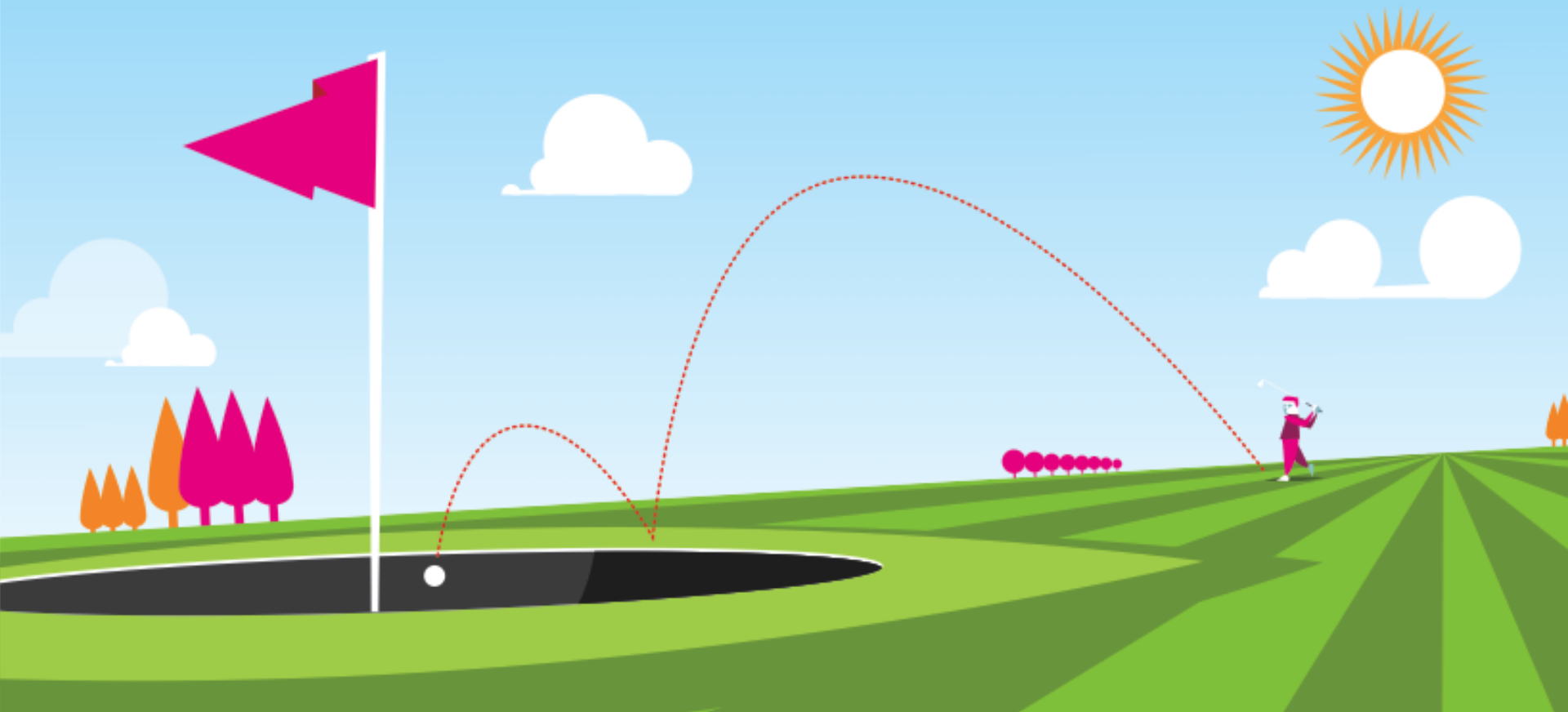


Welcome



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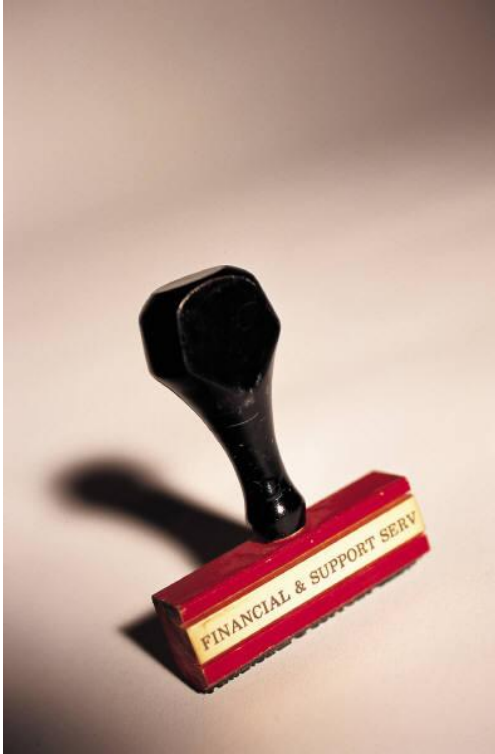
International Financial Reporting Standard for SMEs (IFRS for SMEs)

Technical Workout – October 2010

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Agenda



- Introduction
- Objectives of IFRS for SMEs
- Benefits and drawbacks
- Overview
- Financial statements
- Tax implications
- Differences to UK GAAP
- Key differences
- Transition
- First time adoption
- Planning ahead
- How we can help
- Questions

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Introduction



International
Accounting Standards
Board[®]

- Currently UK companies report under 3 tier system:
 - International Financial Reporting Standards (IFRS) for listed groups
 - UK GAAP for non-listed entities
 - Financial Reporting Standard for Smaller Entities (FRSSE) for small companies
- 'IFRS for SMEs' issued by International Accounting Standards Board ("IASB") July 2009
- UK Accounting Standards Board (ASB) started consultation process in August 2009
- The ASB proposal is for a new 3 tier system:
 - IFRS for companies with public accountability
 - IFRS for SMEs for companies with no public accountability
 - FRSSE for small companies
- To take effect for accounting periods commencing on or after 1 January 2013, with comparatives

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Objectives of IFRS for SMEs

- IASB established to develop global accounting
- Full IFRS designed to meet needs of equity investors in companies in public capital markets – includes 3,000 disclosure requirements
- IFRS for SMEs reflects growing demand for regime more suited to users of financial statements of private companies
- IFRS for SMEs is a simplified version of full IFRS:
 - Topics not relevant to SMEs have been omitted eg segmental reporting, earnings per share
 - Many recognition and measurement principles simplified
 - Some of the different options available in IFRS have been removed
 - The number of required disclosures significantly reduced
 - Standards re-drafted into a more simplified format
 - Revisions will be limited to once every 3 years to reduce the reporting burden

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Benefits and drawbacks

Benefits

- Global language of accounting, improved comparability for users of accounts between countries
- Internationally recognised
- Enhanced confidence in accounts of SMEs
- Improved access to capital
- Reduce costs of maintaining different standards in different countries
- Simpler than full IFRS
- More flexibility in terms of presentation
- UK GAAP currently hybrid of disjointed standards developed over many years. IFRS for SMEs well laid out, organised by topic and fully stand-alone

Drawbacks

- Costs and time associated with transition
- May not be relevant to private companies with no international or external interests
- Adoption by different countries will vary (timing, scope etc)
- Flexibility available within IFRS for SMEs may mean less consistency/comparability
- IFRS for SMEs varies to full IFRS significantly in some areas

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Overview

- Section 1 Small and Medium Entities – definitions
- Section 2 Concepts & Principles – measurement & recognition concepts, definitions etc
- Section 3 Financial Statement Presentation - format, content etc
- Section 4 Statement of Financial Position - can still be called balance sheet.
- Section 5 Statement of Comprehensive Income and Income Statement
- Section 6 Statement of Changes in Equity
- Section 7 Statement of Cashflows
- Section 8 Notes
- Section 9 Consolidation
- Section 10 Accounting Policies
- Section 11 Basic Financial Instruments
- Section 12 Complex Financial Instruments
- Section 13 Inventories
- Section 14 Associates
- Section 15 Joint Ventures
- Section 16 Investment Property
- Section 17 Property, Plant and Equipment

- Section 18 Intangibles other than Goodwill
- Section 19 Business Combinations and Goodwill
- Section 20 Leases
- Section 21 Provisions and Contingencies
- Section 22 Liabilities and Equity
- Section 23 Revenue
- Section 24 Government Grants
- Section 25 Borrowing Costs
- Section 26 Share-based Payment
- Section 27 Impairment of Assets
- Section 28 Employee benefits
- Section 29 Income tax
- Section 30 Foreign Currency
- Section 31 Hyperinflation
- Section 32 Events After the Reporting Period End
- Section 33 Related Party Disclosures
- Section 34 Specialised Activities
- Section 35 First-time Adoption

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Financial statements



- Statement of Financial Position (balance sheet):
 - Current/non-current split not necessarily required
 - Sequencing, format and titles not mandated
 - Some minimum line requirements
- Statement of Comprehensive Income and Income Statement (P&L):
 - Can have single ‘Statement of Comprehensive Income’ or 2 separate statements – ‘Income Statement’ and ‘Statement of Comprehensive Income’
 - Can present Income Statement only if no items of other comprehensive income eg some foreign exchange gains/losses, some changes in fair value of hedging instruments, some actuarial gains/losses
 - Must segregate discontinued operations
- Statement of Changes in Equity
- Statement of Cashflows:
- Notes to the financial statements

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Tax implications



Specifically:

- Section 29 on income tax. Retains key principles i.e. recognition of current and deferred tax assets and liabilities. But differences in how deferred tax assets and liabilities are measured

Indirectly:

- Tax rules in respect of a change of accounting framework:
 - Some adjustments taxed in year of change
 - Some adjustments spread over 10 years
 - Some adjustments have no immediate tax effect
- Impact on tax calculations and tax planning in respect of specific changes e.g. foreign currency translation
- Possible additional tax compliance costs where tax does not follow the accounting treatment, eg financial instruments (Disregard Regulations)
- Possible impact on transfer pricing calculations due to changes to reported results

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Differences to UK GAAP

- Many requirements of IFRS for SMEs are similar than under UK GAAP eg development costs, borrowing costs
- BUT, some fundamental differences:
 - Format and content of financial statements
 - Recognition criteria for various assets and liabilities
 - Basis on which some items are measured
 - Treatment of certain gains and losses
- New international terminology eg Statement of Financial Position, inventory etc)
- Accounts may be presented in other currencies



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Key differences

Financial instruments

- UK GAAP - Cost model
- IFRS for SMEs:
 - Complex instruments (forex contracts, complex loans etc) – Measure at fair value through P&L (FVTPL)
 - Basic instruments (debtors, creditors, bank loans) - Cost and amortisation model
- Potential tax impact on amounts taken to P&L
- May recognise more instruments

Investment property

- UK GAAP - Mandatory revaluation to open market value
- IFRS for SMEs:
 - Measure initially at cost then revalue to fair value through P&L (FVTPL) if measurable
 - Cost less depreciation model if not measurable
- More choice of treatment
- Potential deferred tax differences

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Key differences (continued)

Property, plant & equipment

- UK GAAP - Option to revalue
- IFRS for SMEs - Mandatory cost model
- Potentially lower balance sheet value
- Simplified deferred tax
- Depreciation through P&L
- Transitional provisions apply

Deferred tax

- UK GAAP - Timing difference approach
- IFRS for SMEs - Temporary difference approach on all temporary differences
- No discounting of deferred tax balances
- More deferred tax recognised

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Key differences (continued)

Intangible assets & goodwill

- UK GAAP:
 - Development costs can be capitalised
 - Acquired intangibles capitalised and amortised (max 20 years)
 - Goodwill (positive or negative) capitalised & amortised
- IFRS for SMEs:
 - All internally generated intangibles expensed
 - Acquired intangibles at price less amortisation
 - Intangibles acquired as part of business combination at fair value
 - Positive goodwill capitalised and amortised
 - Negative goodwill – fair value reassessed
- Potential up-front tax deduction
- Shorter economic life
- Tax impact of negative goodwill taken to P&L

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Key differences (continued)

Defined benefit pension schemes

- UK GAAP - Net liability approach using projected salaries
- IFRS for SMEs:
 - Net liability approach based on present value of future obligations
 - No spreading of actuarial gains/losses allowed
- Some simplifications
- No requirement for use of independent actuary
- Different value of liabilities/assets

Foreign currency

- UK GAAP - Option to use local currency or functional currency
- IFRS for SMEs - Must use functional currency
- Significant potential tax impact if change currency as forex movements taxable
- Taxable gains/ losses on loans to overseas affiliates cannot be avoided

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Key differences (continued)

Business combinations

- UK GAAP – No choice of accounting methods for associates and joint ventures
- IFRS for SMEs:
 - Choice of cost model, equity method and fair value model
 - Subsidiaries accounted for under purchase method (acquisition accounting)
 - Investments shown at cost less impairment or at fair value
 - Revaluations taken to P&L instead of revaluation reserve

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Key differences (continued)

Inventories

- UK GAAP - Measured at lower of cost and net realisable value
- IFRS for SMEs:
 - Measured at lower of cost and estimated selling price less costs to complete and sell
 - LIFO prohibited
- Different value of liabilities/assets

Impairment

- UK GAAP - Must assess
- IFRS for SMEs:
 - Inventories must be assessed
 - Other assets only need to estimate recoverable amount if indication of impairment

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Transition

- One year of comparatives required
- Some transitional provisions/exemptions are available
- Additional voluntary information is not precluded
- Additional disclosures in year of adoption required, including reconciliations from UK GAAP to IFRS for SMEs
- Where adopt IFRS for SMEs, must follow the standard in its entirety; cannot 'cherry pick' standards from different regimes
- Exemptions available under section 35:
 - Business combinations and goodwill already effected do not need to be re-stated
 - Can use fair value/re-valued amount as deemed cost for existing plant, property and equipment and for investment property
 - Can deem cumulative translation differences to be zero at date of transaction
 - Deferred tax on brought forward assets/liabilities can be ignored if undue cost to calculate



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First time adoption

Example – December year end:



Opening balance sheet:

- Proforma opening balance sheet on transition
- Reconciliation between 2 regimes

Comparative period balance sheet:

- Final year UK GAAP accounts
- Re-stated as comparatives under IFRS in 2013 accounts

Reporting date balance sheet:

- First IFRS accounts
- Explain transition
- Reconciliations between 2 regimes
- Comparatives re-stated

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Planning ahead



2011

- Ensure staff/management have sufficient understanding to make informed decisions and implement changes
- Consider which regime to adopt eg with reference to other companies in group, most appropriate/beneficial regime etc
- Consider potential impact and issues e.g.:
 - Impact on reported results and balances
 - Tax impact
 - Impact on covenants, earn-outs, regulatory requirements, legal agreements etc
 - Impact on hedging strategies
 - Impact on ability to pay dividends/bonuses
- Consider if a group reorganisation may be required e.g. for consistency, or due to tax, dividend or other impact
- Consider current systems & procedures. Will they support proposed changes?

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Planning ahead (continued)



2012

- Agree/select new accounting policies and transitional exemptions
- Make systems changes as required
- Consider if re-forecasts/revised budgets required
- Consider impact on KPIs, performance related pay etc
- Training
- Communicate to stakeholders
- Re-state opening balance sheet and reconcile to reported opening balance sheet

2013

- Re-state 2012 results and balances and reconcile between old and new regime
- Consider differences identified/quantified and whether further mitigation is required
- Update tax planning
- Review/consider financial statements – format, disclosures etc
- Take action as required to mitigate adverse impact

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How can we help

- Helping you to consider your reporting options and the impact of those options
- Analysis of differences between current financial statements and new disclosure requirements
- Transition support
- Review of accounting systems to consider compatibility with new regime
- Training
- Proactive tax advice on the impact of the changes

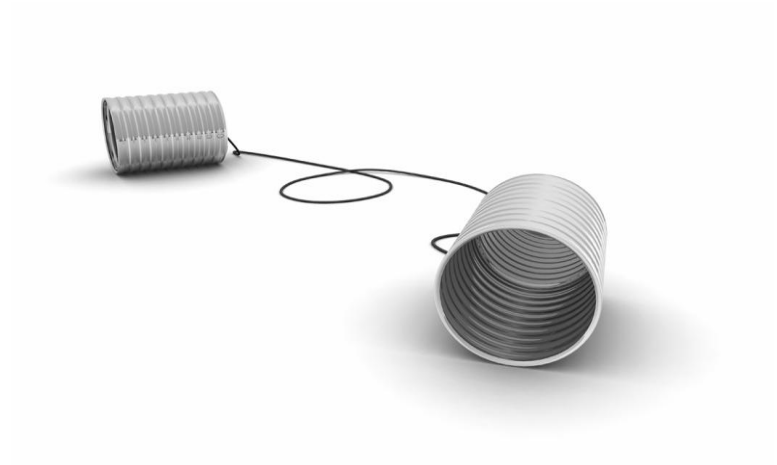
Further information:

- www.iasb.org
- www.frc.org.uk

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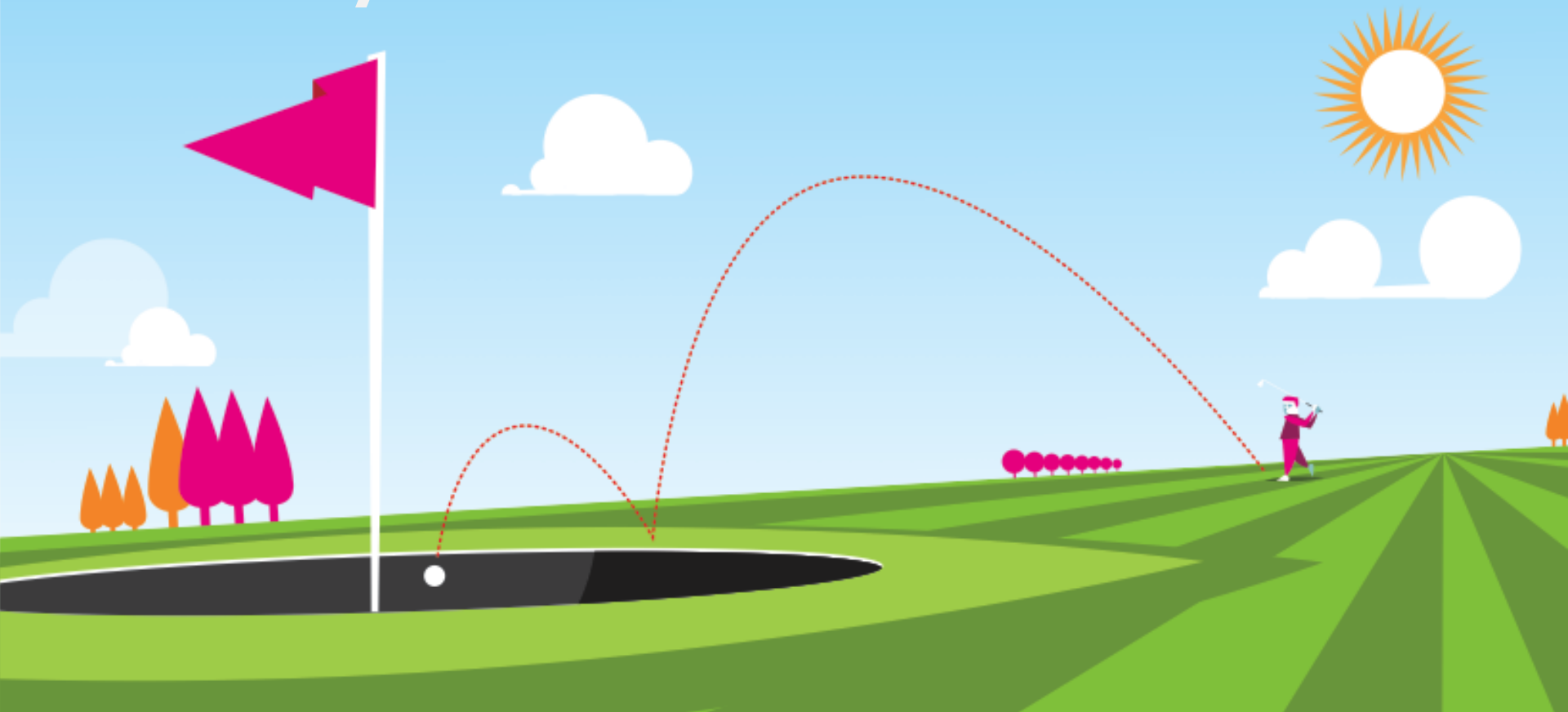
Questions



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Thank you



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