

# **Statement of GAAP for SMEs**

## **Frequently asked questions**

### **Date issued – 2 October 2007**

#### **Background**

On 7 August 2007 the Accounting Practices Board (APB) approved the International Accounting Standard Board's (IASB's) exposure draft on *IFRS for SMEs*, without any change to the original text, as the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities (*Statement of GAAP for SMEs*).

On 1 October 2007, the *Statement of GAAP for SMEs* was issued.

#### **Scope**

The Preface to the *Statement of GAAP for SMEs*, in paragraph P13, states, “*Decisions on which entities are required or permitted to use the IASB's standards rest with national regulatory authorities and standard-setters.*”

Accordingly, the APB has decided that the *Statement of GAAP for SMEs* may be applied as follows:

- For companies: The *Statement of GAAP for SMEs* may be applied by ‘limited interest companies’, as defined in the Corporate Laws Amendment Act, if they do not have public accountability as defined in Section 1 of the *Statement of GAAP for SMEs*.
- For entities other than companies where legal provisions or other regulations require compliance with a specific financial reporting framework (other than Statements of GAAP): Such entities cannot apply the *Statement of GAAP for SMEs* even if they don't have public accountability as defined in Section 1 of the *Statement of GAAP for SMEs*.
- For entities other than companies whose financial reporting framework is not set out by legal provisions or other regulations: If such entities do not have public accountability, as defined in Section 1 of the *Statement of GAAP for SMEs*, they should assess whether it is appropriate to apply the *Statement of GAAP for SMEs*.

Companies and entities that fall within the scope of the *Statement of GAAP for SMEs* as defined by the APB, may elect to prepare financial statements in terms of International Financial Reporting Standards (IFRS) (that have been approved by the APB) or Statements of GAAP. They are not required to prepare financial statements in terms of the *Statement of GAAP for SMEs*.

#### **Effective date**

- ‘Limited interest companies’, within the scope of the *Statement of GAAP for SMEs*, may only apply the *Statement of GAAP for SMEs* to annual financial statements for financial years ending on or subsequent to 31 December 2005 that are issued on or after 1 October 2007.

- For entities other than companies whose financial reporting framework is not set out by legal provisions or other regulations, the *Statement of GAAP for SMEs* may be applied to annual financial statements that are issued on or after 1 October 2007.

### **Purpose of frequently asked questions**

The purpose of this document is to provide answers to questions that are expected to arise with the application of the *Statement of GAAP for SMEs*.

The list of questions was compiled from the comments received at 10 discussion forums held around the country. Almost 1 000 SAICA members attended these sessions with most of the attendees being preparers and auditors of SME type entities.

The questions and answers are provided per the relevant sections in the *Statement of GAAP for SMEs*.

In the event that this document does not provide an answer to your question, please e-mail your query to [standards@saica.co.za](mailto:standards@saica.co.za), where a prompt response will be provided.

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## Section 1 – Scope

### *Question 1*

*Who can apply the Statement of GAAP for SMEs in South Africa?*

### **Answer**

The *Statement of GAAP for SMEs* may be applied by ‘limited interest companies’, as defined in the Corporate Laws Amendment Act, 2006 provided that they do not have public accountability as defined in Section 1 of the *Statement of GAAP for SMEs*.

Section 1 paragraph 6 of the Corporate Laws Amendment Act defines widely held and limited interest companies as follows:

- a) *A company is a widely held company: if –*
  - I. its articles provide for an unrestricted transfer of its shares;*
  - II. it is permitted by its articles to offer shares to the public;*
  - III. it decides by special resolution to be a widely held company; or*
  - IV. it is a subsidiary of a company described in subparagraph (ii), or (iii).*
- b) *A company with two or more types of classes of shares is a widely held company if its articles provide for the unrestricted transfer of shares in one or more of these types or classes.”*
- c) *(delete C)*
- d) *A company is a limited interest company if it is not a widely held company.”*

Other entities, which do not have public accountability, as defined in Section 1 of the *Statement of GAAP for SMEs*, should assess whether it is appropriate to apply the *Statement of GAAP for SMEs*.

Section 1 of the *Statement of GAAP for SMEs* states:

*“1.1 The Statement of GAAP for SMEs is intended for use by small and medium sized entities (SMEs). SMEs are entities that:*

- a) do not have public accountability; and*
- b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.*

*1.2 An entity has public accountability if:*

- a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or*
- b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.”*

Where legal provisions or other regulations require that an entity complies with a specific financial reporting framework other than South African Statements of GAAP, it cannot apply the *Statement of GAAP for SMEs*, even if it does not have public accountability as defined in Section 1 of the *Statement of GAAP for SMEs*.

### ***Question 2***

*Can the Statement of GAAP for SMEs be used for limited interest companies prior to the Corporate Laws Amendment Act, 2006 (CLAA) being effective?*

### **Answer**

The Corporate Laws Amendment Act was assented to by the President on 17 April 2007 but, on the issue date of this FAQ, the Act's effective date is still has to be proclaimed in the Government Gazette. Before the Corporate Laws Amendment Act is effective, a company that will eventually qualify as a 'limited interest company' in terms of the Corporate Laws Amendment Act may apply the Statement of GAAP for SMEs (assuming the scope requirements in Section 1 of the Statement of GAAP for SMEs are met) and still be in compliance with the Companies Act, 1973. The reason being that the Statement of GAAP for SMEs forms part of 'Statements of GAAP as approved by the APB', as referred to in paragraph 5 of Schedule 4 of the Companies Act, 1973.

### ***Question 3***

*Is a limited interest company required to comply with the Statement of GAAP for SMEs?*

### **Answer**

Companies and entities that fall within the scope of the *Statement of GAAP for SMEs* as defined by the APB, may elect to prepare financial statements in terms of International Financial Reporting Standards (IFRS) (only once a specific IFRS standard has been approved by the APB), or Statements of GAAP. They are not required to prepare financial statements in terms of the *Statement of GAAP for SMEs*, but may choose to do so.

### ***Question 4***

*Can close corporations and trusts apply the Statement of GAAP for SMEs?*

### **Answer**

Entities, including close corporations and trusts that fall within the scope of the *Statement of GAAP for SMEs* as defined by the APB and that is not prohibited by legislation, may elect to prepare financial statements in terms of International Financial Reporting Standards (IFRS) or Statements of GAAP or the *Statement of GAAP for SMEs*.

### **Question 5**

*Why does the Statement of GAAP for SMEs contain wording such as [draft] IFRS for SMEs if it is a “final” document? Why does the document still contain Questions in the front?*

#### **Answer**

When the APB approved the international exposure draft as a final standard, it was decided to issue it “as is” in South Africa. The wording remains unchanged, but the scope and context needs to be read in a South African context. Therefore, the references to [draft] in the body of the document should be ignored, as should the Questions section in the front. References to standards of IFRS within the document should be read as a reference to South African Statements of GAAP (i.e. the dual numbered statements that have been approved by the APB).

### **Question 6**

*How would the eventual issue of the final IFRS for SMEs by the IASB affect the South African Statement of GAAP for SMEs?*

#### **Answer**

Once the IASB has finalised its document, the APB or its successor body will consider updating the South African document. This will not be an immediate or automatic update.

## **Section 9 – Consolidated and Separate Financial Statements**

### **Question 7**

*Must a holding company (a parent company) prepare consolidated group financial statements, even though the Companies Act, 1973 does not require it?*

#### **Answer**

Section 9 provides the following guidance:

*“9.1 Except as permitted by paragraph 9.2, a parent entity shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this [draft] standard. Consolidated financial statements shall include all subsidiaries of the parent.*

*9.2 A parent need not present consolidated financial statements if:*

- (a) the parent is itself a subsidiary; and*
- (b) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full International Financial Reporting Standards or with this [draft] standard.”*

The Companies Act may not require consolidation in certain instances, but in order to claim compliance with the *Statement of GAAP for SMEs*, a holding company must prepare consolidated financial statements in accordance with section 9 of the *Statement of GAAP for SMEs* except if the exemptions set out in paragraph 9.2 are met.

### **Question 8**

*Should the financial statements of a subsidiary, prepared in accordance with IFRS, be adjusted on consolidation in group financial statements which are prepared in accordance with the Statement of GAAP for SMEs?*

### **Answer**

Section 9 provides the following guidance:

*“9.12 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.”*

Adjustments need to be made to the subsidiary accounts to be included in the consolidated financial statements where the accounting policies applied by the subsidiary in terms of IFRS are not the same as the policies applied by the holding company in terms of the *Statement of GAAP for SMEs*.

### **Question 9**

*Should the financial statements of a subsidiary prepared in accordance with the Statement of GAAP for SMEs be adjusted for consolidation in group financial statements prepared in accordance with IFRS?*

### **Answer**

*IAS 27(AC132) Consolidated and Separate Financial Statements* provides the following guidance:

*“.28 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.”*

Adjustments need to be made to the subsidiary accounts to be included in the consolidated financial statements where the accounting policies applied by the subsidiary, in terms of the *Statement of GAAP for SMEs*, are not the same as the policies applied by the holding company in terms of IFRS.

## Section 10 – Accounting Policies, Estimates and Errors

### Question 10

*Should an entity account for a transaction by referring to an appropriate IFRS if it is not specifically addressed in the Statement of GAAP for SMEs?*

### Answer

Section 10 provides the following guidance:

*“10.2 If this [draft] standard does not specifically address a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:*

- a) relevant to the economic decision-making needs of users; and*
- b) reliable, in that the financial statements:*
  - I. represent faithfully the financial position, financial performance and cash flows of the entity;*
  - II. reflect the economic substance of transactions, other events and conditions, and not merely the legal form;*
  - III. are neutral, ie free from bias;*
  - IV. are prudent; and*
  - V. are complete in all material respects.*

*10.3 In making the judgement described in paragraph 10.2, management shall refer to, and consider the applicability of, the following sources in descending order:*

- a) the requirements and guidance in this [draft] standard dealing with similar and related issues; and*
- b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 Concepts and Pervasive Principles.*

*10.4 In making the judgement described in paragraph 10.2, management may also consider the requirements and guidance in full International Financial Reporting Standards (IFRSs) dealing with similar and related issues. If additional guidance is needed to make the judgement described in paragraph 10.2, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 10.3.*

Paragraph 10.4 makes it clear that there is no mandatory fallback to full IFRS or other Statements of GAAP and management should use its judgement to develop an appropriate accounting policy that complies with the requirements provided in paragraph 10.2. However, paragraph 10.4 allows management to consider the requirements and guidance in IFRS or other Statements of GAAP.

The term “IFRS” not only includes the standards issued by the IASB but also includes interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).



Similarly, the term “SA Statements of GAAP” encompass not only the issued statements but also the AC 400 and AC 500 series.

## **Section 11 – Financial Assets and Financial Liabilities**

### ***Question 11***

*Must receivables and payables be discounted?*

#### **Answer**

Section 11 provides the following guidance:

*“11B.11 ... Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.”*

An entity should consider whether the discounting of short-term receivables and payables is material. Where discounting is material, the payables and receivables should be discounted by using the principles as provided in section 11.

### ***Question 12***

*Can hedge accounting be applied?*

#### **Answer**

Section 11 provides the following guidance:

*“11.29 An entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. If specified criteria are met, hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.*

*11.30 To qualify for hedge accounting, an entity shall comply with all of the following conditions:*

- a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.*
- b) the hedged risk is one of the risks specified in paragraph 11.31.*
- c) the hedging instrument is as specified in paragraph 11.32.*
- d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.*

*11.31 This [draft] standard permits hedge accounting only for:*

- a) interest rate risk of a debt instrument measured at amortised cost;*
- b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;*
- c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or*
- d) foreign exchange risk in a net investment in a foreign operation.”*

Therefore if all the conditions outlined in paragraph 11.30 are met and the transaction is a hedge as described in paragraph 11.31, hedge accounting as per section 11 can be applied to account for the hedge transaction.

*“38.7 On first-time adoption of this [draft] standard, an entity shall not change the accounting that it followed under its previous financial reporting framework for any of the following transactions:*

- a) derecognition of financial assets and financial liabilities;*
- b) hedge accounting;*
- c) estimates; and*
- d) assets classified as held for sale and discontinued operations.”*

Transactions that qualified for hedge accounting in terms of IFRS or Statements of GAAP might, not qualify for hedge accounting in terms of the *Statement of GAAP for SMEs* because of the restrictions contained in paragraph 11.31. The hedge accounting applied to these transactions need not be restated retrospectively in terms of the exemption provided in paragraph 38.7 of the *Statement of GAAP for SMEs* .

## **Section 13 – Investments in Associates**

### ***Question 13***

*How should an investment in an associate be accounted for?*

### **Answer**

Section 13 provides the following guidance:

*“13.3 An investor shall account for its investments in all associates using one of the following:*

- a) the cost model in paragraph 13.4;*
- b) the equity method in paragraph 13.5; or*
- c) the fair value through profit or loss model in paragraph 13.6.”*

The investor should select one of the 3 options provided in paragraph 13.3 as its accounting policy when accounting for an investment in an associate in the consolidated financial statements. The option selected must then be applied in accordance with the guidance provided in section 13.

*9.18 Paragraph 9.1 requires a parent to prepare consolidated financial statements. This [draft] standard does not require a parent to produce separate financial statements for the parent entity or for the individual subsidiaries. When separate financial statements of a parent are prepared, the entity shall adopt a policy of accounting for all of its investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale either:*

- a) at cost, or*
- b) at fair value through profit or loss.*

The investor should select one of the 2 options provided in paragraph 9.18 as its accounting policy when accounting for an investment in an associate in the entity's separate statements. The option selected must then be applied in accordance with the guidance provided in section 11 – Financial Assets and Financial Liabilities.

## **Section 14 – Investments in Joint Ventures**

### ***Question 14***

*How should an investment in a joint venture be accounted for?*

### **Answer**

Section 14 provides the following guidance:

*“14.8 A venturer shall account for its interest in all jointly controlled entities using one of the following:*

- a) the cost model in paragraph 14.9;*
- b) the equity method in paragraph 14.10;*
- c) proportionate consolidation described in paragraph 14.11; or*
- d) the fair value through profit or loss model in paragraph 14.12.”*

The investor should select one of the 4 options provided in paragraph 14.8 as its accounting policy when accounting for investments in joint ventures in the entity's consolidated financial statements. The option selected must then be applied in accordance with the guidance provided in section 14.

*“9.18 Paragraph 9.1 requires a parent to prepare consolidated financial statements. This [draft] standard does not require a parent to produce separate financial statements for the parent entity or for the individual subsidiaries. When separate financial statements of a parent are prepared, the entity shall adopt a policy of accounting for all of its investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale either:*

- c) at cost, or*
- d) at fair value through profit or loss.”*

The investor should select one of the 2 options provided in paragraph 9.18 as its accounting policy when accounting for an investment in joint ventures in the entity's separate statements. The option selected must then be applied in accordance with the guidance provided in section 11 – Financial Assets and Financial Liabilities.

## Section 16 – Property, Plant and Equipment

### Question 15

*Should an entity separately recognise and depreciate the significant parts of an item of property, plant and equipment?*

#### Answer

Section 16 provides the following guidance:

*“16.14 An entity shall allocate the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciate separately each such part. However, if a significant part of an item of property, plant and equipment has a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item, those parts may be grouped in determining the depreciation charge. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.”*

Under the *Statement of GAAP for SMEs* entities are required to separately depreciate significant parts of an item of property, plant and equipment. Significant parts may be grouped together if their useful life and depreciation method is the same. Land is always separated where material and is never depreciated.

### Question 16

*Should an entity review the residual value, useful life and depreciation method annually of property, plant and equipment?*

#### Answer

Section 16 provides the following guidance:

*“16.17 An entity shall review the residual value and the useful life of an asset at least at each annual reporting date and, if expectations differ from previous estimates, amend the residual value or useful life. The entity shall account for the change in residual value or useful life as a change in an accounting estimate in accordance with paragraphs 10.13–10.17.”*

*“16.21 An entity shall review the depreciation method at least at each annual reporting date. If there has been a significant change in the pattern in which the entity expects to consume the asset’s future economic benefits, the entity shall change the method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with Section 10 Accounting Policies, Estimates and Errors.”*

Entities are therefore required to review the residual value, useful life and depreciation method of property, plant and equipment on an annual basis.

### **Question 17**

*Should an entity account for land and buildings as separable assets?*

#### **Answer**

Section 16 provides the following guidance:

*“16.5 Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.”*

Land and buildings must be accounted for separately in terms of section 16 irrespective of whether they were acquired together or not.

### **Section 17 - Intangible Assets other than Goodwill**

#### **Question 18**

*How should an entity account for research and development costs incurred?*

#### **Answer**

Section 17 provides the following guidance:

*“17.14 The creation of internally generated intangible assets other than goodwill involves a research phase and a development phase. An entity shall choose either the expense model in paragraph 17.15 or the capitalisation model in paragraph 17.16 as its accounting policy for costs incurred in research and development activities.”*

Therefore the entity must select either the expense model or the capitalisation model to account for research and development costs.

If the expense model in terms of paragraph 17.15 is followed, all research and development costs must be expensed when incurred.

If the capitalisation model in terms of paragraph 17.16 is followed, all research costs must be expensed when incurred and development costs can only be capitalised if the requirements of paragraphs 51 – 67 of IAS 38(AC129) *Intangible assets* are met.

### **Section 18 - Business Combinations and Goodwill**

#### **Question 19**

*Should an entity separately recognise the identifiable contingent liabilities and intangible assets of the acquiree as part of the allocation of the cost of a business combination?*

## **Answer**

Section 18 provides the following guidance:

*“18.14 The acquirer shall recognise separately the acquiree’s identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:*

- a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.*
- b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.*
- c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.”*

Therefore an entity should separately recognise the identifiable contingent liabilities and intangible assets of the acquiree, where the fair value can be measured reliably as part of the allocation of the cost of the business combination.

## **Question 20**

*How should goodwill be accounted for after initial recognition? Can it just be amortised over its useful life?*

## **Answer**

Section 18 provides the following guidance:

*“18.21 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. Section 26, Impairment of Non-financial Assets, specifies principles for recognising and measuring the impairment of goodwill.”*

Goodwill may not be amortised over an estimated useful life. Goodwill must be carried at cost less accumulated impairment as required by section 26. However, goodwill is not required to be tested for impairment unless there is an indicator of impairment as set out in section 26.

## **Section 19 - Leases**

### **Question 21**

*Is straight-lining of operating lease payments required?*

## **Answer**

Section 19 provides the following guidance:

*“19.13 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on that basis.”*

*“19.17 A lessor shall recognise lease income from operating leases in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.”*

Straight lining of lease payments or receipts results in an equal impact in the income statement in each reporting period regardless of the cash flows. This will reflect the principle that the benefits obtained from the leases payments or receipts will be equal in each reporting period.

Operating leases should be recorded as an expense on a straight-line basis in lessee’s books and be recorded as income on a straight-line basis in lessor’s books.

Paragraph 19.13 permits a treatment other than straight-line recognition only when another basis is more representative of the time pattern of the user’s benefits. The time pattern of user’s benefit is only affected by factors which impact the physical usage of the asset. Changes in the lease payments will not have an impact on the physical usage of the asset.

Therefore accounting for operating lease payments using cash flows will not reflect the time pattern of the user’s benefits and is thus not appropriate.

## **Section 23 – Government Grants**

### ***Question 22***

*How should an entity account for a government grant received, where a specific future performance condition must be met e.g. the construction of an asset?*

## **Answer**

Section 23 provides the following guidance:

*“23.3 An entity shall account for its government grants using either:*

- a) the IFRS for SMEs model in paragraph 23.4 for all government grants; or*
- b) the IFRS for SMEs model in paragraph 23.4 for those government grants related to assets measured at fair value through profit or loss and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance for all other grants.”*

The entity receiving the government grant should firstly select the accounting policy to be applied to all government grants received. The entity can either choose to apply the guidance in section 23 or a combination of the guidance in section 23 and in IAS 20 (AC134).

*“23.4 An entity shall recognise government grants as follows:*

- a) a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;*
- b) a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met;*
- c) grants received before the income recognition criteria are satisfied are recognised as a liability.”*

*“23.5 An entity shall measure grants at the fair value of the asset received or receivable.”*

Should the entity select the guidance provided in section 23 as its accounting policy for government grants, the entity should account for the fair value of the grant assets received or receivable as revenue only once the performance condition is met, e.g. completion of the construction of the asset.

## **Section 24 – Borrowing Costs**

### ***Question 23***

*Can an entity expense borrowing costs incurred on the construction of a qualifying asset, as defined in IAS 23(AC114) Borrowing Costs?*

### **Answer**

Section 24 provides the following guidance:

*“24.2 An entity shall account for all of its borrowing costs using either:*

- a) the expense model in paragraph 24.3; or*
- b) the capitalisation model in paragraph 24.4.”*

Section 24 provides an entity with the option to either expense or capitalise borrowing costs. The entity must select its accounting policy and apply it consistently for all similar transactions.

## **Section 25 – Share-based Payment**

### ***Question 24***

*How should an entity measure an equity-settled share-based payment where it is unable to make a reliable estimate of the fair value of the equity instruments granted at the measurement date?*



## **Answer**

Section 25 provides the following guidance:

*“25.4 An entity shall apply IFRS 2 Share-based Payment in measuring equity-settled share-based payment transactions, and shall make the relevant disclosures required by IFRS 2. For equity-settled share-based payment transactions with employees, IFRS 2 generally requires measurement by reference to the fair value of the equity instruments granted. However, if the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, IFRS 2 provides for measurement of the equity instruments at their intrinsic value, which is the difference between the fair value of the shares and the price, if any, that the counterparty is, or will be, required to pay for those shares. Intrinsic value is measured initially at the grant date and subsequently at each reporting date and at the date of final settlement, with any change in intrinsic value recognised in profit or loss.”*

Therefore an entity should account for an equity-settled share-based payment by using the intrinsic value of the equity instruments at the grant date only if the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date.

## **Section 27 – Employee Benefits**

### **Question 25**

*How should an entity account for actuarial gains and losses arising from a defined benefit plan?*

## **Answer**

Section 27 provides the following guidance:

*“27.22 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:*

- a) the change in the defined benefit liability arising from employee service rendered during the reporting period;*
- b) interest on the defined benefit obligation during the reporting period;*
- c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 27.26) during the reporting period;*
- d) actuarial gains and losses arising in the reporting period;*
- e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 27.19); and*
- f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 27.19).”*

Under the *Statement of GAAP for SMEs*, all actuarial gains or losses must be accounted for in the income statement in the period that they arise. The corridor approach in *IAS 19(AC116) Employee benefits* may not be used to account for actuarial gains or losses.

## **Section 38 – Transition to the Statement of GAAP for SMEs**

### ***Question 26***

*An entity has an investment property that was accounted for using the fair value model per IAS 40(AC135) Investment Property. With the transition to the Statement of GAAP for SMEs, the entity selected to adopt the cost model as per section 15, Investment Property. What value should an entity use as deemed cost at the time of adoption of the Statement of GAAP for SMEs.*

### **Answer**

Section 38 provides the following guidance:

*“38.8 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this [draft] standard:*

*... (b) Fair value or revaluation as deemed cost. A first-time adopter may use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to this [draft] standard as its deemed cost as of that date....”*

The carrying amount of all investment property (and property, plant and equipment) previously accounted for using the fair value model, will be the deemed cost on the date of transition to the *Statement of GAAP for SMEs*.

### ***Question 27***

*Should an entity restate its comparative information with the adoption of the Statement of GAAP for SMEs?*

### **Answer**

*“38.4 Paragraph 3.12 of this [draft] standard requires a complete set of financial statements to disclose comparative information in respect of the previous comparable period for all monetary amounts reported in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Therefore, the date of an entity’s transition to this [draft] standard is the beginning of the earliest period for which the entity presents full comparative information in accordance with this [draft] standard in its first financial statements that conform to this [draft] standard.”*

*“38.9 If it is impracticable for an entity to restate the opening balance sheet at the date of transition in accordance with this [draft] standard, the entity shall apply paragraphs 38.5–38.8 in the earliest period for which it is practicable to do so, and shall disclose the date of transition and the fact that data presented for prior periods are not comparable. If it is impracticable for an entity to provide any disclosures required by this [draft] standard for any period before the period in which it prepares its first financial statements that conform to this [draft] standard, the omission shall be disclosed.”*

The entity should restate the comparative information of the earliest period presented in the annual financial statements prepared in terms of the *Statement of GAAP for SMEs*.

If it is impracticable to restate the comparative information, the entity should disclose the date of transition and the fact that comparative information is not comparable.

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