The EU Accounting Directives and the IFRS for SMEs

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OVERVIEW

- EFRAG advice on the compatibility of the IFRS for SMEs and the EU Accounting Directives from 2010.
- Subsequent changes to the Accounting Directive.
- Subsequent change to the IFRS for SMEs.

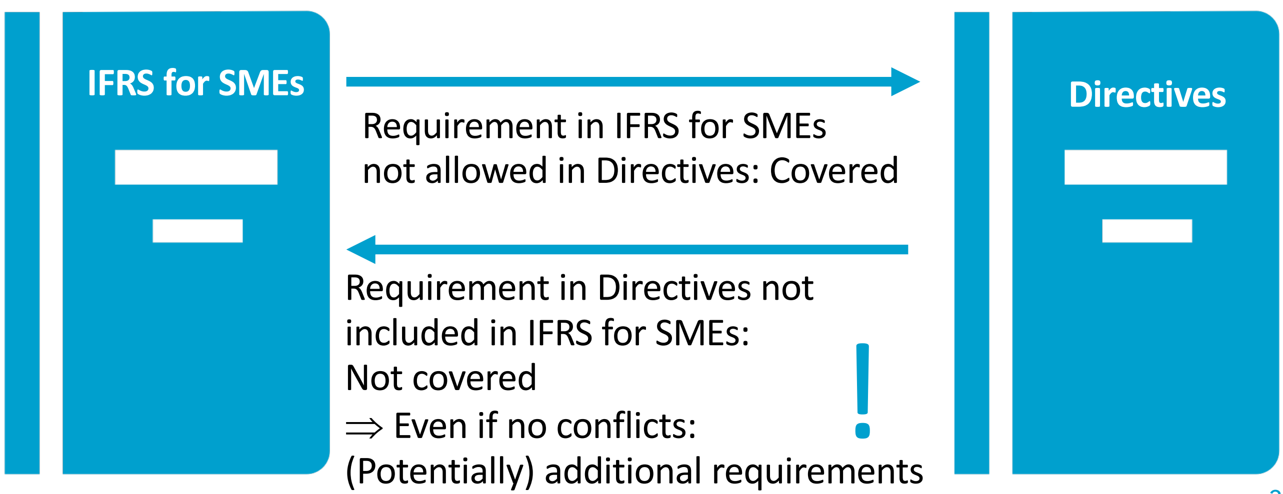
EFRAG advice on the compatibility of the IFRS for SMEs and the EU Accounting Directives from 2010

EU Accounting Directive

- The EU Accounting Directive includes many Member State options.
- Accounting requirements are different from Member State to Member State – but they are still compatible with the EU Accounting Directive.
- Entities that have their securities admitted to trading on a regulated market of any EU Member State is required to prepare consolidated accounts in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations).
- EU Member States are allowed to require or permit the use of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations) for other entities/accounts. The IFRS for SMEs is not covered by this, so it can only be used to the extent this would not conflict with the requirements in EU Accounting Directive.

European Commission request in 2009

- In November 2009, the European Commission asked EFRAG to provide advice detailing on exactly which points the IFRS for SMEs (International Financial Reporting Standard for Small and Medium-sized Entities) is incompatible with the EU Accounting Directives (78/660/EC and 83/349/EEC).
- For the analysis, incompatibility meant that an accounting treatment required by the IFRS for SMEs is not permitted under the EU Accounting Directives.



Procedure

Each requirement in the IFRS for SMEs was examined:

- Requirements corresponding to requirements in IFRS Standard (then IAS) from before 1 May 2002 assumed to be compatible as accounting directives were amended in June 2003 and it was stated in the preamble that '**The amendments will remove all inconsistencies between Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the one hand and IAS in existence at 1 May 2002, on the other'.**
- **Note disclosures not considered incompatible.**

		those bodies, with an indication of the total for each category;	
28.2	Employee benefits also include share-based payment transactions by which employees receive equity instruments (such as shares or share options) or cash or other assets of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.		The reference to section 26 is not in itself incompatible with the Council Directives. The requirements of section 26 are assessed in section 26.
28.3	An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period: (a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund. (b) as an expense, unless another section of this IFRS requires the cost to be recognised as part of the	See above 4. art. 7 Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited.	It is assessed that it is not incompatible with the Council Directives to require to be recognised as a cost, the cost of all employee benefits to which the employees have become entitled as a result of service rendered to the entity during the reporting period, unless another section of IFRS for SMEs requires it to be capitalised. It could be questioned whether it would be incompatible with the Council Directives to set-off liabilities and contributions made to a fund. It is, however, noted that IAS 19 as of 1 May 2002 included a similar requirement as

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Incompatibilities identified - 2010

- The prohibition in the IFRS for SMEs to present or describe any items of income and expense as ‘extraordinary items’ in the statement of comprehensive income (or in the income statement, if presented) or in the notes. (The Accounting Directives specifically required certain items to be presented as ‘extraordinary’).
- The requirement to measure financial instruments within the scope of section 12 of the IFRS for SMEs (non-basic financial instruments) at fair value. (According to The Accounting Directives only certain financial liabilities can be measured at fair value (unless allowed in endorsed ‘full IFRS’)).
- The requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life. (According to The Accounting Directives goodwill had to be written off within a maximum period of five years unless a longer period does not exceed the useful economic life of the asset).
- The requirement to recognise immediately in profit or loss any negative goodwill. (According to The Accounting Directives, negative goodwill could only be recognised in profit or loss as expected unfavourable future results incur or the gain has been realised).
- The requirement to present the amount receivable from equity instruments issued before the entity receives cash or other resources, as an offset to equity and not as an asset. (The Accounting Directives requires unpaid subscribed (or called-up) capital as an asset).
- The prohibition to reverse an impairment loss recognised for goodwill. (The Accounting Directives required goodwill impairment losses to be reversed if the reasons for which they have been recognised have ceased to apply).

Amendments to the Accounting Directive - 2013

- Requirement to present certain items under ‘Extraordinary income and extraordinary charges’

  Removed.

- Limitation on which ‘non-basic’ financial liabilities can be measured at fair value

  Unchanged – (however, still allows fair value measurement in accordance with endorsed ‘full IFRS’).

- The requirement that goodwill must be written off within a maximum period of five years unless a longer period does not exceed the useful economic life of the asset

  Requirement amended to allow Member States to set the maximum period over which goodwill is written of to 10 years in the exceptional cases where the useful life of goodwill cannot be reliably estimated.

Amendments to the Accounting Directive - 2013

- The requirement that negative goodwill can only be recognised in profit or loss as expected unfavourable future results incur or the gain has been realised

  Changed so that negative goodwill may be transferred to the consolidated profit and loss account where such a treatment is in accordance with the principles set out in Chapter 2 of the Directive (General principles). This includes that only profits made a the balance sheet date may be recognised.

- The requirement to present unpaid subscribed (or called-up) capital as an asset

  Unchanged. (However, the IFRS for SMEs has been changed to that entities can follow local law – see slide 14).

- The requirement to reverse goodwill impairment losses if the reasons for which they have been recognised have ceased to apply

  Changed so that goodwill is explicitly excluded from the requirement to reverse an impairment loss.

Amendments to the Accounting Directive

Subsequent changes

- Information on income tax
- Sustainability reporting
- European Single Access Point
- Amendments to size criteria

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Amendments to the IFRS for SMEs

- The requirement to measure financial instruments within the scope of section 12 of the IFRS for SMEs (non-basic financial instruments) at fair value

  Changes to the requirements – now all requirements in Section 11 – and no longer an option to use IAS 39 *Financial Instruments: Recognition and Measurement*. New requirements based on IFRS 9 *Financial Instruments* – but there are differences. Therefore likely that differences could exist for certain instruments.

- The requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life

  Changed to: '…not exceed ten years'.

- The requirement to recognise immediately in profit or loss any negative goodwill

  In principle still there (but the 'calculation' of goodwill has changed). The standard is now referring to 'a gain on a bargain purchase'.

Amendments to the IFRS for SMEs

- The requirement to present the amount receivable from equity instruments issued before the entity receives cash or other resources, as an offset to equity and not as an asset

  Changed so that the offset should not be made if local laws or regulations prohibit such presentation (in which case the entity shall comply with the presentation requirements in the local laws or regulations).

Other changes:

Changes following revisions in 2015 and 2025.

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Questions and comments

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