NEWSLETTER

IFRS for SMEs changes

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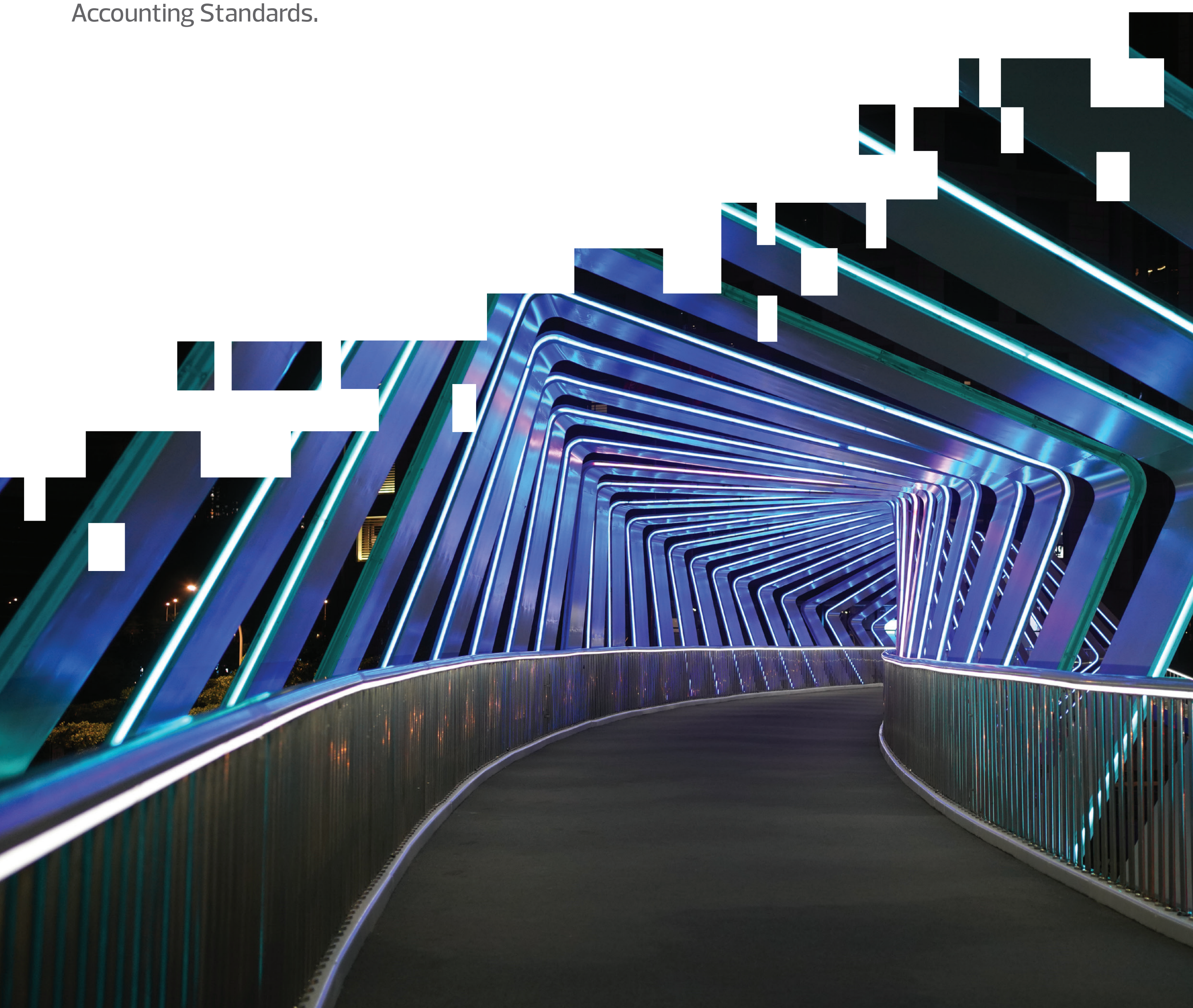
Introduction

On 27th February 2025, the IASB released the third edition of the IFRS for Small and Medium-sized Entities. The name of the Standard has been changed and it should now be referred to as the "IFRS for SMEs Accounting Standard".

This updated standard will be effective for periods starting on or after 1st January 2027, with the option for early adoption. The primary objective of the review was to align the Standard with IFRS Accounting Standards while maintaining simplifications.

Changes were made to all sections of the Standard. However, most of these changes were minor edits and rephrasing for clarity.

Below are the significant changes made and areas where differences remain with IFRS Accounting Standards.



1. Key changes and alignment to IFRS Accounting Standards

Current section	Key changes made
Section 2 – Concepts and Pervasive Principles	▪ Section completely revised to align with the 2018 IFRS Conceptual Framework for Financial Reporting ▪ The revised section will help reporting entities develop their accounting policies for transactions where the IFRS for SMEs does not specify requirements ▪ The concept of "undue cost or effort" has been retained
Section 3 – Financial Statement Presentation and Section 8 Notes to the Financial Statements	▪ The new IFRS for SMEs requires the disclosure of material accounting policy information rather than significant accounting policies. This aligns with IAS 1 or IFRS 18
Section 7 – Statement of Cash Flows	▪ The Section now includes two recent additions to IAS 7: the requirements to disclose (a) a reconciliation of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows; and (b) information about supplier finance arrangements
Section 9 – Consolidated and Separate Financial Statements	▪ Changed to align with IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities ▪ The section aims to bring comparability in reported information by introducing a single model for assessing control in consolidated financial statements, replacing the previous two models ▪ In the current IFRS for SMEs, control is assessed using two models: ◦ Power to govern model ◦ Benefits and risks model ▪ The upcoming Standard introduces a single, unified model for assessing control, aligning it with IFRS 10. This new model focuses on three key elements: ◦ Power over the investee ◦ Exposure to variable returns ◦ Ability to use power to affect returns

Current section	Key changes made
Section 11 – Basic Financial Instruments and Section 12 – Other Financial Instrument Issues	▪ The two sections have been combined and renamed Section 11 Financial Instruments ▪ Changes have been made to align with IFRS 9. There are however some exceptions and simplifications to make it easier for SMEs ▪ Some of the amendments include: ◦ SMEs are required to disclose an age analysis of financial assets and a maturity analysis of financial liabilities ◦ A supplementary principle for classifying debt instruments based on their contractual cash flow characteristics has been introduced
Section 12 – Fair Value Measurement	▪ This is a new section created to bring together the requirements for fair value measurement in a single section ▪ The principles are based on IFRS 13 *Fair Value Measurement*
Section 19 – Business Combinations and Goodwill	The new section aligns more closely with the updated IFRS 3, providing a more detailed and comprehensive approach Updated to align with the full IFRS definition, providing clearer guidance on what constitutes a business The amendments also require: ◦ The application of the acquisition rather than the purchase method; ◦ The initial and subsequent recognition of contingent consideration at fair value; and ◦ Added requirements for a business combination achieved in stages

Current section	Key changes made
Section 23 Revenue	▪ Now titled Section 23 Revenue from contracts with customers ▪ The revised section aligns with IFRS 15, introducing a five-step model for revenue recognition. There are several simplifications to make it easier for SMEs to apply ▪ The revised section applies to all contracts with customers, except for lease agreements, insurance contracts, financial instruments, and non-monetary exchanges between entities in the same line of business ▪ Transition relief allows companies to apply their current revenue recognition policy to contracts already in progress
Section 28 Employee Benefits	▪ The new section aligns with the 2011 amendments to IAS 19, providing more detailed guidance on the recognition and measurement of employee benefit. Some of the key requirements are: ◦ a more detailed reconciliation of the opening and closing balances of a defined benefit obligation, plan assets, and any recognized reimbursement rights is required: ◦ The measurement simplification for defined benefit obligations has been clarified: the obligation should be measured at the current termination amount, assuming all the entity's employees terminate their employment at the reporting date
Section 34 – Specialised activities	▪ A requirement for bearer plants that, at initial recognition, can be measured separately from the produce on them without undue cost or effort to be accounted for in accordance with Section 17 Property, Plant and Equipment has been introduced

2. Areas without changes

Area	Comments
Section 20 – Leases	▪ The revised IFRS for SMEs Accounting Standard continues to require lessees to distinguish between operating leases and finance leases, and for payments under operating leases to be expensed through profit and loss over the period of the lease. Under IFRS 16, a right-of-use asset and a lease liability are recognised for the payments ▪ The IASB considered aligning the requirements but eventually concluded that doing so now would impose an undue burden on SMEs ▪ This decision will be reconsidered during the next comprehensive review of the standard
Section 11 – Financial Instruments	▪ There is no alignment with IFRS 9's expected credit loss (ECL) model. The IASB retained the incurred loss model for the impairment of financial assets measured at amortised cost ▪ The hedge accounting and derecognition requirements were also maintained

How We Can Assist

Should you need any assistance/clarifications in respect of the above, please reach out to the below or your usual RSM contact.

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