

IFRS for SMEs[®] Accounting Standard: Third Edition: Key Updates

On 27 February 2025, the International Accounting Standards Board (IASB) issued the third edition of the IFRS for SMEs Accounting Standard. The revised standard is effective for annual periods beginning on or after 1 January 2027, with early application permitted.

What are the key updates?

- **Revenue Recognition**

A simplified version of the five-step revenue recognition model was introduced to align with IFRS 15, “Revenue from Contracts with Customers”. Transition relief is also provided, allowing companies to apply their existing revenue recognition policy to contracts already in progress. (Refer also to Section 23, “Revenue from Contracts with Customers”)

- **Financial Instruments**

Section 11, “Basic Financial Instruments” and Section 12, “Other Financial Instruments” in the current standard were merged into a single Section 11, “Financial Instruments”(“Section 11”). The revised section aligns with certain principles from IFRS 9, “Financial Instruments” (“IFRS 9”), although differences remain. The amendments include removing the option to apply the recognition and measurement requirements of IAS 39, “Financial Instruments: Recognition and Measurement” and introducing a supplementary principle for classifying debt instruments based on their contractual cash flow characteristics. It is to be noted though that the incurred loss model requirements for the impairment of financial assets at amortised cost have been retained in the merged section and it currently has an added requirement to disclose an analysis of financial assets by maturity date.

- **Fair Value Measurement**

A centralized framework based on IFRS 13, “Fair Value Measurement” was added to establish requirements for measuring fair value and disclosing information about fair value measurement, specifically a three-level fair value hierarchy (Level 1, Level 2 and Level 3 inputs). (Refer also to Section 12, “Fair Value Measurement”)

- **Consolidated Financial Statements**

This section was updated to align with IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements” and IFRS 12, “Disclosures of Interests in Other Entities”. Notable changes include the amendment of definition of control, clarification on the rebuttable presumption relating to instances where an investor owns the majority of voting rights in an investee and new requirements relating to the loss of control of a subsidiary. (Refer also to Section 9, “Consolidated and Separate Financial Statements”)

- **Property, Plant and Equipment**

The amendments extend the scope to include bearer plants that can be measured separately without undue cost or effort. The amendments also clarify the factors that an entity should consider when determining the useful life of an asset. In addition, they clarify that using revenue as a basis for determining depreciation is not an appropriate method of depreciation. (Refer also to Section 17, “Property, Plant and Equipment”)

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- **Financial Statements and Notes to the Financial Statements**

Statement of Financial Position

The amendments introduce a requirement to disaggregate line items when such presentation is relevant to an understanding of an entity's financial position. They also remove the requirement to disaggregate trade and other receivables to separately present receivables arising from accrued income that has not yet been billed, as a consequence of the amendments to Section 23. (Refer also to Section 4, "Statement of Financial Position")

Statement of Changes in Equity and Statement of Income and Retained Earnings

The amendments introduce an additional disclosure requirement for dividends. An entity is required to disclose the amount of dividends proposed or declared before the financial statements are authorised for issue but not recognised as a distribution to owners during the period. The entity must also disclose the related amount per share and any cumulative preference dividends that were not recognised. (Refer also to Section 6, "Statement of Changes in Equity and Statement of Income and Retained Earnings").

Statement of Cash Flows

The amendments introduce new disclosure requirements, including a reconciliation of changes in liabilities arising from financing activities, which must include changes resulting from both cash flows and non-cash flows. The amendments also introduce disclosure requirements relating to supplier finance arrangements. (Refer also to Section 7, "Statement of Cash Flows")

Notes to the Financial Statements

The amendments replace the requirement to disclose 'significant accounting policies' with a requirement to disclose 'material accounting policy information'. They also add examples of the types of judgements that management may make when applying an entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. (Refer also to Section 8, "Notes to the Financial Statements")

- **Business Combinations & Goodwill**

This section was updated to align with IFRS 3, "Business Combinations" and includes amendments to the definition of a business and requirements in the application of the acquisition rather than the purchase method and initial and subsequent recognition of contingent consideration at fair value. Furthermore, additional requirements for a business combination achieved in stages were also added. The requirement to amortise goodwill is retained in the updated section. (Refer also to Section 19, "Business Combinations and Goodwill")

- **Employee Benefits**

This section was updated to require a more detailed reconciliation of opening and closing balances for defined benefit obligations, plan assets, and reimbursement rights. (Refer also to Section 28, "Employee Benefits")

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Other minor and editorial amendments are also noted for:

- Section 1, "Small and Medium-sized Entities"
- Section 2, "Concepts and Pervasive Principles"
- Section 5, "Statement of Comprehensive Income and Income Statement"
- Section 10, "Accounting Policies, Estimates and Errors"
- Section 13, "Inventories"
- Section 14, "Investments in Associates"
- Section 15, "Joint Arrangements"
- Section 16, "Investment Property"
- Section 18, "Intangible Assets other than Goodwill"
- Section 20, "Leases"
- Section 21, "Provisions and Contingencies"
- Section 22, "Liabilities and Equity"
- Section 24, "Government Grants"
- Section 25, "Borrowing Costs"
- Section 26, "Share-based Payment"
- Section 27, "Impairment of Assets"
- Section 29, "Income Tax"
- Section 30, "Foreign Currency Translation"
- Section 31, "Hyperinflation"
- Section 33, "Related Party Disclosures"
- Section 34, "Specialised Activities"
- Section 35, "Transition to the IFRS for SMEs Accounting Standards"

Topics that were not updated for or amended

- **Leases and Regulatory Deferral Accounts**

The IASB believes that updating these topics to align them with full the IFRS Accounting Standards requirements would impose an undue burden on SMEs. Accordingly, the IASB decided not to make any change in the new edition and will revisit the matter as part of its next comprehensive review.

- **Expected Credit Loss ("ECL") model for impairment of financial assets at amortised cost**

The IASB believes that the expected credit loss (ECL) model in IFRS 9 for the impairment of financial assets measured at amortised cost is not relevant for most SMEs. The IASB considered feedback indicating that implementing the ECL model for SMEs could result in substantial implementation costs. However, the amended Section 11 introduces a requirement for entities to disclose an analysis of financial assets by their maturity or due date.

- **Disclosure Requirements on Standards Issued But Not Yet Effective**

Under Section 10, Accounting Policies, Estimates and Errors, entities are not required to disclose standards that have been issued but are not yet effective. The IFRS for SMEs Accounting Standard is updated periodically through comprehensive reviews; therefore, interim amendments or revisions are generally not expected between these reviews.

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For more information on the above, please feel free to contact:

Nigel B. MacPhail

Audit Director

T: +1 284 494 5800 ext. 222

T: +1 284 852 2582 (d)

M: +1 284 541 6443

nmacphail@bakertilly.vg

Baker Tilly (BVI) Limited

Tropic Isle Building

P.O. Box 650

Nibbs Street

Road Town, Tortola VG 1110

British Virgin Islands

T: +1 284 494 5800

www.bakertilly.vg

info@bakertilly.vg

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