The IFRS for SMEs – a chance for Tanzanian entities to benefit from simpler reporting

Tanzania migrated to International Financial Reporting Standards (IFRS*s*) with effect from July 2004 when every commercial entity was required to present their financial statements in line with IFRS. Five years later, in July of 2009, the International Accounting Standards Board (IASB) issued the IFRS for Small and Medium-Sized Entities (the IFRS for SMEs). This standard provides an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (IFRS). A revised version of the Standard was issued in 2015.

The IFRS for SMEs is a self-contained standard, incorporating accounting principles based on IFRS existing at that date, which have been simplified to suit the entities that fall within its scope.

Who can apply the IFRS for SMEs?

The IFRS for SMEs was intended for use by entities that have no public accountability (i.e. their debt or equity instruments are not publicly traded and they do not hold assets in a fiduciary capacity for a broad group of outsiders). However, the decision regarding which entities should use the IFRS for SMEs rests with national/local regulatory authorities and standard-setters.

In 2009, NBAA issued technical pronouncement 3 of 2009 on the scope of applicability of IFRSs, IPSAs and the IFRS for SMEs. This pronouncement clarified that non-publicly accountable entity with less than 100 employees and a capital investment of less than TSh 800 million would be permitted to apply the IFRS for SMEs. This prevented a lot of medium-sized entities from benefiting from application of this standard due to the restriction on capital investment.

In September 2018 the NBAA released another pronouncement that replaces the above in terms of applicability of the standards. The Technical pronouncement 1 of 2018, permits non- publicly accountable entities with an annual turnover of TSh 800 million or more and total assets of TSh 400 million to apply the IFRS for SMEs. Whilst this was good news for many entities, NBAA made this pronouncement effective for periods beginning on or after 1 April 2019. Consequently, a lot of entities will have to go through the headache of applying the new IFRSs, namely IFRS 15 and IFRS 9, that became effective for periods beginning 1 January 2018 before they are allowed to transition to the IFRS for SMEs.

What are the differences between the IFRS for SMEs and full IFRS?

1. Accounting treatments that are not allowable under the standard:

   - Capitalization of borrowing costs
   - proportionate consolidation for investments in jointly controlled entities

2. Financial instruments:

   Simple financial instruments (primarily cash, receivables, and financial liabilities) are measured at amortised cost using the effective interest method, with more complex financial assets being measured at fair value through profit or loss.

3. Simplifications:

- New standards and amendments (e.g. IFRS 9, IFRS 15, IFRS 16 and IFRS 17) have not yet been incorporated into the IFRS for SMEs;
- The amortisation of intangible assets and goodwill over a period not exceeding 10 years if the useful life cannot be established reliably;
- No requirement to present non-current assets held for sale or results of discontinued operations separately;
- A simplified calculation is allowed if measurement of defined benefit pension plan obligations (under the projected unit credit method) involves undue cost or effort;
- The cost model is permitted for investments in associates and joint ventures.

In instances where the IFRS for SMEs does not specifically address a transaction, an entity may consider (but is not required to apply), the requirements and guidance in full IFRSs dealing with similar issues when developing an accounting policy.

There are, as a result, some significant differences between the IFRS for SMEs and full IFRSs. Since the IFRS for SMEs is intended to apply to SMEs, these differences are expected to persist in the future, although the extent to which new and amended IFRS standards will be incorporated into the IFRS for SMEs at a later date is uncertain.

On an ongoing basis it is expected that amendments will be proposed not more frequently than once every three years in an omnibus exposure draft. The next comprehensive review is expected to commence this year.

What are the benefits of applying the IFRS for SMEs?

Applying the simpler requirements of the IFRS for SMEs still results in fair presentation of the financial position, financial performance and cash flows of the entity. IFRS for SMEs is an internationally-recognised standard and one could benefit as follows:

- less onerous disclosure requirements. There is approximately 90% reduction in disclosure requirements as opposed to full IFRS.
- Unlike full IFRS the principle of 'undue cost and effort' has been introduced and is primarily used to provide relief in specific cases where FV might be considered too burdensome.

Transitioning to the IFRS for SMEs

The standard allows all of the exemptions in IFRS 1, First-Time Adoption of International Financial Reporting Standards. It also contains 'impracticability' exemptions for comparative information and the restatement of the opening statement of financial position.

For more information on how you can transition, contact our team at RSM Eastern Africa, Tanzania.