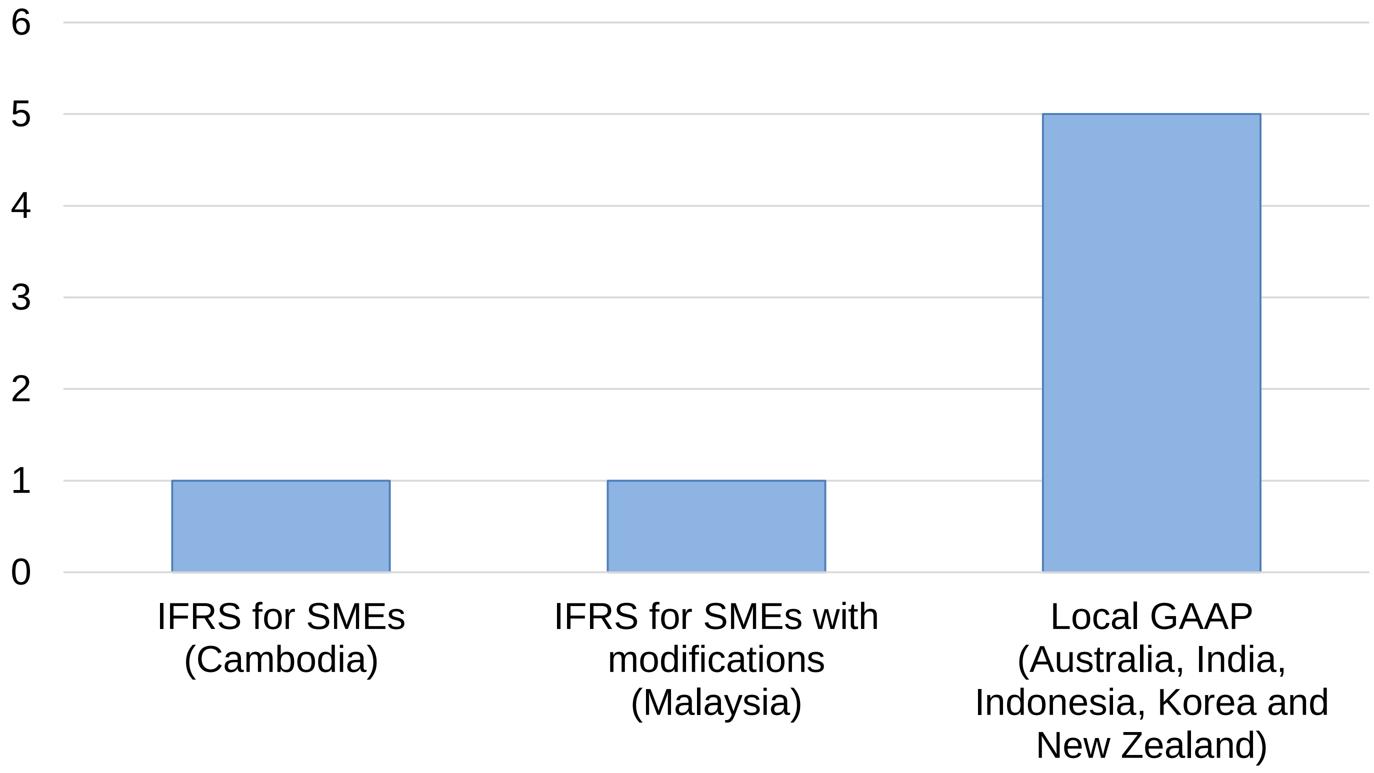
- Survey circulated to all AOSSG members (26)



IFRS for SMEs (or equivalent) permitted:
1. Cambodia
2. Malaysia

IFRS for SMEs not used (applying Local GAAP):
1. Australia
2. India
3. Indonesia
4. Korea
5. New Zealand

Analysis of Accounting Frameworks applied by respondents



Why Local GAAP

Korea

- No comment

Indonesia

- Tier 2 – for entities with no significant public accountability (effective 1.1.2010)
  - Developed using *IFRS for SMEs* ED as one point of reference but further simplified taking into consideration stakeholders' responses.
- Tier 3 – for micro, small and medium entities that meet the definition and criteria of micro, small and medium as stipulated by the laws and regulations applicable in Indonesia, at least for 2 consecutive years

India

- *IFRS for SMEs* is too simplified. Other reasons:
  - Existing standards are updated with converged IFRS principles, namely Ind AS subject to minimal use of FV and Time Value of Money, minimal disclosures and simplification
  - Some sections in *IFRS for SMEs* are too simple and some are too difficult to adopt without adequate guidance.
  - Some sections, eg. Financial Instruments, Presentation of Financial Statements in *IFRS for SMEs* require restructuring.
  - Few sections, eg. Section 29 *Income Tax*, Section 27 *Impairment of Assets* require detailed explanation along with illustrations for better clarity and understanding.
  - Relevance of few sections, eg. Share Based Payments, Hyperinflation may need to be evaluated.
- In the above context, some of India ASs as applicable to the SME sector are at higher platform and better structure.

Why Local GAAP

Australia

- Tier 2 reporting have the same recognition (R), measurement (M) and presentation requirements as Tier 1 (full IFRS), but significantly reduced disclosure requirements.
- *IFRS for SMEs* is not suitable for Tier 2 due to concerns below:
  - some accounting policy options removed are the favoured Australian option;
  - *IFRS for SMEs* forces subsidiaries to adjust their accounting policies for consolidation purposes when parents apply IFRS (Tier 1 in Australia);
  - *IFRS for SMEs* is only updated every three years;
  - different streams of R&M requirements would require different streams of knowledge;
  - loss of comparability across Australian entities; and
  - comparability with overseas entities applying *IFRS for SMEs* have limited benefits as entities seeking to access international capital markets would generally apply IFRS.

New Zealand

- XRB decided on the reduced disclosure regime (RDR) over other approaches, including *IFRS for SMEs* as it retains the same R&M requirements as NZ IFRS. Advantages are:
  - preparers and users need to be familiar with only one set of R&M requirements which are applied in both NZ IFRS and NZ IFRS RDR;
  - comparability of financial information between NZ IFRS and NZ IFRS RDR is enhanced;
  - preparation of consolidated financial statements where a group comprises entities that apply both NZ IFRS and NZ IFRS RDR is simplified; and
  - easier and less costly for entities to move between NZ IFRS and NZ IFRS RDR.
- RDR approach is common with the approach taken in Australia. Hence, adopting RDR approach in New Zealand enhances harmonisation with Australia and reduces compliance costs for entities with trans-Tasman reporting obligations.

Part 1: What is working and what is not working in relation to *IFRS for SMEs* in the AOSSG region

In your jurisdiction, is there:
(1) any requirement which is complex or unduly burdensome to apply?
(2) any other issues that you think should be brought to the IASB's attention?

^ **Section 12 *Other Financial Instrument Issues*** - to explicitly incorporate accounting requirement for issuers of FGC, after initial recognition, to be measured at the higher of:

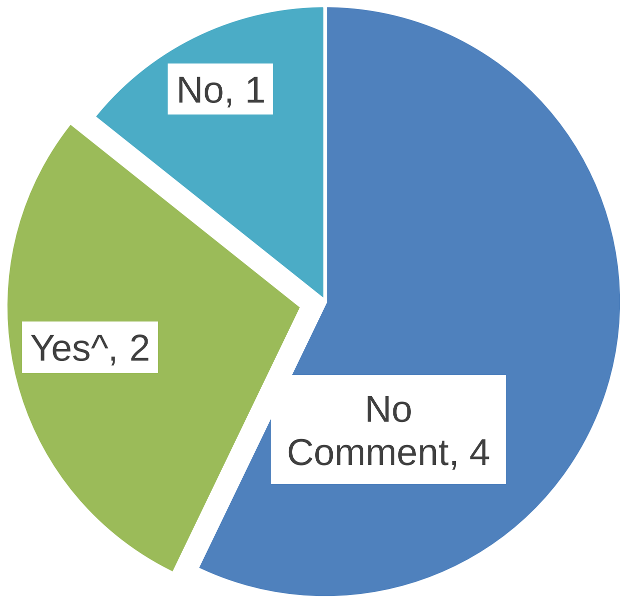
(i) the amount determined in accordance with Section 21 *Provisions and Contingencies*; and
(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with Section 23 *Revenue*.

Section 22 *Liabilities and Equity* - application of concept of substantial contractual arrangement and puttable instrument exception is complex and difficult for practical implementation for SMEs (liability and equity may be based on legal form for evaluation)

Section 27 *Impairment of Assets* – concept of VIU, CGU are complex and difficult to apply for SMEs (alternative and simplified method is required)

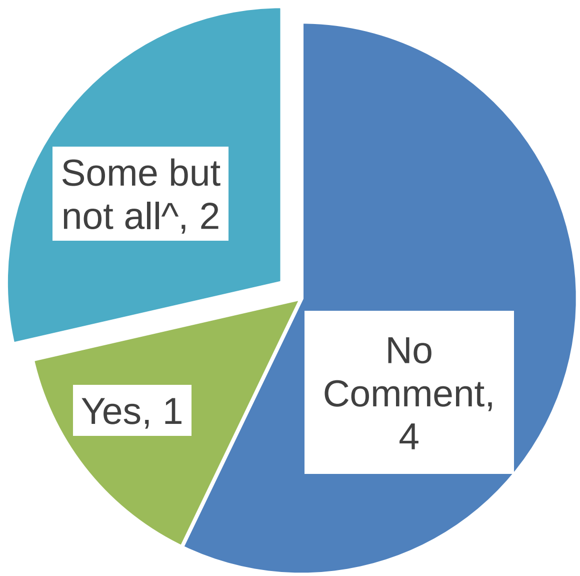
Section 29 *Income Tax* - BS approach is difficult to understand and apply (income statement approach easier to understand)

Section 31 *Hyperinflation* - applicability of this section needs to be evaluated



Part 1: What is working and what is not working in relation to *IFRS for SMEs* in the AOSSG region

An undue cost or effort exemption is specified for some requirements in *IFRS for SMEs*. Is this exemption helpful in providing relief to SMEs in your jurisdiction?



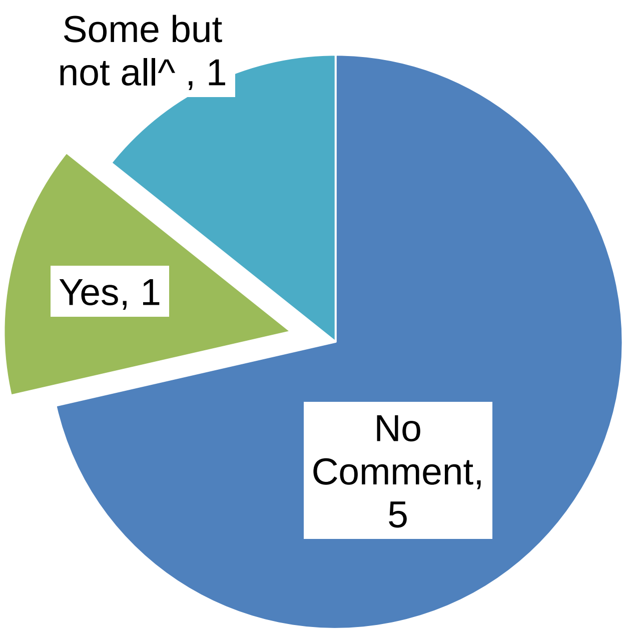
^ (1) To remove the undue cost or effort exemption for investment property and biological assets; and provide FV model and cost model as an accounting policy choice.

(2) FV measurement is an accounting policy for investment property, insertion of choice of undue cost or effort exemption for initial measurement is confusing and may be avoided.

(3) Criteria for classification and measurement of preference shares as equity or liability is confusing.

Part 1: What is working and what is not working in relation to *IFRS for SMEs* in the AOSSG region

Are the explanations or examples in the IFRS Foundation: Training Material for *IFRS for SMEs* helpful in demonstrating how an entity could satisfy the criteria to apply the undue cost or effort exemption?

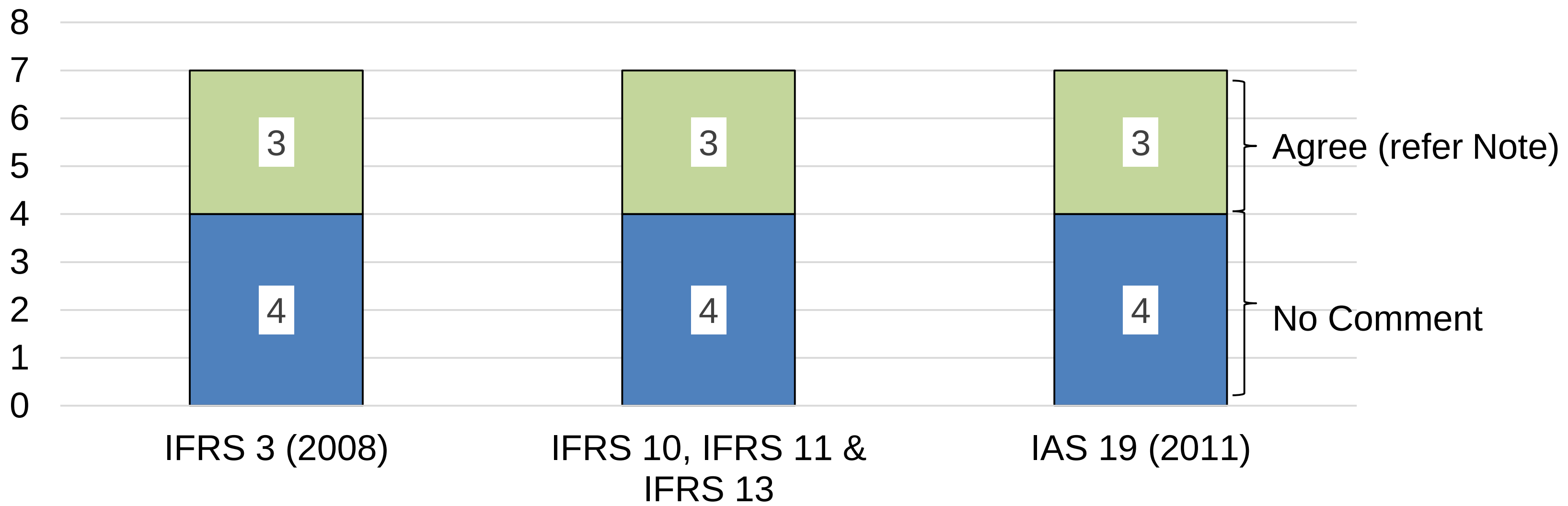


^ Module 2 *Concepts and Pervasive Principles*

1. Ex40 can be expanded to consider a case when gold bullion is acquired to gain from change in market value of gold bullion. In such cases, Section 13 *Inventories* may be relevant for accounting application.
2. Q14 accounting for investment in a painting - respondent noted answer (c) may not be appropriate but answer (d) may be [ie in the absence of explicit requirement for investment in a painting, the entity should initially measure the painting at historical cost (¶2.46) and subsequently at cost less impairment (¶2.49)].

Part 2: IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

IFRS for SMEs need not incorporate the requirements of IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

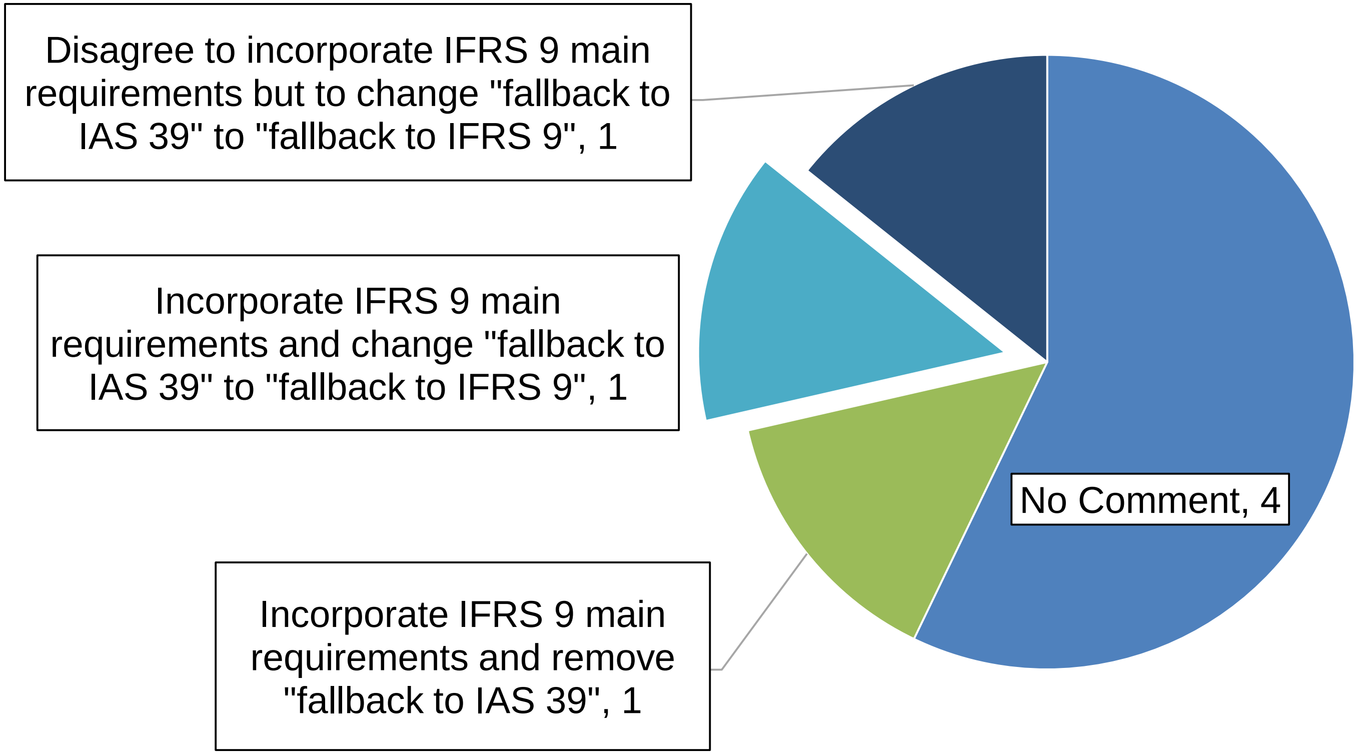


Note:

1. Incorporating IFRS 3 (2008) accounting requirements would result in significant complexity for SMEs, particularly because of the additional fair value measurements required.
2. The post implementation review outcomes of IFRS 10, IFRS 11 and IFRS 13 are uncertain and these Standards are expected to have a limited practical impact on the majority of SMEs.
3. Better to continue to permit SMEs the choice of recognising actuarial gains and losses in P&L or OCI than incorporating IAS 19 (2011) to present actuarial gains and losses in OCI as the IASB Conceptual Framework project is considering its treatment of OCI which may change OCI requirements under IFRSs.

Part 3: IFRS 9

Given that IFRS 9 is widely regarded as an improvement to IAS 39, do you agree that *IFRS for SMEs* should incorporate IFRS 9 main requirements into *IFRS for SMEs* and hence remove the fallback to IAS 39?



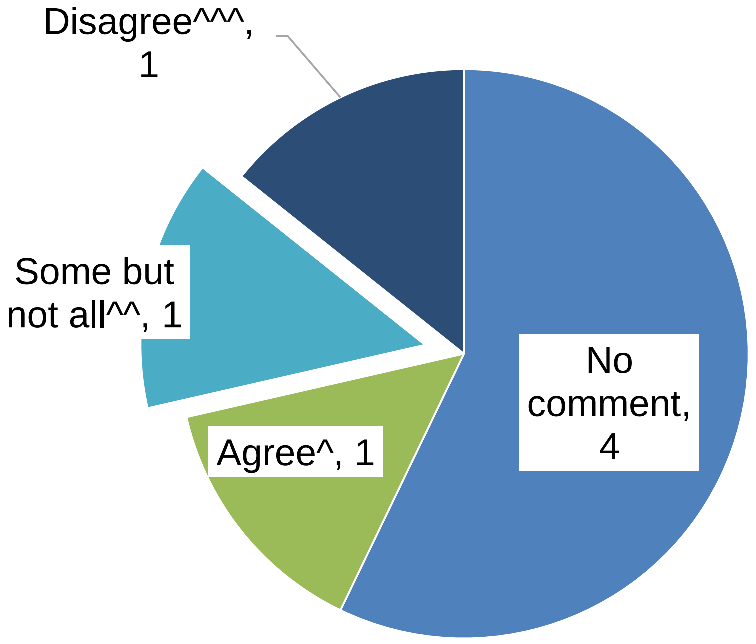
Part 3: IFRS 15

Do you agree that *IFRS for SMEs* should incorporate IFRS 15 requirements?

^^^ —It is important to have the implementation experience of IFRS 15 first before introducing the requirements for SMEs as many SMEs have limited resources.

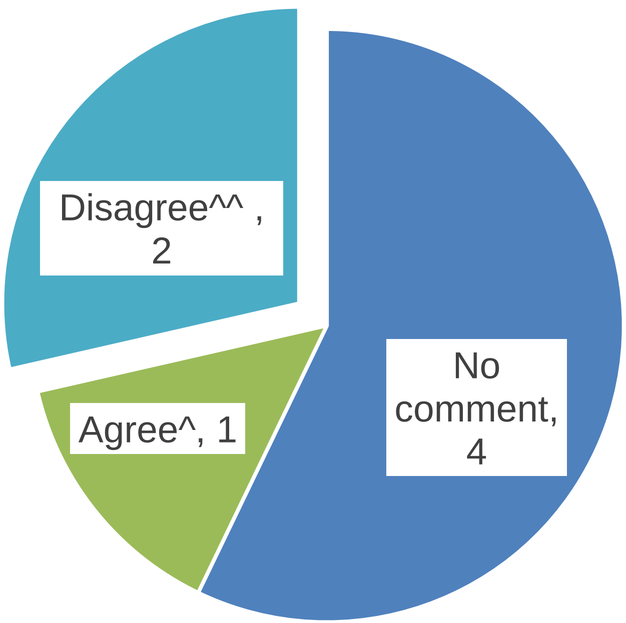
^^ —Measurement principles based on transaction price may be incorporated.

^ —Revenue is an important number to users of financial statements in assessing an entity's financial performance and position and IFRS 15 would provide a more objective assessment for determining the timing of revenue recognition.



Part 3: IFRS 16

Do you agree that *IFRS for SMEs* should incorporate IFRS 16 requirements?



^^—It is important to have the implementation experience of IFRS 16 first before introducing the requirements for SMEs as many SMEs have limited resources.

^—Leasing is an important activity for many entities as a means of gaining access to assets, of obtaining finance and of reducing an entity's exposure to the risks of asset ownership. IFRS 16 is expected to result in a more faithful representation of a lessee's assets and liabilities to provide greater transparency of a lessee's financial leverage and capital employed.

Appendix 1
Analysis of Application of *IFRS for SMEs* in AOSSG

Appendix 2
Survey on Application of *IFRS for SMEs* in AOSSG

Application of IFRS for SMEs (amended in 2015) in AOSSG 26-member jurisdictions[1]

Jurisdiction	SMEs				
	IFRS for SMEs under consideration	IFRS for SMEs with modifications permitted	IFRS for SMEs permitted	SMEs not required to use full IFRS are required to use IFRS for SMEs	IFRS for SMEs not used
Australia*					X Note2
Brunei	X Note3				X
Cambodia@			X Note4		
China*					X Note5
Dubai International Financial Centre			X Note6		
Hong Kong*			X Note7		
India*					X Note8
Indonesia@					X Note9
Iraq			X Note10		
Japan*					X Note11
Kazakhstan			X Note12		
Korea					X Note13
Macao					X Note14
Malaysia*@		X Note15			
Mongolia	X Note16				X
Nepal@			X Note17		
New Zealand					X Note18
Pakistan@				X Note19	
Philippines			X Note20		
Saudi Arabia*				X Note21	
Singapore			X Note22		
Sri Lanka			X Note23		
Syria@					X Note24
Thailand	X Note25				X
Uzbekistan					X Note26
Vietnam					X Note27
Total	**3**	**1**	**9**	**2**	**14**

@ Members of AOSSG IFRS for SMEs Working Group

* An individual from the jurisdiction is a member of IASB SME Implementation Group

Note:

[1] This table is prepared based on: (1) information provided by AOSSG IFRS for SMEs Working Group members in July 2017; and (2) the jurisdictional profiles available at IASB webpage as at 6 June 2017, IFRS use around the world. The IASB webpage was last updated on 30 March 2017.

[2] The AASB is continuing to monitor the IFRS for SMEs for potential adoption in Australia, and currently considers its disclosure requirements in determining the disclosure concessions for Tier 2 General Purpose Financial Statements. Adoption of IFRS for SMEs for a potential Tier 3 of requirements for General Purpose Financial Statements is one option for consideration under the AASB's current Australian Reporting Framework Project. At present, all SMEs that are Reporting Entities are permitted to use IFRS Standards (ie the AASB's Tier 1 reporting requirements) or the AASB's Tier 2 Reduced Disclosure Requirements (only disclosure concessions – Tier 2 has the same recognition and measurement requirements as Tier 1).

[3] For small and medium enterprises (SMEs), the BDASC is still in the process of reviewing the suitable accounting standards as well as formulating criteria for SMEs and cottage industries.

[4] All SMEs are permitted to use the IFRS for SMEs. Non-publicly accountable SMEs subject to a statutory audit have a choice of either the IFRS for SMEs or full IFRS. The statutory audit is required when a company meets a certain threshold of revenue, asset value, and number of employees.

[5] China used the IFRS for SMEs as an important reference when developing the Chinese Accounting Standard for Small Entities.

[6] Regulated entities in Prudential Category 3B, Category 3C or Category 4, which does not hold or control Client Assets or Insurance Monies; and are not authorised under its license to carry on the Financial Service of Operating an Alternative Trading System are permitted to use IFRS for SMEs.

[7] An SME (as defined in the IFRS for SMEs Standard) may choose to report under (a) HKFRS (which is the equivalent of the IFRS Standards), (b) IFRS Standards as issued by the IASB Board (if the SME is incorporated outside Hong Kong), (c) the HKFRS for Private Entities, which is the equivalent of the IFRS for SMEs, or (d) the Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) if it satisfies the criteria set out in the Hong Kong Companies Ordinance.

[8] SMEs use national standards.

[9] The DSAK IAI used the IFRS for SMEs as a point of reference.

[10] SMEs (simple companies and individual projects) are permitted to use the IFRS for SMEs.

[11] The IFRS for SMEs has been translated into Japanese.

[12] Medium-sized business enterprises and state enterprises are required to use either full IFRS or the IFRS for SMEs. Small enterprises must choose between full IFRS, the IFRS for SMEs, and a national standard.

[13] Unlisted companies that are subject to external audit are required to use Korean GAAP (which is Accounting Standards for Non-Public Entities) unless they choose to use full IFRS Standards. Also, unlisted companies other than those subject to external audit are required to use Korean GAAP for SME (which is Accounting Standards for SME) unless they choose to use full IFRS Standards or Korean GAAP (which is Accounting Standards for Non-Public Entities).

[14] There is already a set of accounting standards for micro and mini businesses in Macao. The CRAC feels that it is not appropriate to have too many tiers of accounting standards in Macao.

[15] Private entities shall comply with either the Malaysian Private Entities Reporting Standard (MPERS) in its entirety; or Malaysian Financial Reporting Standards (MFRS) in their entirety. Section 1 Small and Medium-sized Entities has been modified to prescribe the applicability of the MPERS in the Malaysian context. In this regard, all references to 'SMEs' and 'public accountability' in Sections 1-35 have been replaced by the term 'private entities'. Section 9 Consolidated and Separate Financial Statements requires the ultimate Malaysian parent to prepare consolidated financial statements regardless of whether its ultimate parent that is not incorporated in Malaysia prepared consolidated financial statements. Section 34 Specialised Activities has been amended to provide guidance on the accounting for property development activities in Malaysia. Consequently, Example 12 on Agreements for the Construction of Real Estate contained in the Appendix to Section 23 Revenue has been removed.

[16] The Ministry of Finance is working on amendments to Accounting Law that will include classification of entities. The Ministry of Finance states that once the classification is established, they will legislate the adoption of the IFRS for SMEs.

[17] SMEs may choose (a) IFRS Standards adopted as Nepal Financial Reporting Standards or (b) the existing Nepal Accounting Standards with certain exemptions and simplifications for SMEs. The existing Nepal Accounting Standards will continue to be available to such entities until July 15, 2019. The NFRSs for SMEs has been developed and approved by ASB Nepal and its implementation has been pronounced by Institute of Chartered Accountants of Nepal making it effective from July 15, 2019.

[18] Non-publicly accountable entities or non-large for-profit public sector entities that are required by law to prepare general purpose financial statements may use the RDR. That is, they apply the same recognition and measurement requirements as in IFRS Standard, but with substantially reduced disclosures (based in part on the disclosure concession principles used in IFRS for SMEs Standard). Most small and medium-sized for-profit entities do not have a statutory requirement to prepare financial statements in accordance with GAAP.

[19] SMEs are not required to follow IFRS but IFRS for SMEs. Micro-sized entities are allowed to follow Accounting and Financial Reporting Standards for Small-sized Entities.

[20] All SMEs that meet specified criteria must use the PFRS for SMEs unless they elect to use full PFRS.

[21] SOCPA has endorsed the IFRS for SMEs to be effective in 2018 for use by all non-publicly accountable entities. Entities would be permitted to elect early adoption in 2017. SOCPA has added some disclosures to the IFRS for SMEs but not otherwise modifying the IFRS for SMEs.

[22] An entity is eligible to use the SFRS for Small Entities if it is not publicly accountable, publishes general purpose financial statements for external users, and meets the definition of a 'small entity'. They may use full SFRS or, if they receive permission from ACRA, they may use full IFRS. The only differences between the Singapore version of the IFRS for SMEs (known as the SFRS for Small Entities) and the IFRS for SMEs are not all Singapore companies that meet the IASB's definition of SMEs are eligible to use the SFRS for Small Entities; and the Accompanying Note to the Singapore equivalent of IFRIC 15 is an integral part of the SFRS for Small Entities. This guidance is intended to be consistent with the requirements of IFRIC 15.

[23] Specified Business Enterprises (SBEs) above a defined size threshold and non SBEs are permitted to apply the SLFRS for SMEs.

[24] SMEs are not generally required to prepare general purpose financial statements. Those that do may use full IFRS Standards.

[25] Non-Public Accountable Entities (NPAEs) shall comply with Thai Financial Reporting Standard for NPAEs (TFRS for NPAEs) which is modified from IFRS for SMEs with simplification for NPAEs in Thailand context. However, IFRS for SMEs has been translated to Thai for optional to adopt. Its effective date is expected to be 1 January 2019. The NPAEs are eligible to use IFRS for SMEs.

[26] SMEs use national accounting standards.

[27] SMEs in Vietnam use an accounting regime for SMEs developed by the Ministry of Finance. These SME standards are simplified compared to Vietnamese Accounting Standards.

asian-oceanian standard-setters group

Survey on the Application of IFRS for SMEs in the Asia-Oceania Region

The objective of this Survey is to facilitate the AOSSG in providing input and feedback to the IASB on the IFRS for SMEs Standard.

AOSSG consists of many jurisdictions, some of which are in different status with regard to IFRS for SME adoption or convergence, and some have decided not to converge with the Standard. In this regard, this Survey:

(a) seeks input from Members applying the IFRS for SMEs of whether they have encountered any challenges in applying the Standard.

(b) seeks input from Members not applying the IFRS for SMEs of their reasons for not doing so.

The Survey comprises 3 sections and 13 questions.

Section A is about the general information of the respondent.

Section B consists of questions relating to the regulation and use of accounting standards in your jurisdiction.

Section C consists of questions on the application of the IFRS for SMEs to be completed by jurisdictions that have adopted, or converged with, the Standard.

The outcome of the Survey will be presented at the AOSSG annual meeting in Hangzhou, China on 29 and 30 November 2017.

Date

Planned schedule

Activities	**Deadline**
Survey to be sent to AOSSG members	17 October 2017
Response to the Survey by AOSSG members	31 October 2017
Discuss survey results among WG members	3 November 2017
Draft paper to be sent to WG members for comments	8 November 2017
Comments to the draft paper by WG members	13 November 2017
Finalisation of the paper and presentation materials	14 November 2017
Presentation at 3rd AOSSG meeting	29 and 28 November 2017

Contact

Malaysia, the AOSSG IFRS for SMEs Working Group (WG) Leader will compile the results of the Survey. If you have any enquiry or need any further assistance regarding this Survey, please contact Ms. Tan Bee Leng (beeleng@masb.org.my) or Ms. Stephanie Lip (stephanie@masb.org.my) of the Malaysian Accounting Standards Board, MASB.

Kindly submit the completed Survey and send it to the above e-mail address by **31 October 2017**

asian-oceanian standard-setters group

SECTION A: GENERAL INFORMATION OF THE RESPONDENT

Name of country	
Name of organisation	
Address	
Website	
Name of contact person	
Position	
E-mail	
Telephone	
Fax	
Preferred communication media	[ ] E-mail [ ] Post mail [ ] Telephone [ ] Facsimile [ ] Other ....

QUESTIONS

SECTION B: REGULATION AND USE OF ACCOUNTING STANDARDS

1. Please name the organisation responsible for developing and issuing accounting standards in your jurisdiction.

____

____

2. Which accounting framework does your jurisdiction apply? (Tick which applies.)

☐ IFRS / Standards substantively equivalent[1] to IFRS.
- effective for annual periods beginning on or after ____________________

☐ IFRS for SMEs / Standards substantively equivalent to the IFRS for SMEs.
- effective for annual periods beginning on or after ____________________
Please proceed to Question 3 and Section C.

☐ IFRS for SMEs with modifications.
- effective for annual periods beginning on or after ____________________
Please specify in **Appendix 1** *List of Modifications in the IFRS for SMEs* and proceed to Question 3 and Section C.

☐ Local GAAP known as ____________________________________
- effective for annual periods beginning on or after ____________________
Our jurisdiction has not adopted the IFRS for SMEs because: (Tick which applies)

☐ IFRS for SMEs is too complex.

☐ IFRS for SMEs is too simplified.

☐ Other reasons – please specify below:

____

____

____

[1] This terminology is used in IASB's *Analysis of Use of IFRS Standards Around the World*.

3. How widely the IFRS for SMEs Standard is being used in your jurisdiction? If the IFRS for SMEs is permitted, but not widely used, it would be useful to know if there are any particular reasons for this, if known.

☐ Required for entities that meet the following criteria (please specify below):

____

____

____

Estimated number of entities required to apply the Standard: ________________________

☐ Permitted for entities that meet the following criteria (please specify below):

____

____

____

% of permitted entities applying the Standard: ☐ more than 50% ☐ about 50% ☐ less than 50%

Please specify reason, if known:

____

____

____

QUESTIONS

SECTION C: APPLICATION OF THE IFRS FOR SMEs

The IASB in October 2016 has decided that the second comprehensive review of the *IFRS for SMEs* Standard is expected to start in early 2019. As an early response, the AOSSG WG has enquired the IASB staff about how the AOSSG WG could contribute to the 2019 review or any other activities or work which would be useful to the IFRS for SMEs Implementation Group (SMEIG).

The IASB staff had informed the AOSSG WG that they:

(a) are keen to get some feedback about what is working and what is not working in relation to the IFRS for SMEs Standard in the AOSSG region as this kind of analysis will be helpful input for the next review.

(b) envisage of putting together a Request for Information (RFI) to ask for views of whether the IASB should incorporate changes relating to each of the major new full IFRS Standards and any modifications to these Standards in the IFRS for SMEs.

With the above in mind and given the different timing in which the new IFRSs have been or will be effective, Section C of the Survey is divided into three parts:

(a) Part 1 comprises questions about what is working and what is not working in relation to the IFRS for SMEs Standard in your jurisdiction.

(b) Part 2 comprises questions about whether the IFRS for SMEs should incorporate the requirements of new IFRSs which have been effective since 2013, namely:

   (i) IFRS 3 *Business Combinations* (2008).

   (ii) IFRS 10 *Consolidated Financial Statements*.

   (iii) IFRS 11 *Joint Arrangements*.

   (iv) IFRS 13 *Fair Value Measurement*.

   (v) IAS 19 *Employee Benefits* (2011).

(c) Part 3 comprises questions about whether the IFRS for SMEs should incorporate changes in each of the major new full IFRS Standards which will be effective in or after 2018, namely:

   (i) IFRS 9 *Financial Instruments*.

   (ii) IFRS 15 *Revenue from Contracts with Customers*.

   (iii) IFRS 16 *Leases*.

QUESTIONS

Section C Part 1: Feedback about what is working and what is not working in relation to the IFRS for SMEs Standard in the AOSSG region

4. In your jurisdiction, is there any requirement which is complex or unduly burdensome to apply?

☐ Yes. Please specify in **Appendix 2** *List of complex or unduly burdensome requirements in the IFRS for SMEs*.

☐ No.

5. In your jurisdiction, is there any other issues that you think should be brought to the IASB's attention about the IFRS for SMEs Standard?

☐ Yes. Please specify below:

____

____

____

____

____

____

☐ No.

Undue cost or effort exemption (Questions 6 and 7)

6. An undue cost or effort exemption is specified for some requirements in the IFRS for SMEs (see **Appendix 3** *List of 'Undue cost or effort exemption' in the IFRS for SMEs*). Is this exemption helpful in providing relief to SMEs in your jurisdiction?

☐ Yes.

☐ Some but not all (please indicate in **Appendix 3** exemptions that are not helpful).

☐ No, because: (Tick which applies)

☐ the exemption is not intended to be a low hurdle (BC232(a)).

☐ an entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date (BC232(b)).

☐ the application of an undue cost or effort exemption necessitates consideration of how those that are expected to use the financial statements would be affected if that exemption is taken (BC233).

☐ Other reasons – please specify below:

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7. Are the explanations or examples in the IFRS Foundation: Training Material for the *IFRS® for SMEs* helpful in demonstrating how an entity could satisfy the criteria to apply the undue cost or effort exemption?

☐ Yes.

☐ Some but not all (please indicate in **Appendix 3** explanations or examples that are helpful).

☐ No - please specify your reason(s) below

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QUESTIONS

Section C Part 2: Feedback about whether the IFRS for SMEs should incorporate the requirements of IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

During the initial comprehensive review in 2013, the IASB had decided not to amend the IFRS for SMEs to incorporate IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011) in the light of the following reasons:

(a) although the *IFRS for SMEs* was issued in 2009, the IASB decided that there is a greater need to provide SMEs with a stable, independent and stand-alone Standard over maximising alignment with full IFRSs because for the majority of SMEs using, or about to use, the *IFRS for SMEs*, it is still a new Standard.

(b) the current approach in the *IFRS for SMEs* (based on IFRS 3 (2004) *Business Combinations*), which has the same basic underlying approach as IFRS 3 (2008) but simplified, is working well in practice and is well understood and accepted by preparers and users of SME financial statements whereas incorporating the changes in IFRS 3 (2008) would result in significant complexity for SMEs, particularly because of the additional fair value measurements required.

(c) although IFRS 10, IFRS 11 and IFRS 13 are supported with significant implementation guidance, the complex changes would be expected to have a limited practical impact on the majority of SMEs because the new requirements are unlikely to affect many common fair value measurements and the accounting for groups of entities with a simple group structure.

(d) it may be better to continue to permit SMEs the choice of recognising actuarial gains and losses in profit or loss or other comprehensive income (OCI) than incorporating the main change in IAS 19 (2011) to present actuarial gains and losses in OCI as the IASB *Conceptual Framework for Financial Reporting* project is considering its treatment of OCI which may result in changes to the requirements relating to OCI under full IFRSs.

IFRS 3 (2008) (Question 8)

8. The IASB in 2015 completed the post implementation review (PIR) of IFRS 3 (2008). The PIR concluded that there exists general support for IFRS 3 (2008) accounting requirements but the definition of a business, accounting for goodwill and the identification and fair value measurement of intangible assets such as customer relationships and brand names needed further action to be undertaken. In response to the PIR feedback, the IASB:

(a) has proposed clarifying how a company determines whether it has acquired a business or a group of assets. The final amendment is expected to be issued in 2018.

(b) is exploring whether the existing impairment test for goodwill can be improved or simplified, whether goodwill should be amortised and which intangible assets should be separated from goodwill.

Although the outcome of the PIR concluded that there exists general support for IFRS 3 (2008) accounting requirements, do you agree that the IFRS for SMEs need not be updated to incorporate IFRS 3 (2008) for the same reason which prevented the IASB from doing so during the initial comprehensive review of the IFRS for SMEs - i.e. incorporating IFRS 3 (2008) accounting requirements would result in significant complexity for SMEs, particularly because of the additional fair value measurements required?

☐ Agree.

☐ Disagree. Please specify your reason(s) below:

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IFRS 10, IFRS 11 and IFRS 13 (Question 9)

9. The IASB in May 2017 has published a Request for Information on the PIR of IFRS 13 focusing on disclosures about fair value measurements, prioritising Level 1 inputs or the unit of account, application of the concept of the highest and best use when measuring the fair value of non-financial assets, and application of judgement in specific areas.

The IASB has also indicated that IFRS 10 and IFRS 11 will be subject to a post implementation review but the timeline is not yet available.

In view of the uncertainty of the PIRs outcome and the IASB's initial conclusion that IFRS 10, IFRS 11 and IFRS 13 are expected to have a limited practical impact on the majority of SMEs, do you agree that the IFRS for SMEs need not consider incorporating these requirements?

☐ Agree.

☐ Disagree. Please specify your reason(s) below:

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IAS 19 (2011) (Question 10)

10. The IASB expects to publish the revised *Conceptual Framework* around the end of the first quarter of 2018 (see page 9 item (d)). Do you agree that it is too early for the IFRS for SMEs to incorporate IAS 19 (2011) requirements?

☐ Agree.

☐ Disagree. Please specify your reason(s) below:

QUESTIONS

Section C Part 3: Feedback about what kinds of modifications to IFRS 9, IFRS 15 and IFRS 16 might be appropriate

During the initial comprehensive review, the IASB noted that it may decide only to incorporate changes from a complex new or revised IFRS after implementation experience of that IFRS has been assessed. It also noted that it will make this assessment at the periodic review following the issue of new or revised IFRSs instead of automatically waiting until there is substantial experience from entities who have applied a new or revised IFRS or until a PIR on an IFRS has taken place.

IFRS 9 (Question 11)

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* of the IFRS for SMEs and IAS 39 *Financial Instruments: Recognition and Measurement* share some similar principles for the recognition and measurement of financial instruments; however, there are a number of significant differences between the IFRS for SMEs and IAS 39.

Under Section 11, financial instruments that meet specified criteria are measured at cost or amortised cost, with an exemption for a few instruments which are measured at fair value through profit or loss. If a financial instrument is within the scope of Section 12, it is automatically required to be measured at fair value through profit or loss, with the exception of equity instruments whose fair value is not reliably measurable.

In contrast, IAS 39 requires entities to classify financial instruments into categories that will then determine the measurement requirements. The fair value option, and the available-for-sale and held-to-maturity classifications in IAS 39 are not available in the IFRS for SMEs.

Nonetheless, an entity is permitted to apply the recognition and measurement requirements of IAS 39 instead of applying Sections 11 and 12 of the IFRS for SMEs.

IFRS 9 will replace IAS 39 for annual reporting periods beginning on or after 1 January 2018. The most significant change is the requirement for the impairment of financial assets. Under IAS 39 and the IFRS for SMEs, entities recognise an impairment loss immediately if there is objective evidence of impairment. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses. Other changes include the classification and measurement of financial assets on the basis of the entity's business model within which they are held and their contractual cash flow characteristics.

Consistently with the primary aim of developing a stand-alone, simplified set of accounting principles for SMEs, the IASB would prefer the fallback to full IFRS to be ultimately removed. However, the IASB during the initial comprehensive review decided that the fallback to IAS 39 should be retained until IFRS 9 is considered at a future review (BC217).

11. Given that IFRS 9 is widely regarded as an improvement to IAS 39, do you agree that the IFRS for SMEs should incorporate IFRS 9 main requirements into the IFRS for SMEs and hence remove the fallback to IAS 39?

☐ Agree.

	Agree	Disagree
If you agree, do you agree the fallback to IAS 39 should be removed?	☐	☐

If you disagree to remove the fallback to IAS 39, please specify your reasons below:

☐ Disagree.

If you disagree to incorporate IFRS 9 main requirements into the IFRS for SMEs, please specify your reasons below:

	Agree	Disagree
If you disagree to incorporate IFRS 9 main requirements into the IFRS for SMEs, do you agree to change the fallback to IAS 39 to a fallback to IFRS 9?	☐	☐

If you disagree to change the fallback to IAS 39 to a fallback to IFRS 9, please specify your reasons below:

IFRS 15 (Question 12)

12. Section 23 *Revenue* of the *IFRS for SMEs* and IAS 18 *Revenue* and IAS 11 *Construction Contracts* share the same principles for accounting and reporting revenue.

IFRS 15 will replace IAS 18, IAS 11 and the related Interpretations for annual reporting periods beginning on or after 1 January 2018. IAS 18 and IAS 11 were in need of improvement as they provided limited guidance and, consequently could be difficult to apply to complex transactions, such as accounting for multiple-element arrangements. The core principle in IFRS 15, based on the notion of transferring control, is expected to improve the consistency of reporting because it would provide a more objective assessment for determining the timing of revenue recognition. The core principle is that revenue is recognised when the entity satisfies its performance obligations as a result of the customer obtaining control of those goods or services. An entity recognises revenue in accordance with that core principle by applying a five-step process.

Do you agree that the IFRS for SMEs should incorporate IFRS 15 requirements given that revenue is an important number to users of financial statements in assessing an entity's financial performance and position?

☐ Agree.

☐ Some but not all - please specify below

☐ Disagree – it is important to have the implementation experience of IFRS 15 first before introducing the requirements for SMEs as many SMEs have limited resources

☐ Other reasons – please specify below:

IFRS 16 (Question 13)

13. Section 20 *Leases* of the *IFRS for SMEs* and IAS 17 *Leases* share the same principles for accounting and reporting leases.

IFRS 16 will replace IAS 17 and the related Interpretations for annual reporting periods beginning on or after 1 January 2019. IAS 17 accounting model for leases required lessees and lessors to classify their leases as either finance leases or operating leases and account for those two types of leases differently. That model was criticised for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognise assets and liabilities arising from operating leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This approach is expected to result in a more faithful representation of a lessee's assets and liabilities to provide greater transparency of a lessee's financial leverage and capital employed.

Do you agree that the IFRS for SMEs should incorporate IFRS 16 requirements given that leasing is an important activity for many entities as a means of gaining access to assets, of obtaining finance and of reducing an entity's exposure to the risks of asset ownership?

☐ Agree.

☐ Some but not all - please specify below

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☐ Disagree – it is important to have the implementation experience of IFRS 16 first before introducing the requirements for SMEs as many SMEs have limited resources

☐ Other reasons – please specify below:

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asian-oceanian standard-setters group

Survey on the Application of IFRS for SMEs in the Asia-Oceania Region

Appendix 1 *List of modifications to the IFRS for SMEs*

(Question 2)

Requirements in the IFRS for SMEs which have been modified	Reasons for the modifications

asian-oceanian standard-setters group

Survey on the Application of IFRS for SMEs in the Asia-Oceania Region

Appendix 2 *List of complex or unduly burdensome requirements in the IFRS for SMEs*

(Question 4)

IFRS for SMEs requirements which are complex or unduly burdensome to apply	Explain why you are of the view the requirement is complex or unduly burdensome	Your proposal / recommendation to simplify the IFRS for SMEs requirement

Survey on the Application of IFRS for SMEs in the Asia-Oceania Region

Appendix 3 *List of ‘Undue cost or effort’ exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
Section 2 *Concepts and Pervasive Principles* 2.14A An undue cost or effort exemption is specified for some requirements in this Standard. This exemption shall not be used for other requirements in this Standard. 2.14B Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the entity’s specific circumstances and on management’s judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers’ fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME’s financial statements would receive from having the information. An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders. 2.14C Assessing whether a requirement would involve undue cost or effort on initial **recognition** in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date. 2.14D Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an entity, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.		

IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1) **Module 2 Concepts and Pervasive Principles** **Page 4** Measurement is determined at the requirement level and different measurements can be specified for a particular item at initial recognition and subsequently. Furthermore, the measurement required might vary depending upon the purpose to which an asset is put (eg measurement of land after recognition is different from that of inventory, property, plant and equipment or investment property). The required measurement might also depend upon the ability of management to determine its fair value (eg investment property is measured at fair value unless its fair value cannot be measured reliably on an ongoing basis without undue cost or effort, in which case it is measured using a cost-depreciation-impairment model). **Ex 40 (Page 36)** On 1 January 20X7, instead of distributing its excess cash to its shareholders, an entity acquired gold bullion for CU50,000. The entity holds the gold for capital appreciation rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. The *IFRS for SMEs* does not explicitly specify how to account for the gold bullion held for capital appreciation. Because the *IFRS for SMEs* does not specify how to account for the entity's investment in gold bullion management must develop the entity's accounting policy in accordance with paragraphs 10.4 and 10.5 that results in information that is relevant and reliable. Relevant financial information is capable of making a difference in the decisions made by users. Information about the gold bullion's current market value would be relevant to the decisions made by users of the entity's financial statements (eg existing and potential investors, lenders and other creditors). The current market value of gold bullion is readily obtainable on a continuous basis without undue cost or effort—it is publicly traded in a deep and active market. Consequently, that information is reliable (faithful representation, neutral and free from material error). In developing the entity's accounting policy for the investment in gold bullion, management would, in accordance with paragraph 10.5(a) refer to Section 16 *Investment Property* that specifies how to account for investment property—ie property (land or buildings, or both) held to earn rentals or for capital appreciation or both. By analogy, the investment in gold bullion should be accounted for in accordance with the requirements of Section 16. Consequently, the entity should recognise its investment in the gold bullion as a separate class of asset. That asset should initially be measured at cost. Thereafter, the asset should be measured at its fair value with changes in its fair value recognised in profit or loss in the period in which the changes occur. **Question 14 (Page 52)**		

Appendix 3 *List of ‘Undue cost or effort’ exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
Rather than distributing its excess cash to its shareholders an entity acquired a rare painting. The painting is held for capital appreciation rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. The *IFRS for SMEs* does not explicitly specify how to account for investments in paintings. How should the entity account for its investment in the painting? (a) Because the *IFRS for SMEs* does not explicitly specify how to account for an investment in a painting, on initial recognition the entity would recognise the expenditure on the painting as an expense in profit or loss. (b) Because the carrying amount of the painting will be recovered through capital appreciation (or possibly rental to others), the relevant information that users’ of the entity’s financial statements would want about the painting is its current market value. Consequently, by analogy to the accounting specified for investment property (see Section 16 *Investment Property*) the entity should initially measure the painting at cost and thereafter at fair value, with changes in fair value being recognised in profit or loss. (c) Same as (b). However, if the fair value of the painting cannot be measured reliably without undue cost or effort on an ongoing basis then, by analogy to Section 17 *Property, Plant and Equipment* (which includes investment property whose fair value cannot be determined reliably without undue cost or effort on an ongoing basis) the entity would account for the painting using the cost-depreciation-impairment model. (d) Because the *IFRS for SMEs* does not explicitly specify how to account for an investment in a painting the entity must, in accordance with paragraph 2.46, measure the painting asset at its historical cost and subsequently, in accordance with paragraph 2.49, measure it at cost less impairment. Answer: (c) see paragraph 2.35		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
Section 11 ***Basic Financial Instruments*** 11.4 Section 11 requires an amortised cost model for all basic financial instruments except for investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or whose fair value can otherwise be measured reliably without **undue cost or effort.** 11.14 At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal: (c) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows (paragraphs 11.27-11.32 provide guidance on fair value): (i) if the shares are publicly traded or their fair value can otherwise be measured reliably without **undue cost or effort**, the investment shall be measured at fair value with changes in fair value recognised in profit or loss; and (ii) all other such investments shall be measured at cost less impairment.		
Section 12 ***Other Financial Instruments Issues*** 12.8 At the end of each reporting period, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: (a) some changes in the fair value of hedging instruments in a designated hedging relationship are required to be recognised in other comprehensive income by paragraph 12.23; and (b) equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably without **undue cost or effort** and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment. 12.9 If a reliable measure of fair value is no longer available without **undue cost or effort** for an equity instrument, or a contract linked to such an instrument that if exercised will result in the delivery of such instruments, that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date that the instrument was reliably measurable without **undue cost or effort** is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until it is able to determine a reliable measure of fair		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
value without **undue cost or effort**.		
Section 14 *Investments in Associates* 14.4 An investor shall account for all of its investments in associates using one of the following: (a) the cost model in paragraph 14.5; (b) the equity method in paragraph 14.8; or (c) the **fair value** model in paragraph 14.9. 14.10 At each reporting date, an investor shall measure its investments in associates at fair value, with changes in fair value recognised in profit or loss, using the fair value measurement guidance in paragraphs 11.27-11.32. An investor using the fair value model shall use the cost model for any investment in an associate for which fair value cannot be measured reliably without **undue cost or effort**. **IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)** **Module 14 Investments in Associates** It is impracticable to apply a requirement if the entity cannot apply it after making every reasonable effort to do so. 'Impracticable' is a high hurdle. What constitutes undue cost or effort is a matter of judgement. An investor that has elected the fair value model (see paragraph 14.4(c)) accounts for its investments in associates for which it is impracticable to measure fair value reliably without undue cost or effort using the cost-impairment model. At each reporting date, in accordance with Section 27 *Impairment of Assets* the investor must consider whether there are indicators of impairment for such investments (see paragraphs 27.7–27.9 and 27.29) and, if present, must perform an impairment test (see paragraphs 27.10–27.20). If an investment is found to be impaired (or a prior period impairment is found to have reversed), the investor recognises an impairment loss in profit or loss (see paragraphs 27.6 and 27.30). *All other investments in associates*		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs*
(Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
An investor that has elected the fair value model (see paragraph 14.4(c)) accounts for all of its investments in associates for which it is not impracticable to determine fair value reliably without undue cost or effort using the fair value model. These investments are not tested for impairment. The fair value model is considered to provide more relevant information to lenders than the other methods. An entity choosing to apply the fair value model refers to paragraphs 11.27–11.32 for guidance on the measurement of fair value (see Module 11 *Basic Financial Instruments*). **Ex 25 (Page 20)** On 1 January 20X1 entity A acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity B for CU300,000. For the year ended 31 December 20X1 entity B recognised a profit of CU400,000. On 30 December 20X1 entity B declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of entity A's investment in entity B is CU425,000. However, there is no published price quotation for entity B. In determining profit or loss for the year ended 31 December 20X1 entity A must: • recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity B); (9) and • recognise the increase in the fair value of its investment in entity B of CU125,000 (ie CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1). At 31 December 20X1 entity A must report its investment in entity B (an associate) at its fair value of CU425,000. **Ex 31 (Page 22)** The facts are the same as in example 25. However, in this example, it was impracticable to determine the fair value of the investment in entity B without undue cost or effort. Entity A must recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity B) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 entity A must report its investment in entity B (an associate) at CU300,000 (ie cost). Entity A must also consider whether there are any indicators that its investment is impaired and, if		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case it is unlikely that the profitable associate would be impaired. Note: Even though entity A has elected the fair value model as its accounting policy for investments in associates it accounts for its investment in entity B using the cost model because it is impracticable to determine the fair value of its investment in entity B without undue cost and effort.		
Section 15 *Investments in Joint Ventures* 15.9 A venturer shall account for all of its interests in jointly controlled entities using one of the following: (a) the cost model in paragraph 15.10; (b) the equity method in paragraph 15.13; or (c) the **fair value** model in paragraph 15.14. 15.15 At each **reporting date**, a venturer shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in **profit or loss**, using the fair value **measurement** guidance in paragraphs 11.27–11.32. A venturer using the fair value model shall use the cost model for any investment in a jointly controlled entity for which fair value cannot be measured reliably without undue cost or effort. **IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)** **Module 15 Investments in Joint Ventures** **Ex 26 (Page 22)** On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z. For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000. On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in entity Z is CU425,000. However, there is no published price quotation for entity Z. In determining profit or loss for the year ended 31 December 20X1 entities A and B must each:		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
• recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z);[(7)] and • recognise the increase in the fair value of its investment in entity Z of CU125,000 (ie CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1). At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU425,000. **Ex 32 (page 24)** The facts are the same as in example 26. However, in this example, it was impracticable to determine the fair value of the investment in entity Z without undue cost or effort. Entities A and B must each recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 entities A and B must each report their investment in entity Z (a joint venture) at CU300,000 (ie cost). Entities A and B must also consider whether there are any indicators that their investments are impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case it is unlikely that the profitable jointly controlled entities would be impaired. Note: Even though entities A and B elected the fair value model as their accounting policy for investments in jointly controlled entities they account for their investment in entity Z using the cost model because it is impracticable to determine the fair value of their investment in entity Z without undue cost and effort. ***Fair value model* (Page 36)** When the fair value model is adopted for measurement of an investment in a jointly controlled entity subsequent to initial recognition, significant judgements might be necessary in: • assessing whether the fair value of an investment in a particular jointly controlled entity can be measured with sufficient reliability without undue cost or effort for the fair value model to be applied to particular jointly controlled entities (see the notes below paragraph 14.10 and also paragraphs 15.15 and 11.27–11.32); and		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
• deciding which valuation model to use and determining the inputs for that model in the case when the jointly controlled entity's shares are not quoted in an active market (for application guidance on fair value measurement see paragraphs 11.27–11.32).		
Section 16 *Investment Property* 16.3 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis. 16.4 Mixed use property shall be separated between investment property and **property, plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17. 16.7 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27–11.32 provide guidance on determining fair value. An entity shall account for all other investment property using the cost model in Section 17. 16.8 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy. **IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)** **Module 16 Investment Property** **Page 3** One of the main issues in accounting for investment property is estimating the fair value of investment property, especially in countries where the valuation profession is less well established. When the fair value of an investment property can be		

Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs*
(Questions 5 and 6)

IFRS for SMEs / IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)	Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief	
determined reliably without undue cost or effort on an ongoing basis, it is accounted for using the fair value model. Otherwise, investment property is accounted for using the cost-depreciation-impairment model. Investment property is property held by the owner, or by the lessee under a finance lease, to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes (see Section 17 *Property, Plant and Equipment*) or sale in the ordinary course of business (see Section 13 *Inventories*). The section requires an entity to account for all items of investment property at its cost at initial recognition. An entity that purchases investment property measures its cost on the basis of the purchase price and any directly attributable expenditure, such as legal and brokerage fees, property transfer taxes and other transaction costs. The cost of self constructed investment property is determined in accordance with the requirements of paragraphs 17.10–17.14. Measurement after initial recognition is driven by circumstances rather than an accounting policy choice between the cost and fair value models. If an entity can measure the fair value of an item of investment property reliably without undue cost or effort on an ongoing basis, it must use the fair value model. Otherwise, the item of investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17. When an entity determines the fair value of investment property it applies the guidance in paragraphs 11.27–11.32 that apply to the measurement of investments in ordinary shares or preference shares at fair value (see Section 11 *Basic Financial Instruments*). Changes in fair value are recognised in profit or loss at each reporting date. When investment property is measured at cost (ie when its fair value cannot be determined reliably without undue cost or effort on an ongoing basis) the main issues are determining the initial cost of the asset, its expected useful life and depreciation period, and also assessing whether any impairment losses should be recognised on that asset. Such an item of investment property is depreciated over its expected useful life. The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (ie the fair value today less costs to sell of an equivalent older asset) (see the definition of residual value in the Glossary). It follows that if an entity cannot determine the fair value of an investment property, then it also cannot determine the residual value of that property. In developing its accounting policy for determining the residual value of property in these circumstances, an entity may (but is not required to) consider the requirements in full IFRSs dealing		

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with the same issue. In these circumstances full IFRSs require the residual value of the property to be assumed to be nil (see IAS 40 *Investment Property* paragraph 53 and the Basis for Conclusions on IAS 40 paragraph B67(a)(viii)). The depreciation method and depreciation rate are reviewed annually. Furthermore, at each reporting date an entity shall assess whether there is any indication that any item of investment property that is accounted for as property, plant and equipment may be impaired (ie carrying amount exceeds the recoverable amount). If any such indication exists, that item of investment property is tested for impairment (ie the recoverable amount of the property is determined and an impairment loss, if any, is recognised). Recoverable amount is the higher of fair value less costs to sell and value in use. The undue cost or effort rule applied in the classification of an investment property does not exempt the entity from calculating the fair value of an investment property for which there are indications that it might be impaired. A higher 'hurdle' applies for impairment testing. When an item of investment property is disposed of, the gain or loss on disposal is included in profit or loss. For investment property measured at fair value, the gain or loss on the fair value of the property is recognised in profit or loss in the reporting period in which the change in fair value happens. **Page 5** Some incorrectly think that investment property appears only in the financial statements of property investment entities. However, many entities whose main business is not that of a property investment entity (eg some manufacturers and retailers) also hold property for rental to others and for capital appreciation. An entity does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort on an ongoing basis, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model in Section 17 for investment property if it cannot reliably measure the fair value without undue cost or effort on an ongoing basis. The management of an entity applies judgement in determining whether the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis. The *IFRS for SMEs* does not define 'ongoing basis'. In the context of paragraph 16.1 an 'ongoing basis' implies now and in the future (ie at present and for the foreseeable		

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future). For example, a one-off non-binding offer does not in itself constitute an ongoing basis. Paragraphs 11.27–11.32 provide guidance on determining fair value. If circumstances change and a reliable measure of fair value is no longer available for an item of investment property without undue cost or effort on an ongoing basis, the property is thereafter accounted for using the cost-depreciation-impairment model. The property's fair value on the date of transfer is deemed to be its cost (see paragraph 16.8). If circumstances change and a reliable measure of fair value becomes available for an item of investment property that is accounted for using the cost-depreciation-impairment model, the property will thereafter be carried at its fair value. The gain recognised in profit or loss on remeasuring the property to its fair value on the date of transfer is separately disclosed (see paragraphs 3.2 and 16.10(e)). **Page 13** Measurement after initial recognition is driven by circumstances rather than an accounting policy choice between the cost and fair value models. If an entity can measure the fair value of an item of investment property reliably without undue cost or effort(5) on an ongoing basis, it must use the fair value model. Otherwise, it must use the cost model. When there is evidence that the fair value of a property cannot be measured reliably without undue cost or effort on an ongoing basis then the property is accounted for in accordance with Section 17 (ie a cost-depreciation-impairment model). This arises, for example, when the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current, observed transaction prices indicate that the seller was forced to sell) and alternative reliable estimates of fair value (eg based on discounted cash flow projections) are not available. Investment property accounted for using the cost-depreciation-impairment model is subject to impairment testing in accordance with Section 27 *Impairment of Assets*. When, at the reporting date, there is an indication that the property might be impaired the entity is required to estimate the recoverable amount of the investment property. The recoverable amount of a property is the higher of its fair value less costs to sell (see paragraph 27.14) and its value in use (see paragraphs 27.15–27.20). Unless the property's value in use is greater than its carrying amount (in which case there would be no impairment), the entity must estimate the property's fair value less costs to sell. This is so even though the entity has already established that it cannot measure the property's fair value on without undue cost or effort on an ongoing basis (ie the 'hurdle' is higher for impairment testing).		

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If the recoverable amount is less than the carrying amount of the property, its carrying amount is reduced to the recoverable amount by recognising a corresponding impairment loss in profit or loss for the period. If, as the result of an impairment test, no impairment is necessary (ie the property's carrying amount is less than its recoverable amount) the entity must then review the remaining useful life and depreciation method of the property. The property-by-property classification alternative is available only for certain property interests that are accounted for as investment property in accordance with paragraph 16.3. **Page 26** Where significant judgement is needed to determine whether a property qualifies as investment property an entity should develop criteria so that it can exercise that judgement consistently in accordance with the definition of investment property. When the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis, after initial recognition an entity measures the investment property at its fair value. Otherwise, investment property is measured after initial recognition using the cost-depreciation-impairment model in Section 17. The management of an entity must apply judgement in determining whether the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis. Paragraphs 11.27–11.32 provide guidance on determining fair value. **Page 27** When the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis some judgements might be necessary in estimating the fair value of the investment property. Paragraphs 11.27–11.32 provide guidance on determining fair value. **Ex 18** An entity cannot measure reliably the fair value of any of its investment properties without undue cost or effort on an ongoing basis. After initial recognition, it measures investment property at cost less any accumulated depreciation and any accumulated impairment losses.		

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The entity's accounting policy is in compliance with the *IFRS for SMEs*. It accounts for all of its investment property as property, plant and equipment in accordance with Section 17 using a cost-depreciation-impairment model (see paragraph 17.15). It also follows the disclosure requirements in that section. **Ex 19** An entity can measure reliably the fair value of any of its investment properties on an ongoing basis. The entity measures all its investment properties, after initial recognition, at fair value. The entity's accounting policy is in compliance with the *IFRS for SMEs*. It measures all of its investment property at fair value at each reporting date with changes in fair value recognised in profit or loss. **Ex 20** An entity has many investment properties. Its accounting policy is to measure investment property whose fair value can be determined reliably without undue cost or effort on an ongoing basis at fair value after initial recognition. All other investment properties are, after initial recognition, measured at cost less accumulated depreciation and accumulated impairment, if any. Except for a remote building, management can determine the fair value of its investment properties reliably without undue cost or effort on an ongoing basis. Management cannot estimate reliably the fair value of the remote building. The entity's accounting policy is in compliance with the *IFRS for SMEs*—if an entity can measure the fair value of an item of investment property reliably without undue cost or effort on an ongoing basis, it must use the fair value model. Otherwise, it must use the cost model. The remote building is accounted using the cost-depreciation-impairment model, in accordance with Section 17. The residual value of the remote building is assumed to be nil (given that fair value cannot be determined reliably) and the entity uses the cost-depreciation-impairment model until the remote building is disposed of or its fair value can be measured reliably on an ongoing basis.(6) **Ex 21** Despite its best efforts, the entity is unable to find a tenant for the remote building referred to in example 20. The entity has made a decision to dispose of the remote building but has not found a buyer. The circumstances indicate that the building might be impaired. Therefore, in accordance with Section 27 *Impairment of Assets*, the entity performs an impairment test.		

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Accordingly the entity writes the building down to its estimated recoverable amount (measured in accordance with paragraphs 27.11–27.20) and recognises an impairment loss (in accordance with paragraphs 27.5 and 27.6). The entity's ordinary course of business does not include the sale of this or any other property. The entity continues to account for the property in accordance with the requirements of Section 16 (ie at cost less accumulated depreciation and accumulated impairment). **Ex 22** On 1 January 20X1 an entity acquired an investment property (building) for CU1,000,000. The entity cannot measure the fair value of investment property reliably without undue cost or effort on an ongoing basis. Management estimates the useful life of the building as 20 years measured from the date of acquisition. The residual value of the building is presumed to be nil (given that the fair value cannot be determined reliably). Management believes that the straight-line depreciation method reflects the pattern in which it expects to consume the building's future economic benefits. The value of the land on which the building is situated is immaterial.(7) *What is the carrying amount of the building on 31 December 20X1?* Because management cannot estimate the fair value of the property without undue cost or effort on an ongoing basis the investment property is measured at cost less accumulated depreciation and accumulated impairment, if any. **Ex 24** On 1 January 20X1 an entity acquired an investment property for CU1,000,000. Because the entity could not measure the fair value of the investment property reliably on an ongoing basis it accounted for the property using the cost-depreciation-impairment model. Management estimates the useful life of the building at 50 years measured from the date of acquisition. The residual value of the building is presumed to be nil (given that the fair value cannot be determined reliably). Management believes that the straight-line depreciation method reflects the pattern in which it expects to consume the building's future economic benefits. On 1 January 20X1 the value of the land on which the building is situated was immaterial and was zoned as farmland. In 20X3 the land next to the entity's property was rezoned from farmland to residential land. Following the rezoning, many buildings similar to the entity's building were developed on the land adjacent to the entity's property and most of these		

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properties were sold in 20X3. Many more similar buildings are expected to be erected and sold in the vicinity in the years ahead. At 31 December 20X3 (the entity's financial year-end) management is able to determine reliably the fair value of its investment property as CU2,000,000, with reference to recent arm's length sales of similar properties on the land next to the entity's property and making adjustments for factors specific to the entity's property. The entity must recognise depreciation expense of CU20,000 in profit or loss in 20X3 while the property is accounted for using a cost-depreciation-impairment model. At 31 December 20X3 the entity must measure the investment property at CU2,000,000 in its statement of financial position because the fair value can be measured reliably without undue cost or effort on an ongoing basis. To achieve this presentation, the entity must transfer the property from property, plant and equipment (investment property carried using the cost-depreciation-impairment model) to investment property (carried at fair value) at its carrying amount of CU940,000 (ie CU1,000,000 less CU60,000 accumulated depreciation) and recognise the increase in the fair value of the investment property (CU1,060,000) as income in profit or loss for the year ended 31 December 20X3. The income must be separately disclosed in the notes (see paragraph 3.2). The entity must disclose the transfer as a change of circumstances. **Ex 25** On 1 January 20X2 an entity vacated a building that it owns and had occupied for many years. The entity cannot measure reliably the fair value of the investment property without undue cost or effort on an ongoing basis. On 1 January 20X2 the building had a carrying amount of CU600 (ie CU1,000 cost less CU400 accumulated depreciation). Upon vacating the building the entity entered, as lessor, into a seven-year operating lease agreement over the building with an independent third party. The entity measures both property, plant and equipment and investment property using the cost-depreciation-impairment model. As the entity measures investment property whose fair value it cannot determine reliably without undue cost or effort on an ongoing basis and property, plant and equipment using the cost-depreciation-impairment model there is no accounting effect for the change in use. Paragraphs 16.1 and 16.7 require the entity to account for its investment property as property, plant and equipment using the cost-depreciation-impairment model in Section 17. However, investment property would be		

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disclosed as a separate class of property, plant and equipment (see paragraph 17.31). A transfer of CU600 from the class 'buildings' to the class 'investment property' will be disclosed in the note to property, plant and equipment. **Ex 26** The facts are the same as in example 25. However, in this example, the entity can measure reliably the fair value of the investment property without undue cost or effort on an ongoing basis. On 1 January 20X2 the building had a fair value of CU6,000. On 1 January 20X2 the entity would transfer the property out of property, plant and equipment at CU600 (ie its carrying amount) and into investment property at CU6,000 (ie its fair value) with the difference of CU5,400 recorded as income in profit or loss for the year ended 31 December 20X2. The income would be separately disclosed in the notes. Note: From 1 January 20X2 the entity would measure the property at fair value as long as it can be measured reliably without undue cost or effort on an ongoing basis at each reporting date. Any gain or loss would be recognised in profit or loss of the period in which the change in fair value occurs. **Ex 27** On 1 January 20X3 an entity began redeveloping a building previously classified as an investment property for sale in the ordinary course of business. The entity cannot measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore measured it, after initial recognition, using the cost-depreciation-impairment model. On 1 January 20X3 the building had a carrying amount of CU700 (ie CU2,000 cost less CU1,300 accumulated depreciation). The effect of the change in use is a transfer of CU700 from property, plant and equipment (investment property using the cost-depreciation-impairment model) to inventories (see Section 13). The property's deemed cost for subsequent accounting in accordance with Section 13 is CU700. **Ex 28** The facts are the same as in example 27. However, in this example, the entity can measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore measured it, after initial recognition, using the fair value model. On 1 January 20X3 the building had a fair value of CU8,000.		

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The effect of the change in use is a transfer of CU8,000 from investment property (carried at fair value) to inventories (see Section 13). The property's deemed cost for subsequent accounting in accordance with Section 13 is CU8,000 (ie its fair value at the date of change in use).		
Section 17 ***Property, Plant and Equipment*** 17.15 An entity shall choose either the cost model in paragraph 17.15A or the revaluation model in paragraph 17.15B as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An entity shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred. **IFRS Foundation: Training Material for the** ***IFRS® for SMEs*** **(version 2013-1)** **Module 17 Property, Plant and Equipment** **Ex 3** An entity (parent) holds a building to earn rentals under an operating lease from its subsidiary. The subsidiary uses the building as a retail outlet for its products. In the parent's consolidated financial statements (see paragraph 9.2) the building is classified as an item of property, plant and equipment. The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods over more than one accounting period. In the separate financial statements of the parent (if prepared, see paragraph 9.24) the building is classified as an investment property (see paragraph 16.2) and accounted for in accordance with Section 16 *Investment Property*. It is a property held to earn rentals. However, if the fair value of the investment property cannot be measured reliably without undue cost or effort on an ongoing basis, the parent accounts for the property as property, plant and equipment in accordance with the requirements of Section 17 (see paragraph 17.1). **Page 28**		

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When the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis, after initial recognition an entity measures the investment property at its fair value. Otherwise, investment property is measured after initial recognition using the cost-depreciation-impairment model in Section 17 *Property, Plant and Equipment*. The management of an entity must apply judgement in determining whether the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis. Paragraphs 11.27–11.32 of Section 11 *Basic Financial Instruments* provide guidance on determining fair value.		
Section 18 *Intangible Assets other than Goodwill* 18.8 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.		
Section 19 *Business Combinations and Goodwill* 19.15 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date: (a) in the case of an asset other than an **intangible asset**, it is probable that any associated future economic benefits will flow to the acquirer and its fair value can be measured reliably; (b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation and its fair value can be measured reliably; (c) in the case of an intangible asset, its fair value can be measured reliably without undue cost or effort; and (d) in the case of a contingent liability, its fair value can be measured reliably.		
Section 21 *Provisions and Contingencies* Disclosures about contingent assets 21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period and, unless it would involve undue		

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cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If such an estimate would involve undue cost or effort, the entity shall disclose that fact and the reasons why estimating the financial effect would involve undue cost or effort.		
Section 22 *Liabilities and Equity* Extinguishing financial liabilities with equity instruments 22.15A An entity may renegotiate the terms of a financial liability with a creditor of the entity with the result that the entity extinguishes the liability fully or partially by issuing equity instruments to the creditor. Issuing equity instruments constitutes consideration paid in accordance with paragraph 11.38. An entity shall measure the equity instruments issued at their fair value. However, if the fair value of the equity instruments issued cannot be measured reliably without undue cost or effort, the equity instruments shall be measured at the fair value of the financial liability extinguished. An entity shall derecognise the financial liability, or part of the financial liability, in accordance with paragraphs 11.36–11.38. Distributions to owners 22.18A If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph 22.18.		
Section 28 *Employee Benefits* Actuarial valuation method 28.19 If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees: (a) ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits).		

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(b) ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees). (c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered. An entity that takes advantage of the foregoing **measurement** simplifications must nonetheless include both **vested benefits** and unvested benefits in measuring its defined benefit obligation. **IFRS Foundation: Training Material for the *IFRS® for SMEs* (version 2013-1)** **Module 28 Employee Benefits** **Ex 31** A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65. An entity attributes to each year of service benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65. **Ex 34** The facts are the same as in example 31 (ie a plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65). In accordance with measurement simplifications an entity that is not able, without undue cost or effort, to use the projected unit credit method is permitted to measure its defined benefit obligation as follows—present value of the estimated monthly pension payments calculated at 0.2 per cent of current salary multiplied by the number of years of service up to the end of		

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the reporting period and assuming all current employees will receive the benefit. The present value of the defined benefit obligation is discounted because pension payments begin at the age of 65.		
Section 29 ***Income Tax*** **Offsetting** 29.37 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.		
Section 34 ***Specialised Activities*** **Agriculture** 34.2 An entity using this Standard that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets** as follows: (a) the entity shall use the **fair value** model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort; and (b) the entity shall use the cost model in paragraphs 34.8–34.10 for all other biological assets. 34.3 An entity shall recognise a biological asset or **agricultural produce** when, and only when: (a) the entity controls the **asset** as a result of past events; (b) it is **probable** that future economic benefits associated with the asset will flow to the entity; and (c) the fair value or cost of the asset can be measured reliably without undue cost or effort. 34.6 In determining fair value, an entity shall consider the following: (a) if an **active market** exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.		

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<table>
<tr><td>IFRS for SMEs / IFRS Foundation: Training Material for the IFRS® for SMEs (version 2013-1)</td><td colspan="2">Mark [X] if you are of the view the exemption does not provide relief and specify your reason and suggest a proposal to improve the relief</td></tr>
<tr><td>(b) if an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
(i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
(ii) market prices for similar assets with adjustment to reflect differences; and
(iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel or hectare and the value of cattle expressed per kilogram of meat.
(c) in some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
(d) in some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the present value of expected net cash flows from the asset discounted at a current market determined rate results in a reliable measure of fair value.

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An entity does not have a free choice in measuring its biological assets. It must use fair value for all classes of biological assets for which fair value is readily determinable without undue cost or effort. All other classes of biological assets are measured using the cost model. Consequently, an entity must apply the fair value model to classes of biological assets for which fair value is readily determinable without undue cost or effort, even if circumstances prevent the entity from using the fair value model for other classes of biological assets because the fair value of those other assets is not readily determinable without undue cost or effort.

Paragraph 34.6 provides application guidance for measuring the fair value of biological assets and agricultural produce. Depending on the type of biological asset and the specific jurisdiction, there may be an active market in which quoted</td><td></td><td></td></tr>
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Appendix 3 *List of 'Undue cost or effort' exemption in the IFRS for SMEs* (Questions 5 and 6)

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prices are readily available. In such cases, measuring cost is generally more burdensome and subjective than determining fair value because of the extensive allocations of costs required. For example, it may be difficult to determine the cost of a calf two weeks after its birth (eg including all costs of rearing the calf and the allocations of appropriate overheads). However, if there is an active market for two-week-old calves, the fair value can be looked up. In addition, management often manages agricultural activities on the basis of market price or other measures of current value rather than on historical cost (paragraph BC146 of the *IFRS for SMEs*). In such cases, the fair value model provides more relevant information about agricultural activities than the cost model. However, the Board concluded that, both because of the measurement problems in inactive markets and developing countries and for cost-benefit reasons, SMEs should be required to use the fair value through profit or loss model only when fair value is readily determinable without undue cost or effort. When that is not the case, the Board concluded that SMEs should follow the cost-depreciation-impairment model (see paragraph BC124 of the *IFRS for SMEs*). **Ex 8** An entity cultivates a single species of fast-growing softwood timber in a 10-year growth cycle. The entity is one of many farmers growing the same species of pine in an extensive area of similar land. The entity (like many of its competitors) uses the services of local pine planting specialists to plant its land. The specialists prepare the land, supply the saplings, fertiliser, other chemicals and water, and plant the saplings. After the trees are planted, the entity manages and maintains its plantations (fertilising and watering, chemical spraying and thinning) to optimise timber growth. There are frequent sales of essentially homogeneous pine plantations (trees and the land on which they are planted) in the local market. Sales are conducted by online auction and the prices are published on the local pine growers' website, listed per acre by age of plantation sold (ie newly planted, 1 year, 2 years, 3 years and so on). Sales of recently harvested land (ie without pine trees) in the same area are also quoted per acre. The entity classifies its pine plantations into two classes: mature (four years or older) and immature (three years or younger). The entity applies the fair value model to measure its pine forest biological assets (mature and immature) because their fair value is readily determinable without undue cost or effort. The entity's management can readily obtain the fair value of		

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the pine forests by age (including the land on which the trees are planted) and deduct from that amount the fair value of the land where harvesting has recently occurred in the same area, to measure the fair value of its trees. **Ex 9** An entity cultivates a wide variety of species of slow-growing hardwood timber trees in 'natural' forests. The growth cycles of the species range from 60 to 120 years and because of the unique and varied topography of the entity's forests, the growth cycles for individual species vary considerably. The entity is the only entity that cultivates timber in the jurisdiction in which it operates. The entity manages and maintains its forests by planting saplings (grown in its nursery) to replace harvested trees, nurturing the growth of saplings and removing invasive alien plant species. This optimises timber growth and maintains the integrity of the forest. The entity classifies its hardwood timber into two classes: mature (fifteen years or older) and immature (fourteen years or younger). The entity harvests trees when they reach harvesting age. The harvested timber (logs) is sold in international timber markets. There is an active market for all of the types of timber that are harvested by the entity. For each species that the entity harvests from the forest, the entity maintains detailed management records of growth rates, costs to maintain the nursery, planting costs, maintenance costs, felling costs and costs of transporting the logs to market. Based on these historical records, that have been adjusted for recent trends, management forecasts expected future income and expenses by species of tree harvested. In addition, the forecasts help management to determine which species it should propagate and manage for harvest in the future. An active market does not exist for the entity's standing hardwood biological assets in their present location and condition. However, this does not necessarily mean that the fair value of the standing hardwood biological assets cannot be readily determined without undue cost or effort (see paragraph 34.6). Consequently, the absence of such an active market does not automatically result in the entity applying the cost model to account for the entity's standing hardwood biological assets. The entity's management must apply its judgement to determine whether the fair value of the entity's standing hardwood biological assets can be readily determined without undue cost or effort. In making that judgement, management would		

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consider whether fair value could be measured other than by reference to an active market for the entity's standing hardwood biological assets in their present location and condition. For example, management would evaluate whether a reliable measure of fair value is readily determinable without undue cost or effort by reference to the present value of the expected net cash flows from the asset, discounted at a current market-determined rate. In this example, management appears to have already obtained relevant sector benchmarks for management purposes, such as the current market price of harvested logs for each type of hardwood under cultivation as well as many of the inputs required to measure the present value of the expected net cash flows from its standing hardwood biological assets (ie management has forecasts of expected future income and expenses by species of tree harvested). If the only additional information that is needed to measure fair value is the discount rate to be applied to the forecast cash flows then it would be difficult (if not impossible) for management to assert that fair value is not readily determinable without undue cost or effort. **Ex 10** The facts are the same as in Example 9. However, in this example, the entity has only recently begun cultivating plantation timber in the jurisdiction where it operates. Plantation timber cultivation has not previously been undertaken in this jurisdiction. The environmental conditions in the jurisdiction are different from those in other areas where hardwoods are grown. Management has not forecast the future income and expenses by species of tree harvested. An active market does not exist for the entity's standing hardwood biological assets in their present location and condition. However, this does not necessarily mean that the fair value of the standing hardwood biological assets cannot be readily determined without undue cost or effort (see paragraph 34.6). The entity's management would apply judgement to determine whether the fair value of the entity's standing hardwood biological assets can be readily determined without undue cost or effort. In making that judgement, management would consider whether fair value could be measured other than by reference to an active market for the entity's standing hardwood biological assets in their present location and condition.		

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For example, management would evaluate whether fair value is readily determinable without undue cost or effort (by reference to the present value of expected net cash flows from the assets discounted at a current market-determined rate) and whether the result is a reliable measure of fair value. In this example, because of significant unknown factors (eg absence of historical information and forecasts on which to base future cash flow estimates) management might conclude that fair value is not readily determinable without undue cost or effort.		

The contents of the IFRS for SMEs are listed below for reference.