



CHARTERED CERTIFIED ACCOUNTANTS

## Article topic: Financial Reporting

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### FAQs: IFRS for SMEs and UK GAAP

**Q.** My company sometimes self-constructs assets and capitalises the interest element of the borrowings associated with these assets. Can we still do this under the proposed IFRS for SMEs?

**A.** FRS 15 allows borrowing costs to be included in the cost of the asset. Under IFRS for SMEs this will not be possible and such costs should be written off as incurred.

**Q.** When IFRS for SMEs is adopted in the UK, will I still have to revalue my investment property at fair value and what will the tax effect be on revaluation?

**A.** Section 16.7 of IFRS for SMEs requires investment properties to be stated at fair value through profit or loss provided these fair values are reliable and obtainable without undue cost or effort. There will be no tax effect as no gain or loss will arise until disposal of the investment property occurs.

**Q.** My company has been offered the opportunity to acquire some fixed (non-current) assets by way of an asset exchange. How is this accounted for under current UK GAAP and how will it be accounted for under IFRS for SMEs?

**A.** FRS 15 does not specifically cover assets acquired by way of an asset exchange but the substance of the transaction needs to be ascertained to determine the correct treatment together with the comparable treatment of the donated asset. IFRS for SMEs at section 17.14 requires such assets to be accounted for using the asset's fair value.

**Q.** I currently adopt the revaluation model for my fixed assets. Will I still be able to use this model for my fixed assets under IFRS for SMEs?

**A.** Section 17.15 prohibits the revaluation of property, plant and equipment.

**Q.** What are the accounting differences in respect of share-based payments in current UK GAAP and IFRS for SMEs?

**A.** Under IFRS for SMEs an entity recognises share-based payments at the fair value of the instruments at the grant date. Where it is impractical to obtain fair values, the directors should use their own valuation. FRS 20 usually requires fair values but where these are unreliable, intrinsic values should be recognised. The intrinsic value is the difference between the subscription price and the market value of the share at the date of issue.

**Q.** My client has a defined benefit pension scheme. Can you tell me how the actuarial gains and losses are accounted for under both FRS 17 and IFRS for SMEs?

**A.** Section 28.23 of IFRS for SMEs allows a choice for actuarial gains and losses to be recognised in full in either the income statement or in other comprehensive income. In contrast, FRS 17 'Retirement Benefits' prohibits the option of full recognition in the profit and loss account.

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