

IFRS for SMEs Update (3rd edition)

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Tbilisi

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CFRR 

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Overview of major amendments



Major amendments

- » Section 2 *Concepts and Pervasive Principles*
- » Section 9 *Consolidated and Separate Financial Statements*
- » Section 11 *Financial Instruments*
- » Section 12 *Fair Value Measurement*
- » Section 17 *Property, Plant and Equipment*
- » Section 19 *Business Combinations and Goodwill*
- » Section 23 *Revenue from Contracts with Customers*
- » *Appendix A effective date and transition*



Major amendments to Section 2 *Concepts and Pervasive Principles*

- » New overriding principle that the requirements in other sections take precedence over Section 2
- » Aligned with Conceptual Framework (2018)
 - » Primary user focussed objective!

Consistently with the joint (Georgia, Armenia, Ukraine) response to RfI (2020, p9), IFRS for SMEs (2025):

- retains the concept of ‘undue cost or effort’;
- updates to Conceptual Framework (2010).

Inconsistently with the joint response to RfI (2020, p9), IFRS for SMEs (2025):

- updates to Conceptual Framework (2018) prematurely.



Major amendments to Section 9 *Consolidated and Separate Financial Statements*

- » Amended definition of control to be same as IFRS 10 (control model)
- » Retained the >50% of the voting rights rebuttable presumption and clarified its application
- » Loss of control triggers fair value measurement of retained interest, if any. And added disclosure (paragraph 9.23B)

Consistently with joint response to RfI (2020, p10), IFRS for SMEs (2025):

- Retains the control rebuttable presumption;
- Considered changes after IFRS 10 post-implementation review completed in 2022, and the changes being assessed to be cost-beneficial (Feedback Statement and Effects Analysis).



Major amendments to Section 11 *Financial Instruments*

- » Removes the **option** to apply IAS 39 recognition and measurement
- » Defines **financial guarantee contracts**
- » Removes from the scope of the Standard **financial guarantee contracts** issued at nil consideration when the specified debtor is another entity within the group
- » Clarifies that debt instruments that have **prepayment features with negative compensation payments** can still meet the criteria to be measured at amortised cost
- » Introduces an **overriding principle** for classifying debt instruments based on their contractual cash flow characteristics
- » Introduces requirements to **disclose**: (i) an analysis of the age of financial assets; and (ii) a maturity analysis of financial liabilities.



Major amendments to Section 11 *Financial Instruments*

Consistently with conditional joint response to RfI (2020, p11-14), IFRS for SMEs (2025):

- Retains the incurred loss impairment model;
- Retains financial guarantee accounting for those external to the group;
- Eliminates the option to use recognition and measurement specified in IAS 39;
- Does not update hedge accounting to IFRS 9.

Inconsistently with joint response to RfI, IFRS for SMEs (2025, p11-14):

- Does not eliminated hedge accounting from the IFRS for SMEs;
- Adds a definition of a financial guarantee contracts and exempts from scope intra-group financial guarantees issued at nil consideration.



Major amendments to Section 12 *Fair Value Measurement*

- » Aligns fair value measurement principle with IFRS 13.
- » Specifies proportionate disclosures about fair value measurement.

Consistently with the joint response to RfI (2020, p22-23), IFRS for SMEs (2025):

- Aligns the definition of fair value with IFRS 13;
- Adds proportionate fair value measurement guidance to the IFRS for SMEs;
- Adds the IFRS 13 fair value measurement hierarchy;
- Adds proportionate disclosures.



Major amendments to Section 17 *Property, Plant and Equipment*

- » Introduces the concept of **bearer plants**
- » Moves from Section 34 to Section 17 **bearer plants** that at initial recognition can be separately measured **without undue cost or effort**
- » Explicit prohibition of **revenue-based depreciation**

Inconsistently with the joint response to RfI (2020, p24), IFRS for SMEs (2025):

- Includes a bearer plant exception to the IFRS for SMEs (albeit with a new undue cost or effort exception);
- Prohibited revenue-based depreciation (because believed revenue-based depreciation was already inconsistent with the 2015 requirements).



Major amendments to Section 19 *Business Combinations and Goodwill*

» Aligned with IFRS 3 *Business Combinations*

Consistently with the joint response to RfI (2020, p4, 17), IFRS for SMEs (2025):

- Aligns with the principles of IFRS 3
 - definition of a business
 - acquisition costs
 - contingent consideration
 - etc.

Inconsistently with the joint response to RfI (2020, p17), IFRS for SMEs (2025):

- Adds requirements for step acquisitions.



Major amendments to Section 23 *Revenue from Contracts with Customers*

- » Aligned with IFRS 15 *Revenue from Contracts with Customers*
- » However, with simplifications for:
 - » Warranties
 - » Customer options
 - » Allocation of the transaction price
 - » Costs of obtaining a contract

Inconsistently with the joint response to RfI (2020, p4, 17), IFRS for SMEs (2025):

- Aligns with IFRS 15 *Revenue from Contracts with Customers*.



Effective date and transition

- » Issued February 2025
- » Effective date periods beginning on or after 1 January 2027
- » Early application permitted (if do so, disclose so)
- » Retrospective application (mandatory change of accounting policy)
- » However, provides transition reliefs
 - » Some prospective application
 - » Some modified retrospective application

Amendments: Section by Section



Section 1 *Small and Medium-sized Entities*

Section 1 *Small and Medium-sized Entities* amendments

- » The IFRS for SMEs Accounting Standard is intended for use by entities without public accountability, which are referred to as **small and medium-sized entities** (SMEs) in this Standard.
- » An entity has public accountability if: (a) ...; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, ~~most~~ banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often would meet this second criterion).

In developing the public accountability amendment, the IASB noted that it intends the change to clarify, and not relax, the criterion. (BC1.22)



Public accountability as envisaged by the IASB

What do you think?

- » Entity A's sole business is lending the funds of its two owner-manager billionaires.
- » **Is Entity A publicly accountable (and therefore cannot apply the IFRS for SMEs)?** Choose one of:
 - 1) Yes, Entity A is publicly accountable (and therefore cannot apply the IFRS for SMEs Accounting Standard); or
 - 2) No, Entity A is not publicly accountable (and therefore can apply the IFRS for SMEs Accounting Standard).



Public accountability as envisaged by the IASB

Summary of discussion

- » Entity A's sole business is lending the funds of its two owner-manager billionaires.
- » **Is Entity A publicly accountable (and therefore cannot apply the IFRS for SMEs)?** Choose one of:
 - 1) Yes, Entity A is publicly accountable (and therefore cannot apply the IFRS for SMEs Accounting Standard); or
 - 2) **No, Entity A is not publicly accountable (and therefore can apply the IFRS for SMEs Accounting Standard).**



Public accountability as envisaged by the IASB

What do you think?

- » Entity B's sole business insures the risks of only its parent company and fellow subsidiaries.
- » **Is Entity B publicly accountable (and therefore cannot apply the IFRS for SMEs)?** Choose one of:
 - 1) Yes, Entity B is publicly accountable (and therefore cannot apply the IFRS for SMEs Accounting Standard); or
 - 2) No, Entity B is not publicly accountable (and therefore can apply the IFRS for SMEs Accounting Standard).



Public accountability as envisaged by the IASB

Summary of discussion

- » Entity B's sole business insures the risks of only its parent company and fellow subsidiaries.
- » **Is Entity B publicly accountable (and therefore cannot apply the IFRS for SMEs)?** Choose one of:
 - 1) Yes, Entity A is publicly accountable (and therefore cannot apply the IFRS for SMEs Accounting Standard); or
 - 2) **No, Entity A is not publicly accountable (and therefore can apply the IFRS for SMEs Accounting Standard).**



Section 2 Concepts and Pervasive Principles



Section 2 *Concepts and Pervasive Principles*

- » New overriding principle that the requirements in other sections take precedence over Section 2
- » Concepts aligned with Conceptual Framework (2018)



Section 2 *Concepts and Pervasive Principles*

objective amendment

» **Objective** = provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to external resource providers (existing and potential investors, lenders and other creditors) to assess the prospects for the entity's future net cash inflows and management's stewardship of the entity's economic resources when making decisions related to providing resources to the reporting entity.

The objective provides the lens through which to look when making relevance-based judgements in applying the IFRS for SMEs Accounting Standard.



Objective

What do you think?

» **The objective of IFRS for SMEs financial statements is to provide financial information about the reporting entity that is useful to?** Choose one of:

- 1) existing and potential service recipients and their representatives, and resource providers;
- 2) existing and potential investors (including the controlling shareholder), lenders and other creditors in making resource allocation decisions (buy, sell, hold, provide loan/settle);
- 3) existing and potential investors, lenders and other creditors who cannot require the reporting entity to provide information directly to them in making resource allocation decisions; or
- 4) a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.



Objective

Summary of discussion

» The objective of IFRS for SMEs financial statements is to provide financial information about the reporting entity that is useful to? Choose one of:

- 1) existing and potential service recipients and their representatives, and resource providers;
- 2) existing and potential investors (including the controlling shareholder), lenders and other creditors in making resource allocation decisions (buy, sell, hold, provide loan/settle);
- 3) existing and potential investors, lenders and other creditors who cannot require the reporting entity to provide information directly to them in making resource allocation decisions; or
- 4) a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.



Section 2 *Concepts and Pervasive Principles* new element definitions

- » **Asset** = present right controlled by the reporting entity that in at least one scenario (need not be likely) has the potential to produce economic benefits.
- » **Liability** = the reporting entity's present obligation to transfer an economic resource (as a result of past events).
- » **Equity** = Assets – Liabilities
- » **Income** and **Expenses** = changes in the reporting entity's assets and liabilities that affect equity and are not transactions with owners in their capacity as owners.



Section 2 *Concepts and Pervasive Principles* amendments

- » **Executory contract** = contract, or a portion of a contract, that is equally unperformed.
- » It establishes a combined right and obligation to exchange economic resources. The right and obligation constitute a single asset (if currently favourable) or liability (if currently unfavourable).



Section 2 *Concepts and Pervasive Principles* relevance-based judgements amendments

- » Financial information is **relevant** if it can influence external resource providers' resource allocation decisions (and is useful in holding management to account).
- » Information is **material** if **omitting, misstating or obscuring** it could reasonably be expected to influence the resource allocation decisions that the reporting entity's external resource providers make on the basis of its IFRS for SMEs financial statements.
- » Put another way, materiality judgements are an entity-specific relevance assessment based on nature or magnitude, or both in the context of the reporting entity's IFRS for SMEs financial statements.



Materiality

Regulatory mini-case study: Kraft Heinz (2018)

“As previously disclosed on February 21, 2019, we received a **subpoena from the SEC** in October 2018 related to our procurement area, specifically the accounting policies, procedures, and internal controls related to our procurement function, including, but not limited to, agreements, side agreements, and changes or modifications to **agreements with our suppliers**. Following the receipt of this subpoena, we, together with external counsel and forensic accountants, and subsequently, under the oversight of the Audit Committee of our Board of Directors (the “Audit Committee”), conducted an internal investigation into the procurement area and related matters. As a result of the findings from this internal investigation, which was completed prior to the filing of our Annual Report on Form 10-K for the year ended December 29, 2018 on June 7, 2019 and which identified that multiple employees in the procurement area **engaged in misconduct**, we corrected prior **period misstatements** that generally increased the total cost of products sold in prior financial periods.



Materiality

Regulatory mini-case study: Kraft Heinz (2018)

What do you think?

“These misstatements principally related to the **incorrect timing** of when certain cost and **rebate elements** associated with supplier contracts and related arrangements were initially recognized.

We **do not believe** that the misstatements are quantitatively material to any period presented in our prior financial statements.”

In your judgement, if Kraft Heinz qualified to and applied IFRS for SMEs (2025), would the commercial income errors in Kraft Heinz’s 2018 annual financial statements (including comparative information) material?—choose one of: 1) Yes; or 2) No.

Extract from Kraft Heinz 2018 Form 10K Annual Report (emphasis added)



Materiality

Regulatory mini-case study: Kraft Heinz (2018)

Summary of participant discussion

1) Yes, the prior period errors are material **because of the nature of the errors and deliberately misstating financial information in order to achieve a particular presentation!**

In management's words:

“However, due to the **qualitative nature** of the matters identified in our internal investigation, including the number of years over which the **misconduct** occurred and the number of transactions, suppliers, and procurement employees involved, we determined that it would be appropriate to correct the misstatements in our previously issued annual and interim consolidated financial statements by restating such financial statements.”



Section 3 Financial Statement Presentation



Section 3 *Financial Statement Presentation* amendments

- » Must take into consideration all the relevant facts and circumstances, when determining how to aggregate information in IFRS for SMEs financial statements, including the notes.
- » **Must not obscuring** material information with immaterial information.
- » Must not aggregate material items that have different natures or functions in the business.
- » Must assess whether information, **either individually or in combination with other information**, is material in the context of the reporting entity's IFRS for SMEs financial statements taken as a whole.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (early application permitted)
- » **Exceptions from retrospective application:**
 - » **prospective application** of amended materiality (and aggregation) principles in 3.15A and 3.16.



***Section 4 Statement of Financial
Position; and
Section 5 Statement of
Comprehensive Income and Income
Statement***



Section 4 *Statement of Financial Position*, and Section 5 *Statement of Comprehensive Income and Income Statement*

» **No substantive amendments.**



***Section 6 Statement of Changes in
Equity and Statement of Income and
Retained
Earnings***



Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* amendments

- » New explicit disclosure requirement in the notes:
 - » the amount of dividends proposed (or declared) before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the amount per share; and
 - » the amount of any cumulative preference dividends not recognised.



Section 7 *Statement of Cash Flows*



Section 7 *Statement of Cash Flows* amendments

- » Must disclose a **reconciliation** between the opening and closing balances of the carrying amount of **liabilities arising from financing activities**,¹ including in the reconciliation: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.
- » Specified information about supplier finance arrangements, if any.

¹ Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Section 7 *Statement of Cash Flows*

illustrative liabilities from financing activities 'roll forward'

	01/01/2027	New cash financing	New non-cash financing	Settled by repayment	31/12/2027
Long-term borrowings	10,000	3,000			13,000
Short-term borrowings	2,000	1,000		(2,000)	1,000
Finance lease liabilities	3,000		1,000	(2,000)	2,000
Total financing liabilities	15,000	4,000	1,000	(4,000)	16,000



Section 8 Notes to the Financial Statements



Section 8 *Notes to the Financial Statements* amendments

- » Must disclose ~~significant~~ material accounting policy information.
- » **Added examples of judgements** that might have the most significant effect on the amounts recognised in the financial statements, including judgements made in determining:
 - » the **degree of influence** exerted over an investee, e.g. control, joint control, significant influence; and
 - » appropriate **classes of assets and liabilities**, in accordance with paragraph 12.30, for fair value measurement disclosures.



Section 9 Consolidated and Separate Financial Statements



Section 9 *Consolidated and Separate Financial Statements* amendments

- » Amended **definition of control** to be same as IFRS 10 (control model).
- » Specifies that the **loss of control** of a subsidiary **triggers**:
 - » **recycling** from other comprehensive income (except for the cumulative amount of any exchange differences that relate to a foreign subsidiary), on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.
 - » **fair value measurement of retained interest**, if any, which is its initial carrying amount in the new investment asset classification, i.e. joint venture, associate or financial asset (Section 11), as the case may be.
 - » specified **disclosures** (paragraph 9.23B)

Refer: IFRS for SMEs paragraphs 9.18-19 and 9.23B



Section 9 *Consolidated and Separate Financial Statements* amendments

» Specifies that **changes in a parent's controlling interest** in a subsidiary that **do not result in a loss of control** are consistently with their economics accounted for as transactions with owners in their capacity as owners.

Example: buying out other shareholders

What do you think?

- » At 31/12/2027 the carrying amount of FamilyBusiness's total equity = ₺1,000,000 (₺2,000,000 assets – ₺1,000,000 liabilities).
- » On 01/01/2028 FamilyBusiness pays ₺400,000 (fair value) to 'buy-out' a family member's 20% shareholding in FamilyBusiness.
- » **What is the economics of the transaction on 01/01/2028?**
 - » before the buyback: Assets ₺3,000,000 – Liabilities ₺1,000,000 = Equity ₺2,000,000
 - » Share buyback: ?
- » **What accounting does the IFRS for SMEs Accounting Standard specify for the transaction on 01/01/2028?**
 - » Before the buyback: Assets ₺2,000,000 – Liabilities ₺1,000,000 = Equity ₺1,000,000
 - » Share buyback: ?

Example: buying out other shareholders

Summary of discussion

» What is the economic of the transaction on 01/01/2028?

- » before the buyback: Assets ₺3,000,000 – Liabilities ₺1,000,000 = Equity ₺2,000,000
- » Buyback: Assets (cash) ↓ ₺400,000 = Equity ↓ ₺400,000.
- » After the buyback: Assets ₺2,600,000 – Liabilities ₺1,000,000 = Equity ₺1,600,000

» What accounting does the IFRS for SMEs Accounting Standard specify for the transaction on 01/01/2028?

- » before the buyback: Assets ₺2,000,000 – Liabilities ₺1,000,000 = Equity ₺1,000,000
- » Buyback: Assets (cash) ↓ ₺400,000 = Equity ↓ ₺400,000.
- » After the buyback: Assets ₺1,600,000 – Liabilities ₺1,000,000 = Equity ₺600,000

Example: buying out the NCI

What do you think?

- » Group A = Company A and its 75% held subsidiary Company B.
- » At 31/12/2027 consolidated total equity = ₺70,000 (including ₺10,000 non-controlling interest (NCI)).
- » On 01/01/2028 Company A pays ₺40,000 (fair value) to 'buy-out' the NCI, ie the founding family's remaining shareholding in Company B.
- » **What is the economics of the transaction on 01/01/2028?**
 - » **Before buying the NCI:** Assets ₺500,000 – Liabilities ₺100,000 = Equity ₺400,000 (i.e. ₺360,000 Company A shareholders + ₺40,000 NCI)
 - » **Buying the NCI: ?**
 - » **After buying the NCI: ?**
- » **What accounting does the IFRS for SMEs Accounting Standard specify for the transaction on 01/01/2028?**
 - » **Before buying the NCI:** Assets ₺170,000 – Liabilities ₺100,000 = Equity ₺70,000 (i.e. ₺60,000 Company A shareholders + ₺10,000 NCI)

Example: buying out the NCI

Summary of discussion

» What is the economics of the transaction on 01/01/2028?

- » **before buying the NCI:** Assets ₺500,000 – Liabilities ₺100,000 = Equity ₺400,000 (i.e. ₺360,000 Company A shareholders + ₺40,000 NCI)
- » **Buying the NCI:** Assets (cash) ↓ ₺40,000 = Equity ↓ ₺40,000.
- » **After buying the NCI:** Assets ₺460,000 – Liabilities ₺100,000 = Equity ₺360,000 Company A shareholders)

» What accounting does the IFRS for SMEs Accounting Standard specify for the transaction on 01/01/2028?

- » **before buying the NCI:** Assets ₺170,000 – Liabilities ₺100,000 = Equity ₺70,000 (i.e. ₺60,000 Company A shareholders + ₺10,000 NCI)
- » **Buying the NCI:** Assets (cash) ↓ ₺40,000 = Equity ↓ ₺40,000.
- » **After buying the NCI:** Assets ₺130,000 – Liabilities ₺100,000 = Equity ₺30,000 Company A shareholders)



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application. Modified retrospective application:**
 - » Must not restate a former subsidiary **if lost control before the date of initial application.** Must not remeasure any gain or loss on the loss of control of a former subsidiary that occurred before the date of initial application. Need not apply the disclosure requirements in paragraph 9.23B to comparative information provided for periods before the date of initial application.
 - » Need not make adjustments if applying Section 9 **does not change whether the investee is consolidated or not consolidated.**
 - » **If impracticable to consolidate an investee not previously consolidated** (or deconsolidate an investee previously consolidated) from its acquisition date, then do so from the earliest period practicable, which might be the current period.



Section 10 *Accounting Policies, Estimates and Errors*



Section 10 *Accounting Policies, Estimates and Errors* amendments

- » 'Clarified' the meaning of a change in accounting estimate.
- » Specified transitional provisions (see Appendix A of the Standard) for the 3rd edition of the Standard.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (early application permitted)
- » **Relief from disclosing:**
 - » the current period effect of the the change in accounting policy for each financial statement line item affected (partial relief from paragraph 10.13(b)).
 - » the amount of the adjustment for each affected line item for prior periods **when comparative information is not restated** in accordance with the reliefs set out in Appendix A (partial relief from paragraphs 10.13(b)–(c)).



Section 11 *Financial Instruments*



Section 11 *Financial Instruments* amendments

- » Includes in Section 11, the **content from Section 12** of the previous edition of the Standard.
- » **Defines financial guarantee contracts.**
- » **Removes** from the scope of the Section 11 **financial guarantee contracts issued at nil consideration** when the specified debtor is another entity within the group.
- » Clarifies that **debt instruments that have prepayment features with negative compensation payments** can still meet the criteria to be measured at amortised cost.

Refer: IFRS for SMEs paragraphs 11.2 (deleted), 11.6(g), 11.49-75



Example: financial guarantee contract What do you think?

- » Reporting Entity holds a 40% equity interest in Associate.
- » 31/12/2027 Bank advances ₪1 million loan to Associate.
 - » On 31/12/2030 the loan must be extinguished by Associating paying Bank ₪1.331 million.
- » If on 31/12/2030 Associates defaults, Reporting Entity must pay Bank ₪1.331 million (ie **Reporting Entity guarantee**).
- » Had Reporting Entity not guaranteed the loan to Associate, the terminal contractual cash flow Bank would have charged = ₪1,953,125 (ie the EiR would have been 25%). Reporting Entity issued the guarantee at nil consideration.




Example: financial guarantee contract What do you think?

- » Which Section of the IFRS for SMEs must Reporting Entity apply to the financial guarantee that it issued on 31/12/2027? Choose one of: Section 11 *Financial Instruments*; or 2) Section 21 *Provisions and Contingencies*.
- » At 31/12/2027 the fair value of Reporting Entity's guarantee liability is? Choose one of:
 - 1) ₪953,125 (ie ₪1,953,125 less ₪1,000,000)
 - 2) ₪622,125 (ie ₪ 1,953,125 less ₪1,331,000)
 - 3) ₪0 [ie (₪1,953,125 / (1.25)³ less ₪1,000,000]
 - 4) ₪318,528 [ie (₪1,331,000 / (1.25)³ less ₪1,000,000]

Example: financial guarantee contract

Summary of discussion

- » Which Section of the IFRS for SMEs must Reporting Entity apply to the financial guarantee that it issued on 31/12/2027? Choose one of: **Section 11 *Financial Instruments***; or 2) Section 21 *Provisions and Contingencies*.
- » At 31/12/2027 the fair value of Reporting Entity's guarantee liability is? Choose one of:
- 1) ₪953,125 (ie ₪1,953,125 less ₪1,000,000)
 - 2) ₪622,125 (ie ₪ 1,953,125 less ₪1,331,000)
 - 3) ₪0 [ie (₪1,953,125 / (1.25)³ less ₪1,000,000]
 - 4) **₪318,528 [ie (₪1,331,000 / (1.25)³ less ₪1,000,000]**



Example: financial guarantee contract What do you think?

» If Reporting Entity exerted control (instead of significant influence) over Associate, which Section of the IFRS for SMEs would Reporting Entity apply to the financial guarantee that it issued on 31/12/2027? Choose one of: Section 11 *Financial Instruments*; or 2) Section 21 *Provisions and Contingencies*.



Example: financial guarantee contract

Summary of discussion

» If Reporting Entity exerted control (instead of significant influence) over Associate, which Section of the IFRS for SMEs would Reporting Entity apply to the financial guarantee that it issued on 31/12/2027? Choose one of: Section 11 *Financial Instruments*; or 2) Section 21 *Provisions and Contingencies*.



Section 11 *Financial Instruments* amendments

- » Introduces an **overriding principle** for classifying debt instruments based on their contractual cash flow characteristics, i.e. amortised cost is applied if the contractual terms of the instrument give rise on specified dates to cash flows that are **solely payments of principal and interest** on the outstanding principal amount.
 - » ‘interest’ includes reasonable compensation for the time value of money, credit risk and other basic lending risks and costs—for example, liquidity risk, administrative costs associated with holding the instrument and lender’s profit margin—consistent with a basic lending arrangement.
- » Specifies must not reassess the classification of a financial instrument after initial recognition.

Refer: IFRS for SMEs paragraphs 11.9ZA and 11.11A



Section 11 *Financial Instruments* amendments

- » Introduces requirements to **disclose**, using **appropriate time-bands**:
 - (i) an analysis of the age of financial assets measured at amortised cost showing separately: (a) the gross carrying amount; and (b) impairment allowance, if any; and
 - (ii) a maturity analysis of financial liabilities by category using **contractual undiscounted** cash flows.
- » Removes the **option to apply IAS 39** recognition and measurement.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **Modified retrospective application:** impracticability and other exceptions (if previously used IAS 39 recognition and measurement). **Unlikely relevant in Georgia as in 2020 did not identify any IFRS for SMEs filers using this alternative.**



Section 12 *Fair Value Measurement*



Section 12 *Fair Value Measurement* overview

- » Aligns fair value measurement with IFRS 13.
- » **Objective** = estimate the price at which an orderly transaction (not a forced transaction) to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (an exit price at the measurement date).
- » **Perspective:** measure fair value using the same assumptions that **market participants** would use when pricing the asset or liability.
- » Specifies disclosures about fair value measurement.



Section 12 *Fair Value Measurement* measuring fair value

» **Principles:**

- » ignore transaction costs
- » location is a characteristic of the asset
- » highest and best use for a non-financial asset (use must reflect market participant assessments of physically possible, legally allowed and financially feasible)
- » market participants have complimentary assets

» **Vague notions:** fair value measurement hierarchy:

- » **Level 1:** unadjusted quoted prices in active markets for identical assets or liabilities;
- » **Level 2:** directly or indirectly observable inputs (other than level 1); and
- » **Level 3:** significant unobservable inputs.

» **PxQ rule:** @ **level 1** measure the fair value by multiplying the quoted price by the quantity held.



Fair value of financial asset: low-interest loan asset Example

- » On 1 January 2027, Entity advances an ‘interest-free’ loan of ₪121,000 to its associate.
- » The loan is repayable on 31 December 2028 at ₪121,000.
- » The annual market interest rate that would otherwise have applied to the associate borrowing would have been 10%.



Fair value of financial asset: low-interest loan asset

What do you think?

» **What is the fair value of the loan at 1 January 2027?** Choose one of:

- 1) ₺0
- 2) ₺21,000
- 3) ₺100,000 (ie the present value of ₺121,000)
- 4) ₺121,000 (the cash flow)



Fair value of financial asset: low-interest loan asset

Summary of discussion

» **What is the fair value of the loan at 1 January 2027?** Choose one of:

- 1) ₪0
- 2) ₪21,000
- 3) **₪100,000 (ie the present value of ₪121,000)**
- 4) ₪121,000 (the cash flow)



Fair value of a non-financial asset

Example 1

- » Your single-story factory is built on Plot 900 in a recently developed industrial development zone where the land that is divided into hundreds of two acre plots that before their further development were essentially homogenous. Factories are the highest and best use for the land.
- » On 31 December 2027 two plots adjoining your plot were sold:
 - » Plot 901 sold for ₺3 million: land with a similar factory of the same age, same condition and same floor area as yours.
 - » Plot 899 sold for ₺1 million because it is undeveloped (yet to be built on).



Fair value of a non-financial asset What do you think? example 1

- » **On 31 December 2027 what is the fair value of your land (ie excluding the factory building)?** Choose one of:
 - » 1) ₪0; 2) ₪1 million; 3) ₪2 million; 4) ₪3 million; 5) ₪7 million; 6) ₪8 million; 7) ₪10; million; or 8) another amount
- » **On 31 December 2027 what is the fair value of your factory building (ie excluding the land)?** Choose one of:
 - » 1) ₪0; 2) ₪1 million; 3) ₪2 million; 4) ₪3 million; 5) ₪7 million; 6) ₪8 million; 7) ₪10; million; or 8) another amount

Fair value of a non-financial asset

Summary of discussion: example 1

- » On 31 December 2027 what is the fair value of your land (ie excluding the factory building)? Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10; million; or 8) another amount
- » On 31 December 2027 what is the fair value of your factory building (ie excluding the land)? Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10; million; or 8) another amount



Fair value of a non-financial asset Example 2

- » The facts are the same as Example 1, except that in this example:
 - » multi-story commercial development is now the highest and best use for your land because a rapidly expanding financial district of Tbilisi has grown to the boundary of plots 899, 900 and 901.
 - » Consequently, on 31 December 2037 Plots 899 and 901 each sold for ₾10 million



Fair value of a non-financial asset What do you think? example 2

- » **On 31 December 2037 what is the fair value of your land (ie excluding the factory building)?** Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10; million; or 8) another amount
- » **On 31 December 2037 what is the fair value of your factory building (ie excluding the land)?** Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10; million; or 8) another amount

Fair value of a non-financial asset

Summary of discussion: example 2

- » On 31 December 2037 what is the fair value of your land (ie excluding the factory building)? Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10 million; or 8) another amount
- » On 31 December 2037 what is the fair value of your factory building (ie excluding the land)? Choose one of:
 - » 1) €0; 2) €1 million; 3) €2 million; 4) €3 million; 5) €7 million; 6) €8 million; 7) €10 million; or 8) another amount



Fair value: restriction on use Example

- » You own a plot of land (Plot A) in Tbilisi that is zoned ‘green belt’—which prohibits the construction of buildings on that land.
- » Similar neighbouring plots subject to the same restrictions sold recently:
 - » for ₾950,000 on 30 October 2027 (Plot B); and
 - » for ₾3,000,000 on 31 December 2027 (Plot C).
- » The difference in the selling price of Plots B and C is attributable primarily to the press leaked confidential government dossier setting out the ruling party’s plans for proposing an amendment to the law to allow for the construction of high-rise buildings on Plots A, B, C and other specified green belt land.



Fair value: restriction on use What do you think?

- » You employ a reputable property valuation expert to value Plot A at 31 December 2027 under each of the following hypothetical scenarios:
 - » **Scenario 1:** the land is rezoned allowing for the construction of a high-rise building: ₺10,000,000
 - » **Scenario 2:** market participants believe there is no prospect of the zoning laws changing: ₺1,000,000
- » **What is the fair value of Plot A at 31 December 2027?** Choose one of: 1) ₺950,000; 2) ₺1,000,000; 3) ₺3,000,000; 4) ₺10,000,000; or 5) another amount.



Fair value: restriction on use


Summary of discussion

- » You employ a reputable property valuation expert to value Plot A at 31 December 2027 under each of the following hypothetical scenarios:
 - » **Scenario 1:** the land is rezoned allowing for the construction of a high-rise building: ₺10,000,000
 - » **Scenario 2:** market participants believe there is no prospect of the zoning laws changing: ₺1,000,000
- » **What is the fair value of Plot A at 31 December 2027?** Choose one of: 1) ₺950,000; 2) ₺1,000,000; 3) ₺3,000,000; 4) ₺10,000,000; or 5) another amount.



Fair value: location test your understanding

- » On 30 November 2027 you:
 - » buy a gold exploration rig for ₺20 million in the US
 - » incur buying agent commission of ₺1 million
 - » pay ₺5 million for the rig to be transported safely 17,000 miles to your exploration site in the Greater Caucasus
- » The seller of the rig incurs ₺2 million selling costs.
- » The market at which you purchased the rig is your principal market (should you choose to sell the rig).



Fair value: location What do you think?

» At 31 December 2027, what is the fair value of the rig? Choose one

of:

- 1) €13 million
- 2) €15 million
- 3) €18 million
- 4) €20 million
- 5) €21 million
- 6) €26 million



Fair value: location

Summary of discussion

» At 31 December 2027, what is the fair value of the rig? Choose one

of:

- 1) ₺13 million
- 2) ₺15 million
- 3) ₺18 million
- 4) ₺20 million
- 5) ₺21 million
- 6) ₺26 million



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **prospective application** of Section 12 *Fair Value Measurement* and the related consequential amendments to other requirements; and
 - » need not make new disclosures in comparatives.



Section 12 *Fair Value Measurement* disclosure

- » Present **in a table** unless another format would be more useful.
- » For **each class measured at fair value in the balance sheet**: (i) the closing carrying amounts; (ii) the level of the fair value hierarchy; and (iii) if Level 2 and Level 3, description of the valuation technique(s) and the inputs used.
- » For **recurring Level 3** disclose total gains or losses for the period recognised in: (i) profit or loss; (ii) OCI; and (iii) the profit or loss and OCI line items in which recognised.

A class of assets and liabilities [judgement: consider (i) nature, characteristics and risks; and (ii) level of FVM hierarchy] will often require greater disaggregation than the line items presented in the balance sheet, but information must be disclosed to enable reconciliation to balance sheet line items.

Examples—fair value measurement hierarchy judging the boundaries of the artificial constructs

Boundary between **levels 1 & 2**—do transactions in the market in which the identical item trades (and that the entity can access at the measurement date) take place with sufficient frequency and volume to provide pricing information on an ongoing basis? (IFRS 13. A)

Regulatory example—JSE (following review of 2016 financial statements of debt issuers) observes:¹

- » **Debt issuers inappropriately classified their own debt instruments in Level 1 given the inactivity of trade in listed notes on the South African interest rate market.**
 - » **Even when trade does occur, it is not usually of sufficient frequency and volume to satisfy a Level 1 classification.**

¹ JSE, *Reporting Back On Proactive Monitoring Of Financial Statements In 2016*



Examples—fair value measurement hierarchy judging the boundaries of the artificial constructs

» Boundary between level 2 and level 3—significant unobservable inputs?

Example entity-specific policy—HSBC (2020) financial statements, p292:

- » “significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument’s inception profit or greater than 5% of the instrument’s valuation is driven by unobservable inputs
- » ‘Unobservable’ in this context means that there is little or no current market data available from which to determine the price at which an arm’s length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used)”



Level of the fair value hierarchy What do you think?

» **At which level of the fair value measurement hierarchy are operational financial instruments (such as trade receivables and trade payables) likely classified?** Choose one of: 1) Level 1; or 2) Level 2; or 3) Level 3.



Level of the fair value hierarchy

Summary of participant discussion

» At which level of the fair value measurement hierarchy are operational financial instruments (such as trade receivables and trade payables) likely classified? Choose one of: 1) Level 1; or 2) Level 2; or 3) Level 3.



Level of the fair value hierarchy

Regulatory mini-case study 1


Regulatory observation

- » *Matter 9 (2016)*
- » The classification of a financial instrument as being within the level 2 fair value hierarchy (in applying IFRS 13), requires inputs into the fair value calculation be observable either directly or indirectly (IFRS 13.81).
- » An issuer incorrectly classified their **operational financial instruments** such as trade receivables and trade payables, finance leases, loans receivable and loans payable as being **level 2 fair values as opposed to level 3 fair values**.
- » As a result of this incorrect classification, inter alia, the additional inputs (see IFRS 13.93(d) and IFRS 13.97) required for **level 3 instruments were also omitted.**”



Fair value hierarchy What do you think?

» **At which level of the fair value measurement hierarchy are investment properties located in Tbilisi likely classified?** Choose one of: 1) Level 1; or 2) Level 2; or 3) Level 3.



Fair value measurement hierarchy

Summary of participant discussion

» At which level of the fair value measurement hierarchy are investment properties located in Tbilisi likely classified? Choose one of: 1) Level 1; or 2) Level 2; or 3) Level 3.



Fair value measurement hierarchy

Regulatory mini-case study 2

Regulatory observation

- » “*Matter 7 (2016)*”
- » There was an instance where an issuer owned **investment property** and had **incorrectly classified this as a level 2 fair value.**
- » Given the requirement that these inputs be observable (IFRS 13.81), **it is highly unlikely that property in the South African market will meet the criteria for a level 2 fair value classification.”**



Section 13 *Inventories*



Section 13 *Inventories* return assets amendments

- » **Returns assets** for transferred products the reporting entity expects to be returned are:
 - » classified as inventory (see paragraph 23A.24(c));
 - » recognised and measured in accordance with Section 23 *Revenue from Contracts with Customers* (paragraphs 23A.23–23A.27); and
 - » disclosed in accordance with Section 13.

Returns assets are initially measured at former carrying amount of the products expected to be returned minus expected costs to recover and ‘impairment allowance’ for expected damage, obsolescence or declining selling prices.

Change in estimate when subsequently updated (if not a prior period error).



Example: return assets What do you think?

- » **In Q4 2027** Reporting Entity receives ₺400,000 in exchange for transferring 1,000 products to its customers (i.e. selling price = ₺400 each). The cost of each product = ₺200.
- » Consistently with experience and expectations:
 - » returns refunded to 31/12/2027 = 100 products.
 - » Further returns (and refunds) expected in 2026 = 50 products.
- » **In January 2028** 50 products were returned (as expected).
- » **In February 2028** the returned products will be **sold in second hand** = on average ₺55 each.
- » **How would Reporting Entity account for the above transactions?**

Example: return assets. What do you think?

Date	Financial position			Financial performance	
	Asset	Liability	Equity	Income	Expense
30/09/2027	€200,000 stock		€200,000		
Q4 2027 transfer 100 units and expect 15 returns					
Return and refund in Q4					
31/12/2027					
January 2028					
February 2028					

Example: return assets. Summary of discussion

Date	Financial position			Financial performance	
	Asset	Liability	Equity	Income	Expense
30/09/2027	₹200,000 stock		₹200,000		
Q4 2027 transfer 100 units and expect 15 returns	₹400,000 cash (₹200,000) stock ₹8,250 returns	₹60,000 returns	₹148,250	₹340,000 sales	₹191,750 COGS
Q4 2027 return and refund 100 units	(₹40,000) cash ₹5,500 stock (₹5,500) returns	(₹40,000) returns			
31/12/2027	₹360,000 cash ₹5,500 stock ₹2,750 returns	₹20,000 returns	₹348,250		
January 2028 return and refund 50 units	(₹20,000) cash ₹2,750 stock (₹2,750) returns	(₹20,000) returns			
February 2028 sold 150 units	₹8,250 cash (₹8,250) stock			₹8,250 sales	₹8,250 COGS



Section 14 *Investments in Associates*



Section 14 *Investments in Associates* amendments

- » Amendments to the **equity method** for a financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future and is, **in substance, part of the investor's net investment** (for example, this may include preference shares or long-term receivables or loans) **to which Section 11 is applied before Section 14.**
 - » Equity method investment in an associate = amount determined using the equity method + amount of any financial instruments that in substance form part of the investor's net investment in the associate.
 - » If impairment is indicated, must test the entire carrying amount of the investment (ie including financial instruments that, in substance, form part of the investor's net investment in the associate).



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **Modified retrospective application:** if an entity that uses the cost model for associates determines: (i) it has significant influence over a deconsolidated investee (that was previously consolidated under the now **superseded requirements for determining control**)^(see Section 9 above); and (ii) it is **impracticable to determine the cost at the date of purchase**, the reporting entity is permitted to measure the cost (**deemed cost**) as either: (a) fair value at the date of initial application; or (b) the aggregate of the carrying amounts at the date of initial application of the assets and liabilities, including goodwill, that the entity had previously consolidated.



Section 15 *Joint Arrangements*



Section 15 *Joint Arrangements* amendments

- » **New terminology:** joint arrangements can take the form of: (i) jointly controlled operations; (ii) jointly controlled assets; or (iii) jointly controlled entities.
- » Clarifies accounting for parties that participate in joint arrangements but **do not have joint control**, as follows:
 - » for **joint ventures:** apply Section 11, unless Section 14 because significant influence.
 - » for **jointly controlled operations and jointly controlled assets:** apply same requirements as parties that do have joint control (exceptions apply).

Joint control exists only when decisions about the **relevant activities** require the **unanimous consent** of the **parties that control the arrangement collectively**.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Disclosure relief:** only required to disclose the amount of the adjustment for each line item affected in accordance with paragraph 10.13(b) for the annual period immediately preceding the date of initial application (and not earlier comparative periods).

Effective date and transition

» Exceptions from retrospective application:

- » **Modified retrospective application:** if an entity that uses the cost model for jointly controlled entities determines: (i) it has joint control over a deconsolidated investee (that was previously consolidated under the now **superseded requirements for determining control**)^(see Section 9 above); and (ii) it is **impracticable to determine the cost at the date of purchase**, the reporting entity is permitted to measure the cost **(deemed cost) as either:** (a) fair value at the date of initial application; or (b) the aggregate of the carrying amounts at the date of initial application of the assets and liabilities, including goodwill, that the entity had previously consolidated.



Section 16 *Investment Property*

Section 16 *Investment Property*

- » **Amendment.** Change of use-based transfers from/to investment property must be evidenced by change in the use to which the property is put (e.g. cannot be merely intention-based).
- » **Transition relief. Exception from retrospective application:**
 - » **Prospective application.** **However,** at date of initial application reassess classification of all investment property on the basis of conditions that exist at that date.
 - » **transfer in current period** even if because earlier period reclassification was not evidenced by change in use; and
 - » disclose amounts so **reclassified in 'roll forward'** required by paragraph 16.10(e).

Section 16 *Investment Property*

- » **Amendment.** Determine (judgement) whether the **acquisition of investment property** is the acquisition of an asset or a group of assets, or a business combination within the scope of Section 19.
 - » Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in Section 16 requires the separate application of both sections (ie the determinations are not mutually exclusive).
- » **Transition relief: prospective application**, applied only to acquisitions that occur on or after the date of initial application.

Refer: IFRS for SMEs paragraph 16.3A and A16. The amendment aligns the IFRS for SMEs requirement with Annual Improvements to IFRSs 2011–2013 Cycle Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (Amendments to IAS 40)



Section 17 Property, Plant and Equipment



Section 17 *Property, Plant and Equipment* amendments

- » Moves from agriculture (Section 34) to Section 17 those bearer plants that at initial recognition can be separately measured from the produce on them **without undue cost or effort**.
 - » Such bearer plants (but not to the produce on those bearer plants) are accounted for using cost model or revaluation model.

Bearer plant = a living plant that: (a) is used in the production or supply of agricultural produce; (b) is expected to bear produce for more than one period; and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

(Appendix A)

But, excludes plants cultivated to be harvested as agricultural produce and annual crops.



Apple farming asset classification example

What do you think?

- » For each item below owned and deployed in an apple farming operation, choose one of: 1) *S13 Inventories*; 2) *S17 PPE*; 3) *S34 Specialised Activities (agriculture)*; 4) *it depends...*; or 5) apply 'SME hierarchy'.
- A. land
 - B. harvested apples
 - C. apples attached to the living apple trees
 - D. living apple trees (excluding the fruit attached to them)

Apple farming asset classification example

Summary of discussion

- » For each item below owned and deployed in an apple farming operation, choose one of: 1) *S13 Inventories*; 2) *S17 PPE*; 3) *S34 Specialised Activities (agriculture)*; 4) it depends...; or 5) apply 'SME hierarchy'.
- A. Land 2) *S17 PPE*
 - B. harvested apples 1) *S13 Inventories*
 - C. apples attached to the living apple trees 3) *S34 Specialised Activities (agriculture)*
 - D. living apple trees (excluding the fruit attached to them) 4) it depends...



Apricot farming *what do you think?*

- » On 01/01/2030 a apricot farmer plants a new orchard with maiden (1 year old) apricot trees at a cost of €10 million.
- » The trees are first expected to bear fruit in October 2035.
- » Fruiting is expected to increase exponentially for the next four years (2036 to 2039) before leveling off for fifteen years (2040 to 2054).
- » After the 2054 harvest apricot farmer expects to fell the trees for **sale as firewood**.



Accounting for apricot trees

What do you think?

- » Which measurement model must apricot farmer use to account for its living apricot trees? Choose one of:
- 1) Cost model (historical cost-depreciation-impairment);
 - 2) Revaluation model (fair value-depreciation-impairment);
 - 3) Fair value model (fair value less costs to sell); or
 - 4) It depends.

Accounting for apricot trees

Summary of discussion

» Which measurement model must apricot farmer use to account for its living apricot trees? **It depends...**

» **Scenarios, account for the apricot trees using the:**

- A. **cost model** (cost less depreciation less impairment) in accordance with the IFRS for SMEs either: (i) applying the undue cost or effort exemption from classifying as bearer plant and then also asserting that the fair of the tree with fruit on it is not readily determinable without undue cost or effort; or (ii) the cost model alternative introduced to the IFRS for SMEs accounting for bearer plants in the 2025 amendments.
- B. **fair value model** (fair value less costs to sell) in accordance with the IFRS for SMEs if (applying the undue cost or effort exemption from classifying as bearer plant) despite the fair of the tree with fruit on it being readily determinable without undue cost or effort (note: this is **an unlikely scenario**).
- C. **revaluation model** (fair value less depreciation less impairment) alternative introduced to the IFRS for SMEs accounting for bearer plants in the 2025 amendments.



Accounting for apple trees

What do you think?

- » Which measurement basis provides the most relevant information that can faithfully represent an apricot farmer's living apricot trees? Choose one of:
- 1) Cost model (historical cost-depreciation-impairment);
 - 2) Revaluation model (fair value-depreciation-impairment); or
 - 3) Fair value model (fair value less costs to sell).



Accounting for apple trees

Summary of discussion

» Which measurement basis provides the most relevant information that can faithfully represent an apricot farmer's living apricot trees?

Choose one of:

- 1) Cost model (historical cost-depreciation-impairment);
- 2) Revaluation model (fair value-depreciation-impairment); or
- 3) Fair value model (fair value less costs to sell).



Accounting for apple trees

What do you think?

- » At a future date can an entity voluntarily change its accounting policy for living apricot trees (accounted for as bearer plants) from the cost model to the revaluation model? (Choose one of):
 - 1) Yes, highly likely to provide more relevant information; or
 - 2) No, highly unlikely to provide more relevant information.

- » Further in the future, could that entity revert to the cost model for its bearer plants? (Choose one of):
 - 1) Yes, highly likely to provide more relevant information; or
 - 2) No, highly unlikely to provide more relevant information.



Accounting for apple trees

Summary of discussion

» At a future date can an entity voluntarily change its accounting policy for living apricot trees (accounted for as bearer plants) from the cost model to the revaluation model? (Choose one of):

- 1) Yes, probably can, highly likely to provide more relevant information
- 2) No, probably not, highly unlikely to provide more relevant information

» Further in the future, could that entity revert to the cost model for its bearer plants? (Choose one of):

- 1) Yes, probably can, highly likely to provide more relevant information
- 2) No, probably not, highly unlikely to provide more relevant information



Effective date and transition bearer plant amendments

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exception from retrospective application. Modified retrospective application:**
 - » permitted to measure a bearer plant at its fair value at the beginning of the earliest period presented and use that fair value as its **deemed cost** at that date.
 - » Recognise any difference between the previous carrying amount and fair value in opening balance of retained earnings at the beginning of the earliest period presented.



Section 17 *Property, Plant and Equipment* amendments

- » Explicit **prohibition** of **revenue-based depreciation**, i.e. a depreciation method that is based on revenue generated by an activity that includes the use of an asset.
- » **Derecognition date** = **when recipient obtains control** of that item (apply paragraphs 23.57–23.61---which supersedes the ‘when transfers the risks and reward’ approach).



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application. Prospective application:**
 - » explicit prohibition of **revenue-based depreciation**
 - » **reclassification of investment property** (see transition for Section 16 above).



Section 18 *Intangible Assets other than Goodwill*



Section 18 *Intangible Assets other than Goodwill* amendments

- » Rebuttable presumption about the **inappropriateness of revenue-based depreciation restricted** to the following circumstances:
- (a) when rights over the use of an intangible asset **are specified as a fixed total amount of revenue to be generated**; or
 - (b) when it can be demonstrated that revenue and the consumption of the intangible asset's future economic benefits are **highly correlated**.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **Prospective application:** conditional prohibition of revenue-based depreciation.



Section 19 *Business Combinations and Goodwill*



Section 19 *Business Combinations and Goodwill* More closely aligned with IFRS 3 *Business Combinations*

» New definition of a business.

Business = integrated set of activities and assets that is capable of being conducted and managed for the purpose of:

- (a) providing goods or services to customers;
- (b) generating investment income (such as dividends or interest); or
- (c) generating other income from ordinary activities.

A business consists of **inputs** and **processes** applied to those inputs **that have the ability to contribute to the creation of outputs**. Can have no outputs and still qualify as a business.

Section 19 Business Combinations and Goodwill

determining whether transaction/event is a business combination

» **Optional concentration test** available on each transaction/event.

» not a business combination, if **substantially all** of the fair value of the gross assets^{1,2} acquired is concentrated in a single identifiable asset^{3,4} or group of similar⁵ identifiable assets (i.e. meets the concentration test).

» if fails the concentration test must perform 'normal' analyses.

¹ excludes cash, cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.

² includes any consideration transferred (plus the NCI's proportionate share of net identifiable assets and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired.

³ any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination.

⁴ if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset without incurring significant cost or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset.

⁵ the nature of each single identifiable asset and the risk characteristics (the risks associated with managing and creating outputs from the assets) are considered to assess whether assets are similar.

Refer: IFRS for SMEs paragraphs 19A.1–19A.10



Section 19 *Business Combinations and Goodwill* More closely aligned with IFRS 3 *Business Combinations*

- » **Tweaked** requirements for recognising and measuring separately from goodwill, identifiable assets acquired and liabilities assumed in a business combination that meet the definitions of assets and liabilities.
 - » However, recognise **intangible assets** acquired in a business combination only if their fair value can be measured reliably without undue cost or effort.
 - » Clarified that the acquirer does not recognise a **contingent liability** assumed in a business combination that is not a liability (paragraph BC19.14).

Section 19 *Business Combinations and Goodwill* contingent consideration amendments

- » **Contingent consideration, acquisition-date measurement:**¹
 - » **if can measure its acquisition-date fair value without undue cost or effort:** recognise the **acquisition-date fair value** of contingent consideration as part of the consideration transferred.
 - » **if cannot measure its acquisition-date fair value without undue cost or effort:** recognise using the **most likely amount** of consideration.
- » **Contingent consideration, subsequent measurement...**

¹ Do not subsequently reassess whether measuring the fair value of contingent consideration involves undue cost or effort.

Section 19 *Business Combinations and Goodwill* contingent consideration amendments

- » **Contingent consideration**, subsequent measurement:
 - » **If measurement period adjustment** (provisional numbers tried up within 12 months of acquisition date): adjust initial business combination accounting.
 - » **If classified as equity**: no subsequent remeasurement.
 - » **Otherwise, if measured at fair value**: remeasure fair value and present change in fair value in profit or loss.
 - » **Otherwise, If measured at most likely amount**: remeasure to reporting-date most likely amount and present the change in most likely amount in profit or loss.

Do not reassess whether measuring the fair value of contingent consideration involves undue cost or effort.

Section 19 *Business Combinations and Goodwill* contingent consideration amendments

- » **Disclose** for **each material** business combination and **in aggregate** for business combinations that are individually immaterial but collectively material:
- (a) **changes** in the carrying amounts of **contingent consideration**, including any differences arising upon settlement; and
 - (b) the **valuation techniques and key model inputs** the acquirer used to measure **contingent consideration**.

Do not reassess whether measuring the fair value of contingent consideration involves undue cost or effort.



Section 19 *Business Combinations and Goodwill* acquisition-related costs amendments

- » Account for **acquisition-related costs as expenses** in the periods in which the costs are incurred and the services are received.
- » Exceptions, account for the cost to issue:
 - » **debt** in accordance with Section 11 *Financial Instruments*; and
 - » **equity securities** in accordance with Section 22 *Liabilities and Equity*.

Acquisition-related costs are costs an acquirer incurs to effect a business combination.



Section 19 *Business Combinations and Goodwill* More closely aligned with IFRS 3 *Business Combinations*

- » Clarified **accounting for step acquisitions**:
 - » **remeasure any pre-existing equity interest** in the acquiree at its acquisition-date fair value; and
 - » present the resulting gain or loss in profit or loss.



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **Prospective application:** amendments to Section 19 *Business Combinations* to business combination that occur after the date of initial application (and leave unadjusted earlier business combination accounting).
 - » Continue to account for **pre-existing contingent consideration** using the old rules.



Section 20 *Leases*



Section 20 *Leases* amendments

» **No substantive amendments.**




Section 21 Provisions and Contingencies



Section 21 *Provisions and Contingencies* financial guarantee contracts amendments

- » Section 21 (contingent liability) applies to **financial guarantee contracts issued at nil consideration** when the specified debtor is another entity within the group.
- » Must disclose for the issued **financial guarantee contracts** (above):
 - (a) the nature and business purpose of these contracts;
 - (b) an indication of the uncertainties relating to the amount or timing of any outflow of resources; and
 - (c) the maximum amount the entity could be required to pay if the guarantees are called on.
- » Must also make the disclosures required by Section 33 *Related Party Disclosures* and, if applicable; the disclosures required by paragraphs 21.14 (provisions) and 21.15 (contingent liabilities).

Refer: IFRS for SMEs paragraph 21.1A and 21.18-19.



Section 21 *Provisions and Contingencies* restructuring amendments (moved from non-mandatory guidance to Standard and expanded)

- » **Restructuring** = a programme that is planned and controlled by management and materially changes either the scope of a business undertaken by the reporting entity or the manner in which that business is conducted.
- » **Constructive obligation to restructure** arises only when an entity:
 - (a) has a **detailed formal plan** for the restructuring identifying at least:
 - (i) the business or part of a business concerned;
 - (ii) the principal locations affected;
 - (iii) the location, function and approximate number of employees who will be compensated for termination of their services;
 - (iv) the expenditures that will be undertaken; and
 - (v) when the plan will be implemented.
 - (b) has **raised a valid expectation** in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.



Section 22 *Liabilities and Equity*



Section 22 *Liabilities and Equity* amendments

» **No substantive amendments.**



Section 23 *Revenue from Contracts with Customers*



Section 23 *Revenue from Contracts with Customers* Introduces IFRS 15's five step revenue recognition model

- » **Step 1:** identify the contract(s) with a customer (see paragraphs 23.6–23.13);
- » **Step 2:** identify the promises in the contract (see paragraphs 23.14–23.22);
- » **Step 3:** determine the transaction price (see paragraphs 23.23–23.38);
- » **Step 4:** allocate the transaction price to the promises in the contract (see paragraphs 23.39–23.48); and
- » **Step 5:** recognise revenue when (or as) the entity fulfils a promise (see paragraphs 23.49–23.67).



Section 23 *Revenue from Contracts with Customers* recognition and measurement simplifications from IFRS 15

- » **Warranties:** the rule specified in the IFRS for SMEs depends on whether the customer can choose to buy the good or service without the warranty?
 - » If yes, the purchased warranty is a performance obligation in Section 23;
 - » If no, the warranty provided is not a performance obligation, and it is in accordance with Section 21 *Provisions and Contingencies*.
- » Consequently, unlike full IFRSs no assessment is required of whether a warranty provides a customer with a service in addition to the assurance that a product complies with agreed-upon specifications.



Section 23 *Revenue from Contracts with Customers* recognition and measurement simplifications from IFRS 15

- » **Customer options:** customer options for additional goods or services are accounted for separately only if an entity can do so **without undue cost or effort**;
- » **Allocation of the transaction price:** allocate a discount or an amount of variable consideration between the promises in a contract on a **stand-alone selling price basis** unless this basis does not represent the amount of consideration the entity expects to be entitled to in exchange for fulfilling each promise in the contract; and
- » **Costs of obtaining a contract:** recognise as an **expense** when incurred.

Refer: IFRS for SMEs paragraphs 23.47, 23A.9 and 23.68 BC23.7



Transition alternatives for new Section 23

Exceptions from retrospective application

Choose consistently to all contracts with customers, either:

- » **Modified retrospective application** (see paragraphs A28-A31); or
- » **Prospective application:** Apply **new S23 only to contracts that begin after the date of initial application.**
 - » **Disclose:** (i) that comparative information is not restated; and (ii) the nature of the change in accounting policy.
 - » Do not apply new disclosures requirements to comparatives.
 - » Do not change the accounting policy for **legacy contracts**. BUT disclose:
 - (i) the accounting policy for the recognition of revenue for those contracts, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and
 - (ii) the revenue recognised in the current period from those contracts.



Section 24 *Government Grants*



Section 24 *Government Grants* amendments

» **No substantive amendments.**



Section 25 *Borrowing Costs*



Section 25 *Borrowing Costs* amendments

» **No substantive amendments.**



Section 26 *Share-based Payment*



Section 26 *Share-based Payment* scope

- » **Amendment.** Clarifies that Section 26 does not apply to share-based payment transactions in which an entity acquires goods as part of the net assets acquired in:
 - (a) a **business combination** as defined in Section 19 *Business Combinations* and Goodwill;
 - (b) a combination of entities or businesses under **common control** as described in paragraph 19.2; or
 - (c) the **contribution of a business on the formation of a jointly controlled entity** as defined in Section 15 *Joint Arrangements*.
- » **Transition relief.** **Prospective application** to transactions occurring on or after the date of initial application.



Section 26 *Share-based Payment* definitions

» **Amendment.**

- » amended definitions of ‘vesting condition’ and ‘market vesting condition’; and

- » new definitions of ‘performance condition’ and ‘service condition’.

» **Transition relief. Prospective application** to share-based payment transactions with a grant date on or after the date of initial application.



Section 26 *Share-based Payment* cash-settled share-based payment

- » **Amendment.** Clarifies that the cumulative amount ultimately recognised for goods or services received as consideration for a cash-settled share-based payment is equal to the cash paid.
- » **Transition relief.**
 - » **Prospective application** to transactions with a grant date on or after the date of initial application.
 - » **Modified retrospective application** to transactions that are unvested at the date of initial application. Remeasure the liability at the date of initial application and recognise the effect of the remeasurement in the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.



Section 26 *Share-based Payment* net settlement feature for withholding tax obligations

- » **Amendment.** Clarifies the accounting for share-based payment (SBP) transactions with a net settlement feature for withholding tax obligations.
- » **Transition relief. Prospective application,** the amendments apply to :
 - » SBP transactions with a grant date on or after date of initial application; and
 - » SBP transactions that at the date of initial application are unvested (or vested but unexercised) and that were previously classified as cash-settled but then became classified as equity-settled in accordance with the amended requirements in paragraphs 26.15– 26.15D. **Must reclassify the carrying amount of the SBP liability to equity at the date of initial application.**



Section 27 Impairment of Assets



Section 27 *Impairment of Assets* amendments

» **No substantive amendments.**



Section 28 *Employee Benefits*



Section 28 *Employee Benefits* amendments

- » **Amended the simplified** (undue cost or effort triggered alternative to the PUC method) method to measures the defined benefit obligation at the current termination amount, by:
 - » **not discounting** that obligation; and
 - » assuming all the entity's employees terminate their employment at the reporting date. Consequently, **ignoring:**
 - » (i) estimated future salary increases.
 - » (ii) future service.
 - » (iii) possible in-service mortality (but not ignoring mortality after service, ie life expectancy).



Section 28 *Employee Benefits* amendments

- » Amended the **disclosure** requirements for **defined benefit plans**.
- » **Aligned** the timing of the recognition of **termination benefits** with the requirements for restructuring costs in Section 21 *Provisions and Contingencies*; and



Effective date and transition

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application:**
 - » **Modified retrospective application:** amendments to simplified alternative to PUC method for employee benefits are retrospective.
 - » However, **need not adjust** the carrying amount of assets in the scope of other sections.



Section 29 *Income Tax*



Section 29 *Income Tax* uncertain tax positions amendments

- » **Amendment.** Specifies accounting for **uncertain tax positions**: Assume taxation authority will examine and has full information. If reporting entity concludes that it is:
- (a) **probable** that the taxation authority will accept an uncertain tax treatment, determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings; or
 - (b) **not probable** that the taxation authority will accept an uncertain tax treatment, reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the resolution of the uncertainty:
 - (i) **the most likely amount**—the single most likely amount in a range of possible outcomes; or
 - (ii) **the expected value**—the sum of the probability-weighted amounts in a range of possible outcomes.



Section 29 *Income Tax* uncertain tax positions amendments

- » **Transition relief regarding new accounting for uncertain tax positions. Modified retrospective application:**
 - » on initial application, if requires hindsight or is otherwise **impracticable**, recognise the cumulative effect of initially applying paragraphs 29.34A–29.34D as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.



Section 29 *Income Tax* other amendments

- » **Amendments** to the constraints on the recognition of deferred tax assets.
 - » **Transition relief. Modified retrospective application:** on initial application permitted to recognise the change in the opening equity of the earliest comparative period in the opening balance of retained earnings (or other component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies this relief, it shall disclose that fact.
- » **Amendments** to offsetting requirements.

Refer: IFRS for SMEs paragraphs 29.16A, 29.19-19A, 29.37 and 29.37A



Section 30 *Foreign Currency Translation*



Section 30 *Foreign Currency Translation* currency is not exchangeable amendments

- » **Amendment.** If, at a measurement date, a **currency is not exchangeable** into another currency, estimate the spot exchange rate at that date to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.
 - » New disclosures apply.
- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).



Transition currency is not exchangeable amendments

- » **Exceptions from retrospective application. Modified retrospective application:**
 - » amendments regarding lack of exchangeability applied at the date of initial application (see paragraphs A45 and A46); and
 - » relief from disclosure requirements in paragraph 30.28 regarding comparative information provided for periods before the date of initial application.



Section 30 *Foreign Currency Translation* advance consideration amendments

- » **Amendment.** When a reporting entity pays or receives consideration in advance in a foreign currency, it recognises a non-monetary asset/liability.
- » The exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) is the exchange rate at the date on which the reporting entity initially recognised the non-monetary asset or the non-monetary liability arising from the payment or receipt of advance consideration.
- » If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Refer: IFRS for SMEs paragraphs 30.8A , 30.28-29 and 30A.2–A.11



Effective date and transition advance consideration amendments

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exceptions from retrospective application. Prospective application** permitted for all assets, expenses and income within the scope of paragraph 30.8A that were initially recognised on or after either: (a) the date of initial application; or (b) the beginning of any comparative period presented.



Section 31 *Hyperinflation*



Section 31 *Hyperinflation* amendments

» **No substantive amendments.**



Section 32 Events after the End of the Reporting Period



Section 32 *Events after the End of the Reporting Period* amendments

» **No amendments.**



Section 33 *Related Party Disclosures*



Section 33 *Related Party Disclosures* amendments

- » Specifies that a reporting entity that **obtains key management personnel services from another entity (management entity)** is not required to make any disclosure that might otherwise be required by paragraph 33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors.
 - » **However, the amounts incurred by the reporting entity for the provision by a separate management entity of such services shall be disclosed.**
- » Amends the government control exemption and related disclosures.



Section 34 *Specialised Activities*

Section 34 *Specialised Activities* bearer plant amendments

- » Moves from Section 34 to Section 17 those bearer plants that at initial recognition can be separately measured from the produce on them without undue cost or effort.
 - » Such bearer plants (but not to the produce on those bearer plants) are accounted for using cost model or revaluation model.

Bearer plant = a living plant that: (a) is used in the production or supply of agricultural produce; (b) is expected to bear produce for more than one period; and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

(Appendix A)

But, excludes plants cultivated to be harvested as agricultural produce and annual crops.



Effective date and transition bearer plant amendments

- » **Effective date:** periods beginning on or after 1 January 2027 (with early application permitted).
- » **Exception from retrospective application. Modified retrospective application:**
 - » permitted to measure a bearer plant at its fair value at the beginning of the earliest period presented and use that fair value as its **deemed cost** at that date.
 - » Recognise any difference between the previous carrying amount and fair value in opening balance of retained earnings at the beginning of the earliest period presented.



Section 34 *Specialised Activities* amendments

- » Specifies must treat exploration and evaluation assets as a separate **class of assets** and make the disclosures required by either Section 17 or Section 18 consistent with how the assets are classified.



**Section 35 *Transition to the
IFRS for SMEs Accounting
Standard***



Section 35 *Transition to the IFRS for SMEs Accounting Standard* amendments

» Amended for new Section 23 *Revenue from Contracts with Customers*

Refer: IFRS for SMEs paragraphs 35.9(g) and 35.10(o)

Thank you!