

**IASB Exposure Draft of Proposed
International Financial Reporting Standard for
Small and Medium-sized Entities**

VS

**Hong Kong Small and Medium-sized Entity
Financial Reporting Framework and Financial Reporting Standard**

A High Level Comparison



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



IASB Exposure Draft of proposed International Financial Reporting Standard for Small and Medium-sized Entities vs Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

A High Level Comparison

This comparison was developed by the SME Financial Reporting Framework Sub-Committee of the Financial Reporting Standards Committee (FRSC). It is intended to be a high level comparison between the IASB Exposure Draft of proposed International Financial Reporting Standard for Small and Medium-sized Entities (“IFRS for SMEs”) and Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (“HK SME-FRF & SME-FRS”). It has not been approved by the FRSC and the Council of the Hong Kong Institute of Certified Public Accountants.

This High Level Comparison is intended for general guidance only. The Institute, the FRSC, the SME Financial Reporting Framework Sub-Committee of FRSC do not accept any responsibility or liability and disclaim all responsibility and liability and any consequences that may arise from any person acting or refraining from action as a result of any materials in the High Level Comparison.

	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
Section 1 Scope		
Qualifying entities	<p>Criteria:</p> <ul style="list-style-type: none"> No public accountability; and Publish general purpose financial statements for external users. Owners’ consent to use the proposed IFRS for SMEs is not required. 	<p>For Non-HK incorporated company:</p> <ul style="list-style-type: none"> No public accountability; 100% owners’ consent to use SME-FRS; and Meet size criteria – not exceeding any two of the following: <ul style="list-style-type: none"> Total annual revenue of HK\$50 million. Total assets of HK\$50 million at the balance sheet



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	<ul style="list-style-type: none"> No quantified size criteria. Each jurisdiction can have its own criteria. <p>[Note: In deciding on the content of the draft IFRS for SMEs, the IASB focused on a typical entity with about 50 employees.]</p> <p><i>(Proposed IFRS for SMEs 1.1-1.3 & BC45)</i></p>	<p>date.</p> <ul style="list-style-type: none"> - 50 employees. <p>For HK incorporated company:</p> <ul style="list-style-type: none"> Satisfies the criteria set out in section 141D of the Companies Ordinance. <p><i>(SME-FRF 16-17)</i></p>
Definition of “public accountability”	<ul style="list-style-type: none"> Any class of instruments that is publicly traded. 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. <p><i>(Proposed IFRS for SMEs 1.2)</i></p>	<ul style="list-style-type: none"> Equity or debt securities that are publicly traded. Institution authorised under the Banking Ordinance. Insurer authorised under the Insurance Companies Ordinance. Corporation which is granted a licence under the Securities and Futures Ordinance to carry on business in a regulated activity in Hong Kong. <p><i>(SME-FRF 22)</i></p>
Users of financial statements	<ul style="list-style-type: none"> External users such as owners who are not involved in managing the business, existing and potential creditors and credit rating agencies. <p><i>(Proposed IFRS for SMEs 1.1(b))</i></p>	<ul style="list-style-type: none"> Significant users – owners, government and creditors. <p><i>(SME-FRF 2)</i></p>
Section 2 Concepts and Pervasive Principles		
Measurement bases	<ul style="list-style-type: none"> Accrual basis. Initial recognition – historical cost basis. Subsequent measurement: 	<ul style="list-style-type: none"> Accrual basis. Historical cost except for the following with other measurement bases:



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	<ul style="list-style-type: none">- Historical cost basis.- Amortised cost basis- Fair value basis.• Fair value basis is required/permitted in the following areas:<ul style="list-style-type: none">- Equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (mandatory).- Financial assets and liabilities (mandatory except for certain instruments).- Property, plant and equipment (optional)*.- Intangible assets other than goodwill (optional)*.- Investments in associates (optional).- Investments in joint ventures (optional).- Biological assets whose fair value is readily determinable without undue cost or effort (mandatory)*. <p>* Where the fair value model is used, the accounting treatment should follow the IFRSs.</p> <p style="text-align: right;"><i>(Proposed IFRS for SMEs 2.33, 2.40-44)</i></p>	<ul style="list-style-type: none">- Foreign currency monetary items (closing rate of balance sheet date);- Finance lease (present value of the minimum lease payments);- Impairment of assets (carrying amount less recoverable amount).• Assets should not be revalued nor should future cash flows be discounted in the measurement of assets and liabilities except when required or permitted. <p style="text-align: right;"><i>(SME-FRF 4, 14 – 15)</i></p>



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Treatment if the standard does not specifically address a transaction	<ul style="list-style-type: none">• Consider the applicability of the following sources in descending order:<ul style="list-style-type: none">- Requirements and guidance in IFRS for SMEs dealing with similar and related issues.- Pervasive principles relating to accrual basis, recognition and measurement.• May also consider:<ul style="list-style-type: none">- full IFRSs dealing with similar and related issues.- the most recent pronouncements of other standard-setting bodies.• There is no mandatory fallback to full IFRSs.• Mandatory application of full IFRSs is required in the following areas:<ul style="list-style-type: none">- Measurement of equity-settled share-based payment transactions (<i>Proposed IFRS for SMEs 25.4</i>).- For an entity engaging in agricultural activity, biological assets whose fair value is readily determinable without undue cost or effort (<i>Proposed IFRS for SMEs 35.1</i>).- Lessor in finance leases (<i>Proposed IFRS for SMEs 19.15</i>).- Financial reporting of an entity whose functional currency is the currency of a hyperinflationary economy (<i>Proposed IFRS for SMEs 29.2</i>). <p style="text-align: right;"><i>(Proposed IFRS for SMEs 2.32, 10.3 - 4)</i></p>	<ul style="list-style-type: none">• May consider the SME-FRF for guidance on developing an appropriate accounting policy consistent with the historical cost convention.• No fallback or cross-reference to HKFRSs. <p style="text-align: right;"><i>(SME-FRS 1.2 – 3)</i></p>



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Mandatory application of full IFRSs if option is selected	<ul style="list-style-type: none">• Mandatory application of full IFRSs is required if the following options are selected as IFRS for SME does not cover these options but permits entities to adopt options available in IFRSs:<ul style="list-style-type: none">- Cash flow statement using direct method <i>(Proposed IFRS for SMEs 7.9).</i>- Equity method of Investments in Associates <i>(Proposed IFRS for SMEs 13.5).</i>- Equity method of Investments in Joint Ventures <i>(Proposed IFRS for SMEs 14.10).</i>- Fair value model of Investment Property <i>(Proposed IFRS for SMEs 15.5).</i>- Revaluation model of Property, Plant and Equipment <i>(Proposed IFRS for SMEs 16.13).</i>- Capitalisation model of Intangible Assets <i>(Proposed IFRS for SMEs 17.16).</i>- Revaluation model of Intangible Assets <i>(Proposed IFRS for SMEs 17.23).</i>- Capitalisation model of Borrowing Costs <i>(Proposed IFRS for SMEs 24.4).</i>- Segment Reporting <i>(Proposed IFRS for SMEs 31.1).</i>- Earnings per Share <i>(Proposed IFRS for SMEs 34.1).</i>	Not applicable.



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Section 3 Financial Statement Presentation		
Result of application of the standard	<ul style="list-style-type: none"> Result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 3.1(a))</i></p>	<ul style="list-style-type: none"> Result in financial statements that achieve a proper presentation of the financial position and financial performance. Result in financial statements that give a true and correct view (for Hong Kong incorporated companies that meet the qualifying criteria). <p style="text-align: right;"><i>(SME-FRF 16 & SME-FRS 1.2)</i></p>
Complete set of financial statements	<ul style="list-style-type: none"> Cash flow statement is required. Statement of changes in equity is required. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 3.15)</i></p>	<ul style="list-style-type: none"> Cash flow statement is not required. Changes in equity can either be disclosed in the notes to the financial statements or as a separate component of the financial statements. <p style="text-align: right;"><i>(SME-FRS 1.1 & 1.29)</i></p>
Section 7 Cash Flow Statement		
Reporting format	<ul style="list-style-type: none"> Optional to choose indirect or direct method <ul style="list-style-type: none"> Indirect method by applying IFRS for SMEs Direct method by applying IAS 7 <i>Cash Flow Statements</i>. <p><i>[Note: Indirect method is more commonly used in HK.]</i></p> <p style="text-align: right;"><i>(Proposed IFRS for SMEs 7.8 & 7.9)</i></p>	<ul style="list-style-type: none"> N/A - Cash flow statement is not required.



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Section 8 Notes to the Financial Statements		
Additional disclosure	<ul style="list-style-type: none"> Information about the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements shall be disclosed. Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year shall be disclosed. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 8.6 & 8.7)</i></p>	<ul style="list-style-type: none"> No specific requirement on the disclosure of information about judgements and key sources of estimation uncertainty.
Section 9 Consolidated and Separate Financial Statements		
Application to group accounts	<ul style="list-style-type: none"> A parent entity shall present consolidated financial statements with all of its subsidiaries. The scope of consolidated financial statements is generally consistent with IAS 27 <i>Consolidated and Separate Financial Statements</i>. A parent need not present consolidated financial statements if: <ul style="list-style-type: none"> the parent is itself a subsidiary; and its ultimate parent (or any intermediate parent) 	<ul style="list-style-type: none"> Not applicable to group accounts.



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	<p>produces consolidated general purpose financial statements that comply with IFRSs or with IFRS for SMEs.</p> <p><i>(Proposed IFRS for SMEs 9.1 & 9.2)</i></p>	
Section 10 Accounting Policies, Estimates and Errors		
Retrospective application	<ul style="list-style-type: none"> Comparative information presented for a particular prior period need not be restated if the period-specific effects on comparative information for one or more prior periods presented is <u>impracticable to determine.</u> <p><i>(Proposed IFRS for SMEs 10.10 & 10.21)</i></p>	<ul style="list-style-type: none"> Comparative information presented for a particular prior period need not be restated if restating the information would require <u>undue cost or effort.</u> <p><i>(SME-FRS 2.8 & 2.13)</i></p>
Section 11 Financial Assets and Financial Liabilities		
Measurement after initial recognition	<ul style="list-style-type: none"> Measured at: <ul style="list-style-type: none"> - cost or amortised cost less impairment including: <ul style="list-style-type: none"> ➤ an instrument (such as a receivable, payable, or loan) that the entity designates at initial recognition to be measured at amortised cost less impairment; ➤ a commitment to make or receive a loan that meets specified criteria; ➤ equity instruments that are not publicly traded and whose fair value cannot be measured reliably. 	<ul style="list-style-type: none"> There is no separate section on financial assets and financial liability. Only forward contracts are addressed under Section 15 <i>The Effects of Changes in Foreign Exchange Rates.</i>



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	<ul style="list-style-type: none"> - fair value for financial instruments other than those measured at cost or amortised cost less impairment such as: <ul style="list-style-type: none"> ➤ investments in equity instruments with published price quotations; ➤ interest rate swaps; ➤ options and forward contracts; ➤ investments in convertible debt; ➤ perpetual debt. • Optional to apply IAS 39 <i>Financial Instruments: Recognition and Measurement</i> in full. • Including guidance on effective interest rate and fair value measurement considerations which are consistent with the corresponding guidance in IAS 39. <i>(Proposed IFRS for SMEs 11.1, 11.7-13 & Appendix A to Section 11)</i> 	<i>(SME-FRS 15.6 - 8)</i>
Hedging	<ul style="list-style-type: none"> • Hedge accounting permitted for four types of transactions: <ul style="list-style-type: none"> - interest rate risk of a debt instrument measured at amortised cost; - foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; 	<ul style="list-style-type: none"> • Hedging is limited to forward contracts.

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	<ul style="list-style-type: none"> - price risk of a commodity or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or - foreign exchange risk in a net investment in a foreign operation. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 11.31)</i></p>	<i>(SME-FRS 15.6 - 7)</i>
Section 13 Investments in Associates		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated impairment losses); - equity method (using the procedures in IAS 28 <i>Investments in Associates</i>); or - fair value through profit or loss model (adopt only if fair value can be measured reliably and using the procedures in the proposed IFRS for SMEs 11.14 – 17) . <p style="text-align: right;"><i>(Proposed IFRS for SMEs 13.3 - 6)</i></p>	<ul style="list-style-type: none"> • Covered in Section 6 <i>Investments</i>. There is no separate section on the investments in associates. • Carried at: <ul style="list-style-type: none"> - the lower of cost and net realisable value for current investments; and - cost less accumulated impairment losses for long-term investments <p style="text-align: right;"><i>(SME-FRS 6.7)</i></p>
Section 14 Investments in Joint Ventures		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated impairment losses); - equity method (using the procedures in IAS 31 <i>Interests in Joint Ventures</i>); 	<ul style="list-style-type: none"> • Covered in Section 6 <i>Investments</i>. There is no separate section on the investments in joint ventures. • Carried at: <ul style="list-style-type: none"> - the lower of cost and net realisable value for current investments; and



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	<ul style="list-style-type: none"> - proportionate consolidation (using the procedures in IAS 31); or - fair value through profit or loss model (adopt only if fair value can be measured reliably and using the procedures in the proposed IFRS for SMEs 11.14 – 17). <p style="text-align: right;"><i>(Proposed IFRS for SMEs 14.8 - 12)</i></p>	<ul style="list-style-type: none"> - cost less accumulated impairment losses for long-term investments. <p style="text-align: right;"><i>(SME-FRS 6.7)</i></p>
Section 15 Investment property		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (by applying proposed IFRS for SMEs Section 16, i.e. cost less accumulated depreciation and accumulated impairment losses); or - fair value model (by applying IAS 40 <i>Investment Property</i>). <p style="text-align: right;"><i>(Proposed IFRS for SMEs 15.4 – 15.6)</i></p>	<ul style="list-style-type: none"> • Covered in Section 3 <i>Property, Plant and Equipment</i>. There is no separate section on investment property. • The definition of property, plant and equipment includes property held for rental and/or for investment potential. • Investment property should be carried at its cost less any accumulated depreciation and accumulated impairment losses. <p style="text-align: right;"><i>(SME-FRS 3.1& 3.10)</i></p>
Section 16 Property, Plant and Equipment		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated depreciation and accumulated impairment losses); or - revaluation model (by applying IAS 16 <i>Property,</i> 	<ul style="list-style-type: none"> • PPE should be carried at its cost less any accumulated depreciation and accumulated impairment losses.

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	<p><i>Plant and Equipment).</i></p> <p><i>(Proposed IFRS for SMEs 16.11 – 16.13)</i></p>	<p><i>(SME-FRS 3.10)</i></p>
Section 17 Intangible Assets other than Goodwill		
Recognition of costs incurred in development activities	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - <u>expense model</u> - recognise all costs incurred in development activities <u>as an expense</u> when incurred; or - capitalisation model - recognised costs incurred in development activities as expense except for those meeting specified criteria. IAS 38 <i>Intangible Assets</i> applies. <p style="text-align: right;"><i>(Proposed IFRS for SME 17.14 - 16)</i></p>	<ul style="list-style-type: none"> • An intangible asset arising from development should be recognised only if certain specified criteria are met. <p style="text-align: right;"><i>(SME-FRS 4.7)</i></p>
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated depreciation and accumulated impairment losses); or - revaluation model (by applying IAS 38). <p style="text-align: right;"><i>(Proposed IFRS for SMEs 17.21 – 23)</i></p>	<ul style="list-style-type: none"> • Intangible assets should be carried at its cost less any accumulated amortisation and any accumulated impairment losses. <p style="text-align: right;"><i>(SME-FRS 4.13)</i></p>
Useful life and amortisation period	<ul style="list-style-type: none"> • No rebuttable presumption on the useful life of an intangible asset. • <u>No amortisation</u> for intangible asset with <u>indefinite useful life</u>. 	<ul style="list-style-type: none"> • There is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. • Intangible asset with indefinite useful life is not



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	(Proposed IFRS for SMEs 17.24 – 26 & 29)	allowed. (SME-FRS 4.14)
Section 18 Business Combinations and Goodwill		
Key recognition and measurement requirements	<ul style="list-style-type: none"> The accounting treatment is generally consistent with IFRS 3 <i>Business Combinations</i>. All business combinations shall be accounted for by applying the purchase method. The acquirer shall recognise goodwill as an asset at the acquisition date and initially measure the goodwill at its cost. After initial recognition, the goodwill shall be measured at its cost less any accumulated impairment losses. (Proposed IFRS for SMEs 18.5, 20 - 21)	<ul style="list-style-type: none"> No corresponding section – SME-FRS not designed for groups.
Section 19 Leases		
Initial recognition – Finance lease	<ul style="list-style-type: none"> Lessee shall recognise the rights and obligations under finance leases in the balance sheet at amounts equal to the <u>fair value of the leased property</u> determined at the inception of the lease. (Proposed IFRS for SMEs 19.8)	<ul style="list-style-type: none"> Lessee shall recognise the rights and obligations under finance leases in the balance sheet at amounts equal at the inception of the lease to the <u>fair value of the leased property</u> or, if lower, at the <u>present value of the minimum lease payments</u>. (SME-FRS 5.4)
Financial statement of lessors	<ul style="list-style-type: none"> Mandatory application of IAS 17 <i>Leases</i> is required for lessor accounting. (Proposed IFRS for SMEs 19.15)	<ul style="list-style-type: none"> Does not address accounting for lessors.

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Section 21 Equity		
Recognition and measurement	<ul style="list-style-type: none"> Addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments. An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments. The equity instruments are measured at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 21.1 - 3)</i></p>	<ul style="list-style-type: none"> No corresponding section.
Section 22 Revenue		
Exchanges of goods or services	<ul style="list-style-type: none"> An entity <u>shall not recognise revenue</u> when goods or services are exchanged or swapped for goods or services that are of a similar nature and value. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 22.6)</i></p>	<ul style="list-style-type: none"> No mention of accounting treatment for exchange of goods or services under SME-FRS 11 <i>Revenue</i>.
Recognition of interest income	<ul style="list-style-type: none"> Interest shall be recognised using the <u>effective interest method</u>. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 22.16)</i></p>	<ul style="list-style-type: none"> Interest shall be recognised on a <u>time proportion basis</u>. <p style="text-align: right;"><i>(SME-FRS 11.9)</i></p>
Section 23 Government grants		
Recognition and measurement	<ul style="list-style-type: none"> Optional to choose one of the following models: 	<ul style="list-style-type: none"> Government grants should be recognised as income



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	<ul style="list-style-type: none">- the IFRS for SMEs model for all government grants; or- the IFRS for SMEs model for those government grants related to assets measured at fair value through profit or loss and IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> for all other grants. <ul style="list-style-type: none">• Under the IFRS for SMEs model: An entity shall recognise government grants as follows:<ul style="list-style-type: none">- A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;- A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met;- Grants received before the income recognition criteria are satisfied are recognised as a liability.An entity shall measure grants at the fair value of the asset received or receivable. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 23.3 – 5)</i></p>	<p>over the periods necessary to match them with related costs they are intended to compensate, on a systematic basis.</p> <p style="text-align: right;"><i>(SME-FRS 12.2)</i></p>



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Section 24 Borrowing Costs		
Recognition	<ul style="list-style-type: none"> Optional to choose one of the following models: <ul style="list-style-type: none"> - expense model - recognise all borrowing costs as an expense when incurred; or - capitalisation model - apply IAS 23 <i>Borrowing Costs</i>. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 24.2 – 4)</i></p>	<ul style="list-style-type: none"> Benchmark treatment - Expense model. Allowed alternative treatment - Capitalisation model. <p style="text-align: right;"><i>(SME-FRS 13.2 – 5)</i></p>
Section 25 Share-based Payment		
Key measurement requirements	<ul style="list-style-type: none"> Measurement of equity settled share-based payment transactions – mandatory to apply IFRS 2 <i>Share-based Payment</i>. Cash-settled share-based payment transactions – measured the goods or services acquired and the liability incurred at the fair value of the liability. Share-based payment transactions with cash alternatives – mandatory to apply IFRS 2 <i>Share-based Payment</i>. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 25.4 – 7)</i></p>	<ul style="list-style-type: none"> No corresponding section.
Section 26 Impairment of Non-financial Assets		
Identifying impairment loss	<ul style="list-style-type: none"> An entity should estimate <u>the fair value less costs to sell</u> of an asset at balance sheet date if there exist any indications of impairment. Fair value less costs to sell is the amount obtainable 	<ul style="list-style-type: none"> An entity should estimate <u>the recoverable amount</u> of an asset at balance sheet date if there exists any indications of impairment. The recoverable amount can be an asset's net selling

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	<p>from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.</p> <p><i>(Proposed IFRS for SMEs 26.5 & 26.8)</i></p>	<p>price or future net cash flow expected from the continued use of that asset.</p> <p><i>(SME-FRS 9.1 & 9.7)</i></p>
Impairment of goodwill	<ul style="list-style-type: none"> • A two-step process is adopted to determine the impairment of goodwill: <ul style="list-style-type: none"> - Step 1: allocate the goodwill to the component(s) of the entity that benefit from the goodwill and compare the fair value of the component with its carrying amount; - Step 2: write down the component's goodwill if the fair value of the component is less than its carrying amount. The difference between the fair value and the carrying amount is recognised as impairment loss in profit or loss. <p><i>(Proposed IFRS for SMEs 26.20 – 24)</i></p>	<ul style="list-style-type: none"> • No corresponding requirements – not applicable to group accounts.
Section 27 Employee Benefits		
Scope and general recognition principle	<ul style="list-style-type: none"> • This section covers: <ul style="list-style-type: none"> - Short-term employee benefits; - Post-employment benefits; - Other long-term employee benefits; and - Termination benefits. • Share-based payments are employee benefits and are 	<ul style="list-style-type: none"> • No corresponding section.



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	<p>covered in proposed IFRS for SMEs Section 25.</p> <ul style="list-style-type: none"> • An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity. • General principles for accounting treatment are broadly consistent with IAS 19 <i>Employee Benefits</i> except for the removal of the 10% corridor test on the net cumulative unrecognised actuarial gains and losses. <p><i>(Proposed IFRS for SMEs 27.1 – 3)</i></p>	
Section 28 Income Taxes		
Deferred tax – key recognition and measurement requirements	<ul style="list-style-type: none"> • Deferred tax liabilities and deferred tax assets are recognised for the tax consequences of the future recovery or settlement of the entity’s assets and liabilities at their current carrying amounts, with limited exemptions, and for unused tax losses and unused tax credits. <i>[Note that the “limited exemption” in the proposed IFRS for SMEs do not include certain initial recognition exemptions under IAS 12 Income Taxes, which could lead to deferred tax being recognised under the proposed IFRS for SMEs when it is not required to be recognised under IAS 12.]</i> • An entity shall measure deferred tax assets and 	<ul style="list-style-type: none"> • Deferred tax assets and liabilities should not be recognised – tax payable basis applied.



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	<p>liabilities, and related tax expense (income), at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.</p> <ul style="list-style-type: none"> • General principles are broadly consistent with IAS 12 <i>Income Taxes</i> <p><i>(Proposed IFRS for SMEs 28.2 & 28.21)</i></p>	<p><i>(SME-FRS 14.4)</i></p>
Section 29 Financial Reporting in Hyperinflationary Economies		
Preparation and presentation of financial statements	<ul style="list-style-type: none"> • An entity whose functional currency is the currency of a hyperinflationary economy is mandatory to apply IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> in preparing and presenting its financial statements. <p><i>(Proposed IFRS for SMEs 29.2)</i></p>	<ul style="list-style-type: none"> • No corresponding section - designed for companies operating in Hong Kong.
Section 30 Foreign Currency Translation		
Functional currency and presentation currency	<ul style="list-style-type: none"> • Each entity shall identify its functional currency. • An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its results and financial position into the presentation currency. <p><i>(Proposed IFRS for SMEs 30.2 & 30.17)</i></p>	<ul style="list-style-type: none"> • No distinction between functional currency and presentation currency.



	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
Section 31 Segment Reporting		
Key requirements	<ul style="list-style-type: none"> Segment reporting is not required. An entity that chooses to disclose segment information in financial statements shall comply with the requirements of IFRS 8 <i>Operating Segments</i>. <i>(Proposed IFRS for SMEs 31.1)</i> 	<ul style="list-style-type: none"> No corresponding section.
Section 34 Earnings per Share		
Key requirement	<ul style="list-style-type: none"> No requirement to present EPS. If the entity discloses EPS, it shall calculate and disclose earnings per share in accordance with IAS 33 <i>Earnings per Share</i>. <i>(Proposed IFRS for SMEs 34.1)</i> 	<ul style="list-style-type: none"> No requirement to present EPS.
Section 35 Specialized Industries		
Agriculture	<ul style="list-style-type: none"> For an entity engaging in agricultural activity, mandatory to apply the <u>fair value model</u> of IAS 41 <i>Agriculture</i> to account for those <u>biological assets whose fair value is readily determinable</u>. Apply the <u>cost model</u> (i.e. cost less any accumulated depreciation and any accumulated impairment losses) for those <u>biological assets whose fair value is not readily determinable</u>. <i>(Proposed IFRS for SMEs 35.1)</i> 	<ul style="list-style-type: none"> No corresponding section.



	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
Extractive industries	<ul style="list-style-type: none"> • Exploration expenditure – recognised as an expense when incurred. • Expenditure on acquisition or development of tangible assets and intangible assets, and dismantling or restoration obligations – apply the relevant sections under IFRS for SMEs. <p style="text-align: right;"><i>(Proposed IFRS for SMEs 35.2)</i></p>	<ul style="list-style-type: none"> • No corresponding section.
Section 36 Discontinued Operations and Assets Held for Sale		
Discontinued operations	<ul style="list-style-type: none"> • An entity shall disclose a single amount of a discontinued operation on the face of the income statement and an analysis of this single amount in the financial statements. <p style="text-align: right;"><i>(Proposed IFRS for SME 36.2)</i></p>	<ul style="list-style-type: none"> • No corresponding section.
Non-current assets held for sale	<ul style="list-style-type: none"> • An entity shall classify non-current assets as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. • Non-current asset held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. <p style="text-align: right;"><i>(Proposed IFRS for SME 36.5-6)</i></p>	<ul style="list-style-type: none"> • No corresponding section.
Section 37 Interim Financial Reporting		
Applicable standard	<ul style="list-style-type: none"> • An entity that issues an interim financial report shall 	<ul style="list-style-type: none"> • No corresponding section.



	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
	<p>apply either IAS 34 <i>Interim Financial Reporting</i> or all of the requirements of IFRS for SMEs.</p> <p style="text-align: center;"><i>(Proposed IFRS for SME 37.1)</i></p>	
Section 38 Transition to the IFRS for SMEs		
<p>Exemptions on transition</p>	<ul style="list-style-type: none"> • Exemptions granted in the following areas on applying IFRS for SMEs in preparing the first financial statements that conform to IFRS for SMEs: <ul style="list-style-type: none"> - Business combinations (may elect not to apply Section 18 to business combinations that were effected before the date of transition) - Fair value or revaluation as deemed cost (may use a previous GAAP revaluation of an item as its deemed cost as of the date of transition) - Cumulative translation differences (may elect not to recognise any cumulative translation differences in equity on the date of transition.) - Compound financial instruments (exempt from separating a compound financial instrument into its liability and equity components if the liability component is not outstanding at the date of transition.) - Shared-based payment transactions (not 	<ul style="list-style-type: none"> • No exemption is granted.



	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
	<p>mandatory to apply Section 25 <i>Share-based Payment</i> to equity instruments that were granted before the date of transition.)</p> <ul style="list-style-type: none"> - Deferred income taxes (not mandatory to recognize deferred tax assets/liabilities if it would involve undue cost or effort). <p style="text-align: right;"><i>(Proposed IFRS for SMEs 38.8)</i></p>	
Disclosures	<ul style="list-style-type: none"> • An entity shall explain how the transition from its previous financial reporting framework to the IFRS for SMEs affected its reported financial position, financial performance and cash flows. • The first financial statements prepared using IFRS for SMEs shall include: <ul style="list-style-type: none"> - reconciliations of its equity reported under its previous financial reporting framework to its equity under this standard for both (a) the date of transition and (b) the end of the latest period presented in the entity's most recent annual financial statements under its previous financial reporting framework; and - a reconciliation of the profit or loss reported under its previous financial reporting framework for the 	<ul style="list-style-type: none"> • Follow the requirements in Section 2 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> in respect of changes in accounting policies.



	IASB ED of proposed IFRS for SMEs	HK SME-FRF & SME-FRS
	latest period in the entity's most recent annual financial statements to its profit or loss under this standard for the same period. <i>(Proposed IFRS for SMEs 38.10 – 11)</i>	<i>(SME-FRS 2.9)</i>

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**Table of Concordance between
IASB ED of proposed IFRS for SMEs and HK SME-FRF & SME-FRS**

Section	IASB ED of proposed IFRS for SMEs	Section	HK SME-FRF & SME-FRS
1.	Scope		SME-FRF
2.	Concepts and Pervasive Principles		
3.	Financial Statement Presentation	1.	Presentation of Financial Statements
4.	Balance Sheet		
5.	Income Statement		
6.	Statement of Changes in Equity and Statement of Income and Retained Earnings		
7.	Cash Flow Statement		N/A
8.	Notes to the Financial Statements	1.	Presentation of Financial Statements
9.	Consolidated and Separate Financial Statements		N/A
10.	Accounting Policies, Estimates and Errors	2.	Accounting Policies, Changes in Accounting Estimates and Errors
11.	Financial Assets and Financial Liabilities		N/A
12.	Inventories	7.	Inventories
13.	Investments in Associates	6.	Investments
14.	Investment in Joint Ventures		
15.	Investment Property	3.	Property, Plant and Equipment
16.	Property, Plant and Equipment		
17.	Intangible Assets other than Goodwill	4.	Intangible Assets
18.	Business Combinations and Goodwill		N/A
19.	Leases	5.	Leases
20.	Provisions and Contingencies	10.	Provisions, Contingent Liabilities and Contingent Assets
21.	Equity		N/A
22.	Revenue	11.	Revenue
		8.	Construction Contracts
23.	Government Grants	12.	Government Grants and Other Government Assistance
24.	Borrowing Costs	13.	Borrowing Costs
25.	Share-based Payment		N/A

Section	IASB ED of proposed IFRS for SMEs	Section	Equivalent HK SME-FRF & SME-FRS
26.	Impairment of Non-financial Assets	9.	Impairment of Assets
27.	Employee Benefits		N/A
28.	Income Taxes	14.	Income Taxes
29.	Financial Reporting in Hyperinflationary Economies		N/A
30.	Foreign Currency Translation	15.	The Effects of Changes in Foreign Exchange Rates
31.	Segment Reporting		N/A
32.	Events after the End of the Reporting Period	17.	Events After the Balance Sheet Date
33.	Related Party Disclosures	16.	Related Party Disclosures
34.	Earnings per Share		N/A
35.	Specialized Industries		N/A
36.	Discontinued Operations and Assets Held for Sale		N/A
37.	Interim Financial Reporting		N/A
38.	Transition to the IFRS for SMEs		SME-FRF