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IFRS Handbook for SMEs

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Abstract

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Globalisation has led to greater competition among businesses the world over to attract stakeholders who can positively affect their business on international and global markets. To facilitate competition financial statements should be understandable and comparable to similar businesses. IFRS has become the de facto financial reporting standard of the world. Finnish SMEs involved in international trade are not using IFRS, though a simple version exist for SMEs the switch from Finnish Accounting Standard seems cumbersome and costly. This thesis edifies Finnish SMEs about IFRS and aims to guide them in their transition to IFRS for SMEs.

The thesis was divided into six parts; researching publications about IFRS, IFRS for SMEs in Finland, producing sample financial statements according to IFRS for SMEs, comparing them and their components to financial statements produced under FAS, identifying IFRS standards not covered and finally preparing a IFRS handbook for SMEs in Finland.

FAS is based on historical cost accounting, it give users more flexibility when applying accounting treatments while, IFRS was more precise when recognising and measuring assets, liabilities equity, revenue, expenses and cost of goods sold.

Finnish SMEs switching to IFRS should be cautious of the treatments of impairments of assets IAS (36), inventories (IAS 2) leases (IAS 17), financial instruments, (IAS 39) and property plant and equipment (IAS 16) as differences in the standards could lead to significant changes in the financial statements.

To transition to IFRS SMEs should recognise all assets and liabilities as required by the IFRS for SMEs. Disclose the nature of the change in accounting policy; reconcile equity and profit and loss of the two standards for the latest period in the entity's most recent annual financial statements.

Keywords
International Financial Reporting Standard, Finnish Accounting Standard, Financial Statements, Small and Medium size entities

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1 Introduction

In this chapter, the thesis writer will explain the journey of international accounting, as the writer paints the picture of today's accounting, i.e. international accounting standards and their respective boards. International Financial Reporting standards will be introduced; the writer will then proceed to introduce the thesis topic and its role in International business.

1.1 Background

Though accounting can be dated back to the period of barter giving credit to Luca Pacioli, the father of International accounting is Gerhard G. Mueller. This is due to his numerous books written between 1967- 1987 which provided the teaching material on which international accounting was built (Flesher, 2010).

With the development of international accounting, the International Accounting Standard Committee (IASC) was formed. In 1973 through an agreement made by accountancy bodies of Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland and The United States. IASC was tasked with the development and promotion of International Accounting Standards (IAS) (Deloitte, 2015).

After forty-one standards (IAS) and twenty-five years of existence, in 1997 IASC metamorphosed so as to combine national accounting standards, practises and high quality global standards, giving birth to International Accounting Standard Board (IASB) on 1st July 2000. The IASB issued standards are referred to as IFRS. IASB is an independent private sector body, which is over seen by the IFRS foundation (Deloitte, 2015).

Presently though they are many accounting standards nationally, internationally they are two standards used the world over. (1) International Financial Reporting Standard (IFRS); used more extensively, it is the international accounting standard of Europe, the Caribbean and Asia among other countries, and (2) Generally Accepted Accounting Principles US (US GAAP); mainly used in United States and Canada.

1.2 Project Objective

This thesis aims to produce an IFRS handbook for SMEs operating in Finland. Finland as a member of the European Union is subject to IAS regulations. This means all companies whose securities are traded in a regulated market are required to produce their financial statements according to International Financial Reporting Standards.

SMEs in Finland generally do not produce their financial statements according to IFRS, as the process is considered too long and demanding. With IFRS for SMEs IAS has aimed at reducing the cumbersomeness of the process.

While Finland has not yet adopted IFRS for SME, SMEs can still choose between IFRS adopted by the European Union or to follow Finnish National Standards, SMEs who choose the former option stand to gain more as they are positioned to attract international stakeholders; more importantly investors.

1.3 Significance

This author aims at simplifying Finnish SMEs financial statement creation process by creating an IFRS handbook for SMEs. This when completed successfully will: -

- provide improved comparability for users of accounts
- enhance the overall confidence in the accounts of SMEs
- Provide a platform for growing businesses that are preparing to enter public capital markets (IASB, 2015).

1.4 Project Tasks

The entire thesis will be divided up into six parts of which goals would be set for each task. Task six's goal would be to produce the completed IFRS handbook for SMEs in Finland.

1. **Research publications about IFRS and IFRS for SMEs and select those most relevant to the project**.

IFRS is the root of the research it is important the author understand the standards therein and how they are applicable to SME's as developed by International Accounting Standards Board (IASB).

2. **Put together needed information about IFRS for SME in Finland**

   Though they may be an extensive list of information about IFRS for SMEs this data would have to be carefully selected to include points compatible with European Union directives and moreover Finnish law.

3. **Formulate a sample Statement of Financial Position and Comprehensive Income Statement**

   The author must carefully construct an ideal balance sheet and income statement, which can be used as a guide for SMEs; importance therefore falls on the financial statements being general and compatible to different business types.

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4. **Identify IAS and IFRS standards** directly affecting with the Sample Statement of Financial Position and Comprehensive Income Statement**.**

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5. **Create notes and guides common Standards not covered in sample statements.**

   The aim of the handbook is to guide SMEs when preparing their financial statements. It should be noted that sample statements produced will not address all the commonly used areas of IFRS, hence notes addressing common standards that would be generally usefully to a majority of SMEs when preparing their financial statements would be produce to strengthen the handbooks ability to guide SMEs.

6. **Produce IFRS handbook for SMEs in Finland**

   The IFRS handbook will then be produced it will feature the financial statements of-focus namely Statement of Financial Position and Comprehensive Income Statement. Items in the financial statements will be explained to understand what treatments need to be done for IFRS, and how those differ from the methods taken using the Finnish Accounting Standard. The Handbook will then focus on the transition process and the requirements needed to do so successfully.

Table 1 below presents the theoretical framework, project management methods and outcomes for each project task.

Table1. Overlay matrix

Project Task (PT)	Theoretical Framework	Project Management Methods	Outcomes
PT1	IFRS & IFRS for SMEs	Desktop Study	Select relevant sources
PT2	Finnish Accounting Standards	Desktop Study	Select data relevant for Finland
PT3	Statement of Financial position & comprehensive income	Desktop Study	Templates for Financial Statements
PT4	SMEs Standards selection	Desktop Study	Select IFRS for SMEs Standards
PT5	Identify treatments	Desktop Study	Computations & accounting postings
PT6	IFRS (SMEs) Handbook	Desktop Study	IFRS Handbook for SMEs

1.5 Demarcation

According to IAS 1.10 a complete set of financial statements would include four financial statements, notes; a summary of significant accounting policies and comparative information. This thesis will focus on two statements namely:

1) A statement of financial position (Balance sheet)
2) A statement of profit and loss and other comprehensive income for the period

This thesis will address the common expenses, costs, assets, liabilities, equity sources as they relate to the aforementioned statements and their required treatment under IFRS/IAS.

The thesis will not cover:

1. A statement of changes in Equity for the period
2. A statement of cash flows for the period

The thesis will not cover consolidation accounting and the accounting standards that fall there under.

The purpose of financial reporting is to provide information of a company's fiscal health and its financial performance. Investors would need to evaluate a company's past, current and prospective performance, including its financial position. The two statements most relied upon by investors were therefore chosen. The point of international financial reporting; common procedures and accounting treatments goes further to enable comparability between statements. The abovementioned statements of focus will ensure a majority of stakeholders can access the financial information they may need from a company following the produced handbook, e.g. the balance sheet and Profit and Loss are the required statements when declaring cooperate and value added tax.

In closing the paragraph, it is important to note that some stakeholders would require a statement of cash flow to better assess a company's future financial position but in order to constrain this thesis to the size expected at a bachelor's degree level, a statement of cash flow was omitted.

1.6 International Aspect

The proposed topic; a IFRS handbook has international dimensions as, the handbook is directed at companies who intend to go international, or are already engaging in international trade. The logic behind the product is: companies who are involved in international trade are drawn by several factors to produce financial statements - which are comparable the world over. The handbook will equip SMEs in Finland to meet this growing expectation (requirement), thus being able to produce financial statements suitable for international stakeholders.

1.7 Benefits

An IFRS handbook targeted at SMEs in Finland will enable SMEs both public and private to leverage the benefits of IFRS without the cumbersome standards and procedures designed for large entities. SMEs would be able to produce financial statements that are comparable internationally i.e. all countries where IFRS is applied (over 100). Investors would not have to equate the differences between accounting standards. Through international comparability, investors are able to choose the best investment.

This thesis writer stands to benefit from a well-written thesis as a well-written thesis will not just be archived but will be used; hence, the writer's contribution to his field would have significance, which brings with it self-esteem and a feeling of accomplishment.

1.8 Key Concepts

IFRS

IFRS is an acronym that stands for International Financial Reporting Standards. IFRS are standards issued by the International accounting standard board. This board was formed in 2001, it is an independent private sector body that develops and approves IFRS (Deloitte, 2015).

IFRS for SMEs

IFRS for SMEs is a self-contained standard designed to meet the needs and capabilities of small and medium entities. IFRS for SMEs is best suited SMEs as topics not relevant to SMEs have been excluded (IASB, 2015).

IAS

IAS; International Accounting Standards refer to accounting standards produced by the International Accounting standards committee which existed between 1973 -1997 this committee was succeeded by the IASB (Investopedia, 2015).

FAS

Finnish Accounting Standards; refers to the domestic accounting principles applied in Finland (Jarva & Lantto, 2012).

Financial Statements

Financial Statements are summaries, which show firms financial performance for a fiscal year. Financial statements should be accompanied with notes to the statement and comparative information.

A statement of Profit and Loss and comprehensive income

Profit and Loss refers to total income less expenses; this is excluding the components of other comprehensive income, where comprehensive income is defined as comprising items of income and expenses that are not recognised in the profit and loss as stipulated BY IFRS (ACCA, 2015).

Statement of Financial Position

Also referred to as the balance sheet; the term Statement of Financial Position is used by IASB and is the acceptable name under IFRS. The statement is a combination of a company's assets, liabilities and equity. The statement shows the net worth of a business at a given time (Accounting-simplified, 2015).

2 Financial Statements through the eyes of the IASB

The thesis could be understood as producing material to assist small and medium size companies to produce their financial statements according to IFRS for SMEs; key to understanding the thesis is therefore comprehension of Financial Statements and Financial statements according to IFRS. Finnish accounting standards and related Finnish law are also important when formulating a handbook for Finnish SMEs.

Financial statements for the purpose of this thesis will include only two statements: Statement of Comprehensive Income and Statement of Financial Position. The thesis will take an in depth look at the two statements and will dissect each section and explaining what goes into each section, defining all section and explaining all terms.

The statement of Financial position is divided in to two parts which follows the accounting formula; Assets = Liabilities +Equity. The statement has two balancing sides (which is why it is also referred to as the balance sheet) as illustrated in the formula total assets of an entity will be balanced off with total equity and liabilities. Within the major three headings of the statement are terms which will need a brief explanation such as fixed assets, tangible assets, intangible assets, short term or current liabilities and long term or noncurrent liabilities.

The Statement of Comprehensive income will include subparts to which definitions will be required such parts are revenues, cost of goods sold, opening and closing stock among others.

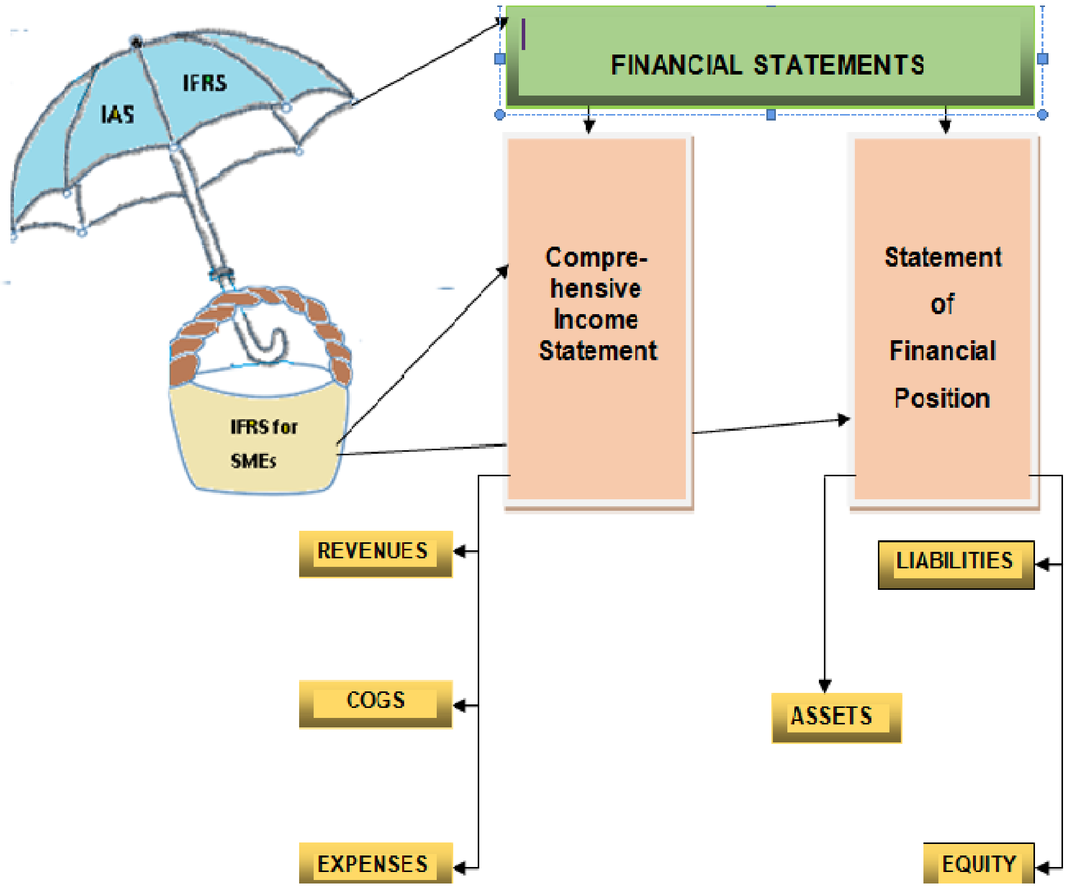

Figure .1 Theory Framework

The thesis stems from IASB's issued IFRS; IASB has also issued IFRS for SMEs. The thesis looks at the two main financial statements; the Statement of comprehensive income and Statement of Financial Position and their subparts (Figure 1.)

3 IFRSs

The International Accounting Standard Board has issued two standards aimed at assisting entities the world over to be transparent, have strong accountability and enable economic efficiency. The two standards issued by the IASB are:

- Full IFRS
- IFRS for SMEs

Full IFRS is aimed at companies who have public accountability and is mandatory in many regions, including the European Union. International Financial Reporting Standards begun in 1973 in an attempt to have a common accounting practice in Europe. The standard is currently used in a 147 countries.

IFRS for SMEs is a Standalone standard – independent of full IFRS, applicable to all non-public entities, i.e. Entities who are not required to file financial statements with a securities commission or another regulatory organisation and does not issue shares in a public market.
Prior to IFRS for SMEs, private companies found it difficult and costly to prepare their accounts in compliance with full IFRS. It was noted by the IASB that the Financial Statement focus of private entities differed from those of public listed companies. IFRS for SMEs was created to reduce the costliness and improving the benefits for preparers. (Ende 2009, 7)

The development of IFRS for SMEs started back in 2001 when IASB launched a project aimed at suitable standard for SMEs. The ISAB felt the need to address issues related to emerging markets and SMEs, the initiative got support from IASC Foundation (IFRS foundation). In June 2004, a discussion which welcomed comments was published. By January 2005 comments raised were considered and an exposure draft was published. In order to gain further information pertaining to omissions and simplifications, responses were then deliberated on by IFRS advisory council. By 2007 IASB had published an exposure draft which proposed five simplified versions of full IFRS. From March 2008, it took IASB 13 months to re-deliberate exposure draft based on responses and the findings of a field test carried out in 2007. After nine years of deliberation, testing and modifications a final version of IFRS for SMEEs was issued in July 2009. (IFRS FOR SMEs in your pocket 2010, 12)

3.1 The difference between full IFRS and IFRS for SMEs

At the start of the thesis the three standards discussed throughout was introduced; Finnish Accounting Standard is important to the thesis, as it is the domestic standard. International Financial Reporting Standard for Small and Medium Size Entities was also introduced alongside Full IFRS, where the thesis writer briefly explained the differences between the two IFRSs.
Due to the demarcations of this thesis i.e. not touching on the parts of Full IFRS which are not common to small and medium size businesses such as Shares and business combinations, IFRS was used on many occasions as the standards (full IFRS and IFRS for SMEs) mirrored each other on many points but are not exactly the same. This chapter will compare and contrast the two standards.

Table2. IFRS for SMEs compared with Full IFRS

	Full IFRS	IFRS for SMEs
Financial Statements	Covered in chapter 4.1 of this thesis	As it relates to the statements covered by this thesis Full IFRS and IFRS have the same requirements.
Business combinations		N/A
Investments in associates and joint venture	Full IFRS requires that investment in associates and joint venture to be accounted for using the equity method. When accounting for a jointly controlled entity cost and Fair value approach is not allowed.	When applying IFRS for SMEs standard Investments in associates and joint venture using: 1) The cost model 2) The equity model 3) Fair value model Users of IFRS for SMEs have more options as to which method thee can apply when accounting for investments in associates and jointly controlled entities.
Expense recognition	According to specific criteria, costs can be expensed as incurred; researched cost capitalised and amortised; development costs and borrowings in some instances can be capitalised.	Cost associated with research and Development and borrowing cost are treated as expenses.
Financial instruments	Financial instruments are measured at fair value	Categorises financial statement into 1) simple payables receivables and other basic financial instruments, which are amortised and 2) complex financial instru-

		ments which are measured at fair value.
Non-Financial Assets and Goodwill	When accounting for tangible and intangible assets one can choose between the cost model and revaluation model. Intangible assets with indefinite lives such as good will are reviewed for impairment.	Only the cost model can be used, all intangible assets are amortised as they are assumed to have finite lives.
IAS 40 Investment Properties	Either fair value accounting or historical cost accounting can be applied	Providing that investment property can be measured effortlessly, without undue cost it is carried at fair value.
IFRS 5 Assets Held for Sale and Discontinued Operations	Non-current assets should be listed as held for sale; the carrying amount of the asset is recovered mainly through sale.	Assets held for sale are not expected to recover the carrying amount as a decision to sell already indicates the assets book value is greater than its fair value.
Defined benefit plans	Actuarial gains and losses are recognised an accrued benefit valuation method – “the projected unit credit method” It is worth noting that the IASB has currently a discussion paper out Preliminary Views on Amendments to IAS 19 Employee Benefits, which proposes to recognise all gains and losses in the period of occurrence.	Actuarial gains and losses are recognised in the period they occur. The valuation method can be used if it adds extra cost or effort, or simplifications are allowed which excludes the consideration of: future salary progression, future service and mortality during period of service.

	The use of an accrued benefit valuation method (the projected unit credit method) is required for calculating defined benefit obligations.	
Income taxes	Deferred tax can only be recognised if the probability exist that it will be recovered from future taxable profit	A valuation allowance is used to ensure deferred tax assets match the highest amount which is likely unrecoverable.

4 Presentation of Financial Statements

This chapter will review the definition of Financial statements, the chapter will proceed by present financial statement in the view of FAS, full IFRS and then IFRS for SMEs. Lastly the chapter will have advice and information relevant to producing statements in accordance to IFRS for SMEs standard.

Financial Statements are a collection of reports about an organization's financial condition and cash flows. They are useful for the following reasons:

- to determine the ability to generate cash, and the sources and uses of that cash
- to determine whether a business has the capability to payback its debts
- to track financial results on a trend line to spot any looming profitability issues
- to derive financial ratios from the statements that can indicate the condition of the business
- to investigate the details of certain business transaction, as outlined in the notes to the Financial statements (Accounting Tools 2015)

4.1 Full IFRS

Under full IFRS IAS 1 covers the presentation of financial statements. The standard details the overall requirements and minimum requirements, structure and general principles.

With full IFRS a complete set of financial statements, differ somewhat from FAS. IAS 1.10 covers this point. The balance sheet is referred to as Statement of Financial position. In addition to the three statements required under FAS entities are required to produce a statement of comprehensive income; which can be an attachment to the profit and loss and a statement of change in equity for the period accompanied with relevant explanatory notes and summary of significant accounting policies.

IAS1.49- 1.51 to require entities: -

- ❖ clearly identify and distinguish financial statements from other published documents,
- ❖ clearly display the name of the reporting entity
- ❖ statements to clearly state whether it is for a group of companies or an individual company
- ❖ provide information about the reporting period
- ❖ state the currency and level of rounding used (IAS PLUS 2015)

4.2 IFRS for SMEs

Information about the presentation of financial statements when using IFRS for SMEs is located in the third section of the standard. The requirements are however very similar to that of full IFRS and like the latter requires; -

- ❖ Compliance- Statement from management explicitly stating compliance with IFRS for SMEs
- ❖ Going concern (accrual basis as FAS and full IFRS)
- ❖ Departure from the standard- allowed if compliance would be misleading
- ❖ Components of financial statement-the same as Full IFRS but in some case a single statement of comprehensive income can be joined to a statement of change in equity. (Similarities and Difference A comparison of `full IFRS` and IFRS for SMEs, 14)

4.3 Finnish Accounting Standard

The Finnish Accounting Act Section 1 (30.12.2004 / 1304); contents of the annual accounts and the report of operations states that annual financial statements must include:

1) a balance sheet for the period showing financial position at balance sheet date,
2) a profit and loss account showing information resulting to either profit or loss,
3) a cash flow statement clearing show sources of funds in recipients of funds out with corresponding details to the accounts and
4) notes to three abovementioned statements.

Each item of the statements must have a corresponding comparative figure from the previous year. Attached to Annual accounts must be a report of operation, which addresses information relating to the development of the reporting entity's operation if it trades its securities publicly or has at least two of the limits of Chapter 2. Section 9; Retention of Accounting material outside of Finland (KHT media 2005, 123)

Chapter 3 Section 3 of the Accounting Act list the general principles for preparing annual accounts, these however are in keeping with general accounting rules that are common also in IFRS. These principles include:

- ❖ The entity as a going concern,
- ❖ consistency in preparation
- ❖ valuation on a prudent basis.

The opening balance sheet figure must correspond to the closing balance sheet figure.

Accounting of income and expenses are shown in their financial year, irrespective of the date of receipt or payment. Assets and liabilities must be valued separately. (KHT media 2005, 124)

Since FAS is accrual based all cash based transactions must be adjusted before the annual accounts and report of operation to be in compliance, an exception to this is immaterial items and those relating to farming. The act dictates that Annual accounts and the report of operations can be prepared only in one of the National languages of Finland – Finnish or Swedish and are to be prepared latest four months after the end of the financial year.

5 Finnish Accounting standard

Accounting in Finland is subjected to the Finnish Accounting Act 30.12.1997 / 1336 the act stipulates, duties and responsibility of business owners, practisers of profession and various entities.

According to Section 3 of the act the principles of recording transaction are accrual based i.e. expenditure is recorded at the time the related product or service is received and revenue is recorded at the time service is rendered or product delivered. It is also possible under the act to record revenue and expenditure at time of payment however trade debtors and creditors must be identified. (KHT media 2005, 120)

5.1 Background

Historically Finnish accounting legislation is closely linked to taxation principles it is geared towards protecting creditors and preserving capital. FAS, after going through reforms in the 1990s was adjusted closer to international standards. After Finland Joined the European Union in 1995 the fourth and seventh Company Law Directives were included in the Finnish accounting legislation, during that time the Financial system of Finland shifted towards increasing dominance by the stock market from a point debt finance. Shareholder protection grew stronger while creditor protection weakened.

5.2 Reporting environment

A well-drafted standard however does not guarantee high-quality reporting, as the incentives of financial preparers both political and economic do influence actual reporting practise. Finland non-the-less has a high quality reporting environment; Transparency International's Corruption Perception Index 2015 supports this claim. The Index measures public sector corruption and ranks countries on how corrupt they are perceived to be, it is made

up of a combination of polls gathered by various reputable institutions around the world and hence reflects the views of observers the world over.
In 2015 Corruption perception index Finland scored 90 points, and was ranked the second least corrupt country in the world. (Transparency International 2016)

From the results of the perception index of Finland it indicates the level of; regulatory quality and rule of law both of which help to shape accounting outcomes.
Having established that Finland has a high level or reporting and accounting outcome it is also important to note that FAS does not address all accounting issues as IFRS and in some cases where rules are addressed the accounting treatments differ between the two standards.

5.3 Finnish Accounting Standard compared with International Financial Reporting Standards.

This chapter aims to focus on the differences between FAS and the IFRSs it looks at accounting recognition, treatment and laws. One should note the flexibility allowed within FAS as opposed to almost preciseness of the IFRSs, this is not to say one is better than the other.
The chapter also includes explanations of the terms and treatment expanding where needed to give clarity.

5.3.1 Employment benefits (IAS 19)

Under IFRS post-employment benefit plans must be recorded as either defined contribution or defined benefit. In contrast FAS treats all post –employment benefit plans as defined contribution plans.

A defined benefit plan is more precise when compared to a defined contribution plan as it identifies the specific benefits payable at retirement. Variables of a defined benefit plan usually are: years of service and salary. The plan can be unfunded, partially funded or wholly funded by the employer.
A Defined contribution on the other hand specifies how much will go into a retirement plan today this is usually a percentage of salary or a fixed sum.

Though FAS does not require separate treatment, defined benefit plans are more complex as actuarial assumptions are needed to determine the obligation and the expense.
Full IFRS would require the company to:

- ❖ Have a reliable estimate of the benefits employees have earned in the current and prior period for service rendered.
- ❖ Discount benefits using the projected unit credit method in order to determine the present value of the defined obligation and the current service cost.
- ❖ Determine the fair value of any plan assets.
- ❖ Calculate the total actuarial gains and losses, and total to be recognized.
- ❖ Calculate cost where they have been a change or introduction of a plan past service.
- ❖ The resulting Gain or loss should be calculated in cases in which a plan has been curtailed.

IFRS for SMEs defines post employee benefits as those, which are paid after the completion of employment exclusive of termination benefits. Post employee benefits are generally recognised under the standard as a liability after deductions such as those paid directly to the employee or to an employee benefit fund. (IFRS for SMEs 2009, 166)

IFRS for SMEs stipulates that contributions to a defined contribution plans should he recognised as a liability or as an expense:
Recognition as a liability occurs if after deducting the amount already paid. If contribution paid is greater than contribution due for service before the reporting date the excess should be recognised as an asset.
As an expense, unless another section of the Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property plant and equipment. (IFRS for SMEs 2009, 169)

IFRS for SMEs standard covers the recognition of post-employment defined benefits plan in paragraph 28.3. The standard states an entity shall recognise:

1. A liability for its obligations under defined benefit plans net of plan assets moreover its defined benefit liability
2. The net change in that liability during the period as the cost of its defined benefit plans during the period. (IFRS for SMEs 2009, 170)

An entity’s defined benefit liability for its obligations shall be measured at the net total of:
its defined benefit obligation
The fair value at the reporting date of existing plan assets from which the obligations are to be settled directly.

Discounting - Chapter 28.17 of the standard states that an entity shall measure its defined benefit obligation on a discount present value basis, where a determined rate is used to discount future payments by referencing market yields on high quality corporate bonds when reporting.

Actuarial valuation method - an entity is welcome to use the projected unit credit method to measure its defined benefits unit but if this process can incur undue cost or effort. The projected credit unit credit method requires an entity's measurement of its defined benefit obligation in a way as to reflect future salary increases, it also requires an entity to make actuarial assumptions when measuring defined benefit obligation such as discount rates, expected rate of ROA (plan assets) expected rates of salary increases, employee turnover and mortality rates. (IFRS for SMEs 2009, 170)

If using the projected unit credit method will incur undue cost or effort some simplifications can be made by the entity when measuring its defined benefits obligation of current employees, these are:

1. Assume salary to be constant until post-employment benefits
2. Ignore future service of current employees.
3. Assume all current employees will receive the post-employment benefits.

(IFRS for SME 2009, 172)

5.3.2 Income Taxes (IAS 12)

IAS 12 addresses the accounting for income taxes it uses a comprehensive balance sheet method which takes into account current tax consequences of transactions and the future tax consequences. The difference between the carrying amount and tax base of assets and liabilities are recognised as either carried forward tax losses or credits. (Deloitte 2016)

FAS allow an entity to calculate deferred tax on the basis of timing differences instead of temporary differences. FAS do not require the recognition of deferred tax assets in contrary to this under IFRS an entity is required to recognise a deferred tax liability for all taxable temporary differences with few exceptions allowed.

5.3.3 Intangible assets (IAS 38)

IAS 38 defines an intangible asset as non -monetary without physical substance and is identifiable. (Deloitte 2016)
Intangible assets have no substance, but are usually the long-term resources of an entity items such as reputation, name, recognition and intellectual property such as knowledge and know how are all intangible assets as their values is derived from legal rights and from the value the add to other assets. (Business Dictionary 2016)

FAS Favours the capitalization of R&D in other words under Finnish Accounting Standard R&D expenses are not immediately expensed to the profit and loss but are accrued as benefits accrue.

Though IFRS agrees that R&D expenses should be accrued it stipulates that this can only be done when the asset is recognized to have future benefits and the cost of the asset can be measured reliably. (Information content of IFRS versus Domestic Accounting Standards: Evidence from Finland, 2012, 153)

IFRS for SMEs recognition of an intangible asset is the same as that of Full IFRS it states an entity should only recognise an intangible asset if:

A. Future economic benefits are expected as attributes to the assets
B. The assets value and cost can be measured reliably
C. The asset does not result from expenditure incurred internally on an intangible item. (IFRS for SMEs 2009, 98)

5.3.4 Construction Contracts (IAS 11)

IAS 11 stipulates how construction revenue and cost should be allocated to accounting periods in brief they should be allocated in the period the work is done where the extent of the work done can be estimated reliably, if not revenue should only be recognised to the point of recoverable contract cost.

FAS gives construction firms the option whether or not to recognise revenue in proportion to the stage of completion. When a firm would need to recognise profits related to long-term contracts distortion can occur if a firm chooses not to recognise revenue proportionally in accordance with completion

IFRS seeks earnestly in every way to ensure financial statements prepared according to its standard represent a true and fair view, hence in order to nullify possible distortions IFRS requires that all construction related cost and revenue must recognise by the stage of completion. (Information content of IFRS versus Domestic Accounting Standards: Evidence from Finland, 2012, 153)

Section 23.17 of the IFRS for SMEs standard states like full IFRS; when a construction contract can be estimated reliably associated cost and revenue should be recognised according to the stage of completion. (IFRS for SMEs 2009, 139)

5.3.5 Inventories (IAS2)

IAS 2 addresses how most inventories should be treated. Inventories should be measured at the lower cost of net realisable value. The standard also highlights methods of determining cost.

In the valuation of Inventories FAS do not require the inclusion of production overheads; this method of valuation may result in the distortion of the true value of inventories. Since inventories are usually, the largest current asset it is important they are measured properly to acquire accurate financial statements. Full IFRS requires inventories to be valued at full cost. (Information content of IFRS versus Domestic Accounting Standards: Evidence from Finland, 2012, 153)

According to Finnish tax legislation and accounting act stock can only be valued only by using FIFO and weighted average method and LIFO in few cases, however EU's fourth directive is in line with the IFRSs allow the use of all three and other similar methods.

Section 13 of the IFRS for SMEs standard addresses inventories the requirements are the same as full IFRS, it states inventories should be measured at the lower of cost and estimated selling price less completion and sales cost. Inclusive to the cost of inventories should be all cost of purchase, conversion, transport or restoration. (IFRS for SMEs 2009, 76)

5.3.6 Leases (IAS 17)

IFRS for SMEs classifies leases as either an operating lease or finance lease which is also referred to as a capital lease. When a lease transfers all the risks and incidental benefits to ownership it is considered a Finance lease. If a lease does not transfer risks and incidental benefits it is considered as an operating lease.Classification of a lease is based more on the substance of the transaction and not merely on the form of the contract. If one of criteria listed below is met, a lease would be classified as a Finance lease.

a) At the end of the lease-term, ownership of the asset is transferred to the lessee.
b) The lessee has an option to purchase the asset at the end, where the price would be significantly less than the fair value of the asset at that date.
c) The leased period of the asset covers a majority of its economic life, even with transference of title.
d) The start of the lease the present value of the minimum lease payments would equate to the substantial part (about 90%) of the fair value of the asset.
e) The assets leased can only be used by the lessee without major modifications. (IFRS for SMEs 2009, 110)

Finnish Accounting Standard allows for all leases to be treated as operating leases. An operating lease does not appear on the balance sheet but the lease payments are expensed to the profit and loss account.

When reporting under the International Financial Reporting Standards leases must be classified and grouped accordingly i.e. operating lease or finance lease. While an operating lease is only treated as an expense in the profit and loss, a financial lease (Capital lease) on the other hand is recorded in the Statement of Financial Position as an asset and the present value of lease payments are recorded as a liability.
(Information content of IFRS versus Domestic Accounting Standards: Evidence from Finland, 2012, 153)

5.3.7 Impairment of Assets (IAS 36)

An asset is considered impaired if its recoverable value is less than its book value, in simple terms the assets value as listed on the Statement of Financial Position exceeds the resale value of the said asset. IAS 36 seeks to ensure that assets are not impaired except for good will and certain intangible assets which require annual impairment tests. (Investopedia 2016)
In rare cases FAS allows downward revaluation of fixed assets i.e. decreasing the carrying value of a fixed asset in response to a permanent change in the carry value of the said fixed asset.

Full IFRS ensures that assets are not carried at more than their recoverable cost. If so an impairment loss should be recorded assets with indefinite useful life are required to be assed for impairment. IFRS requires assets including intangible assets to be impaired to fair value. (Accounting explained 2016)

IFRS for SME's general principle on asset impairment is the same as full IFRS, to reduce the recoverable amount to the carry amount only if the recoverable amount is less than the carrying amount. An impairment loss should be recognised immediately in the profit and loss. (IFRS for SMEs 2009, 159)

5.3.8 Financial instruments (IAS 39)

Financial instruments are tradable assets. Financial instruments can be the form of a document of legal agreement involving monetary value.
Financial instruments as defined by International Accounting Standard as "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another" (Investopedia 2016)

They are two types of financial instruments cash instruments and derivative instruments.

Cash instruments are financial instruments whose values are directly influenced by market forces; they may be securities, agreed deposits and loans i.e. agreed between borrower and lender. (Investopedia 2016)

Derivatives are financial instruments whose values are determined through the performance of an underlying financial assets such as bonds, commodities interest rates and currencies. (Investopedia 2016)

Finnish Accounting Standard mainly measures financial instruments according to their historical costs, but fair value measurement is accepted. Historical cost refers to the price of the asset at acquisition. (Accounting and Systemic Risks 2016)

International Financial Reporting Standard measures most financial instruments at fair value, which is their current market value. With fair value accounting the valuation of assets or securities are updated regularly. The International Financial Reporting Standards require fair value to be used for measurement of pension, liabilities, biological assets, investment in properties among other financial assets and liabilities including derivatives. (Rand Corporation 2016)

IFRS for SMEs classifies financial instruments into two groups; basic financial instruments covered in section 11 and other financial instruments covered in section 12

Fair value accounting is considered more accurate as it records the current value of assets and liabilities. Since international financial Reporting Standards aim to present true and precise statements – fair value accounting is the preferable vehicle when valuing assets and liabilities as it provides a measurement of true income, while reducing the possibilities of manipulating accounting data. If prices are expected to increase or decrease valuations will react accordingly.

Those in favour of Historical cost accounting argue it is in view with the aim of accounting that is to keep a record of past transactions hence recording at cost price accomplishes that. It is future argued that some assets fluctuate aggressively several times a year making it difficult to have an up-to-date valuation. Critics of fair value accounting have also cited the possible domino effect of reduction of net income as a result of asset losses can have on an industry. (Is fair value accounting really fair 2013, 2)

5.3.9 Agriculture (IAS 41)

IAS 41 stipulates the accounting for agriculture activities, “living assets”- the processing of agriculture products from living plant and animals. (IAS 2016) Finnish Accounting Standard requires biological assets to be measured at historical cost while in contrast International Financial Reporting standard requires biological assets to be accounted for at fair value less selling cost. (IAS 2016)

Section 34 of IFRS for SMEs standard covers agriculture activities it states that biological assets are recognised when the asset is being controlled as a result of past events, future economic benefits are expected and the fair value cost can be measured easily and reliably. Under IFRS for SMEs biological assets must be measured at fair value less cost. (IFRS for SMEs 2009, 200)

5.3.10 Investment Property (IAS 40)

IAS 40 regulates the accounting for property which is set to earn rent income and or capital appreciation. (IAS 2016) Finnish Accounting Standard when accounting for investment property measures the same using historical costs. (FAS versus IFRS 2012, 14)
IAS stipulates that investment properties are initially measured at cost which includes transaction costs but excludes start-up costs abnormal waste and losses incurred before expected occupancy level is meet. (IAS 2016)

IFRS for SMEs section 16.5 stipulates; measurement of investment property must be at its cost of initial recognition, which would include all transaction cost associated with the purchase such as legal fees. (IFRS for SMEs 2009, 89)

5.3.11 Property Plant and Equipment (IAS 16)

IAS 16 dictates the treatment for most property plant and equipment. PPE is initially measured at cost after which it is measured using cost or revaluation model and depreciated. Finnish Accounting Standard allows for property, plant and equipment to be measured at fair value, if their historic cost is significantly lower than current market value. (FAS versus IFRS 2012, 14) Like full IFRS, IFRS for SMEs after initial recognition recognise PPE at cost less accumulated depreciation and accumulated impairment loss. (IFRS for SMEs Compliance checklist 2012, 37)

Finnish Accounting Standard when compared with International Financial Reporting Standard seems to be a more accommodating standard as users of the standard have more flexibility in their application of accounting treatments. IFRS requires transactions to be presented with substance and economic reality and as a result is more direct when setting out required accounting practises.

Finnish Accounting Standard is based on historical cost accounting but requires downward valuations for permanent impairments of long term assets, on the other hand International Financial reporting standard requires fair value accounting.

When comparing the ability of IFRS book value of equity in relation to FAS book value of equity to reflect the market value; IFRS book values are more useful measure of the market value of equity this is because IFRS financial statements are designed to give more economic substance than legal form e.g. accounting for leases. Leases must be classified and treated as either operating lease or financial lease. (Information Content of IFRS versus Domestic Accounting Standards 2012, 18)

6 Statement of Financial Position

In this chapter the balance sheet / statement of financial position will be discussed the author will indicate the layout normal used per standard and a sample statement under IFRS for SMEs will be introduced. The sample statement will display the line items usually associated with SMEs as they would appear on a normal Balance Sheet. The chapter will proceed with workings showing how some transactions relating to the Balance sheet are processed under IFRS for SMEs and an acknowledgement of those line items not covered.

6.1 Outline

IFRS for SMEs does not require a set layout of the Statement of Financial Position, but illustrative material of the standard has used a “straight down” format, as opposed to the FAS which places liabilities and equity at the side of assets rather than below. Entities wishing to prepare their statements should therefore know that both layouts are acceptable.

Statement of Financial Position		20X7
Assets		
	Current assets	
		xxxx
		xxxx
	Total current assets	xxxx
	Non-current assets	
		xxxx
		xxxx
	Total Non-current assets	
Total assets		xxxx
Liabilities and Equity		
	Current liabilities	
		xxxx
		xxxx
	Total current liabilities	xxxx
	Non-current liabilities	
		xxxx
		xxxx
	Total non-current liabilities	xxxx
	Total liabilities	xxxx
	Equity	xxxx
		xxxx
	Total equity	xxxx
Total equity and liabilities		xxxx

6.2 Inclusive Information

IFRS for SMEs minimum requires the following line items to be presented on the face of the balance sheet:

- Cash and cash equivalents
- Trade and other receivables
- Financial assets
- Inventories
- Property plant and equipment
- Investment property
- Intangible assets
- Biological assets
- Investments in associates and joint venture
- Trade and other payables
- Financial liabilities

- ❖ Current tax liabilities
- ❖ Deferred tax liabilities
- ❖ Provisions
- ❖ Equity attributable to the owners of the parent
- ❖ Non-controlling interest

6.2.1 Cash and cash equivalents

The ISAB through the standard has defined cash as; cash on hand and demand deposit while cash equivalents refer to short term, liquid investments with little risk of change in value which can be easily converted into a known amount of cash. (IFRS for SMEs 2009, 210)
Holding of cash and cash equivalent is used strategically in companies. High cash and cash equivalent is ideal for periods of slow sales and high cost. The opportunity cost to high cash and cash equivalents is a lower return on equity as the company is not investing its assets efficiently.
Some cash equivalents include money market funds, marketable securities and treasury bills. (Investing Answers 2016)

6.2.2 Trade and other receivables

Are the amounts customers owe to the business and could be classified as either accounts receivable; that owed from normal credit purchases or notes receivable; that owed, to which the debtor has signed a promissory note.

6.2.3 Other receivables

Other receivables are generally loans, settlement amounts due for non-current asset sales, rent receivable and term deposits. Other receivables can either be current (less than a year) or non-current (greater than one year) (Boundless 2016)

6.2.4 Financial assets

Financial assets such things as stocks, bonds and bank deposit which gains value due to a contractual claim (Investopedia 2016)
After financial assets are initially recognised they are to be measured at fair value, except the standard another basis measurement such as cost or amortised cost (IFRS for SMEs compliance checklist 2012, 110)

6.2.5 Inventories

Inventories are assets:

- to be sold business in its ordinary operations,
- in the production process for sale; or

- materials and supplies to be consumed in the production process or in the rendering of services

This section does not cover the measurement of inventories held by agriculture, forest products, and minerals or those who measure their inventories at fair value less cost such as commodity brokers and dealers.

The cost of inventories should include all purchase cost, conversion costs, and all other related cost in bringing inventories to their present location and condition.
(IFRS for SMEs Compliance checklist 2012, 26)

6.2.6 Property Plant and Equipment (PP&E)

PP&E refers to a company's assets essential to its operations but are not easily convertible to cash. The value of property plant and equipment is usually depreciated over the estimated life of the asset. (Investopedia 2016)

An entity should measure property, plant and equipment at the lower of depreciated cost and recoverable amount so as to ensure the assets is not measured greater than the expected recoverable amount. (IFRS for SMEs 2009, 20)

IFRS for SMEs standard stipulates that recognition of assets as PP&E should be done if:

1) they are to be use in production of goods of goods or the supply of services, for rental to others or for administrative purposes, and
2) they are expected to be used for more than one period.

After initial recognition, PP&E is recognised at cost less accumulated depreciation and accumulated impairment loss. (IFRS for SMEs Compliance checklist 2012, 37)

6.2.7 Investment Property

Investment property is land or building or both where the owner or lessee under a financial lease earns rentals and / or capital appreciation. Investment property is measured at its cost on initial recognition while the cost would include purchase price and all directly related cost such as legal fees, property transfer tax (IFRS for SMEs Compliance checklist 2012, 36)

6.2.8 Intangible Assets

An intangible is a non- monetary asset which has no physical substance. The asset is identifiable as

- it is capable of being separated from the entity to be sold transferred, licensed or exchanged

- It arises from legal or contractual rights which may be transferable or separated from the entity. (IFRS for SMEs Compliance checklist 2012, 42)

6.2.9 Biological Assets

Biological assets are defined by IAS 41 as a living animal or plant. Biological assets grow and transform and produce. Examples of biological assets are cattle, poultry and fish; included are also vegetables, crops vineyards and fruit orchards.
Biological assets need to be recognized the balance sheet and their revenue in the income statement as they are usually the primary importance in the farm business.
IAS 41 requires Biological assets to be recognized in the balance sheet when: -

- The business controls the biological assets because of a past event
- It is expected bring economic benefits
- Its fair value can be measured reliably (International Financial Reporting tool 2016)

6.2.10 Investment in Associates and Joint venture

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. They can take the form of jointly controlled operations, assets or entities. (IFRS for SMEs 2009, 85)
IFRS for SMEs stipulates that an investor in must disclose:

- the accounting policy for recognising its joint venture interest
- the carrying amounts of investments in jointly controlled entities
- the aggregate amount of its commitments relating to joint ventures inclusive of its share in the capital commitments whether incurred jointly with other ventures as and its share of commitments of the joint venture themselves. (IFRS for SMEs 2009, 88)

6.2.11 Trade and other Payables

Trade payable is the amount the company credits from its suppliers for goods or services used in the execution of its ordinary business. Trade payables are mostly classified as current liabilities and entered in the accounts payable ledger. In the rear case, Trade payables are classified as long term liabilities if they are payable in over a year. (Accounting tools 2016)

Other payables represent current payables other than dividend payable and income taxes payable. Other payables include payables due to employees, shareholders, officers and directors. (Investor Relations 2015)

6.2.12 Financial liabilities

“Under IFRS a financial liability can refer to

1) A contractual obligation to supply cash or similar to another entity or a potentially unfavourable exchange of financial assets or liabilities with another entity.
2) A contract to be settled in the entity’s own equity and that is a non-derivative under which may be delivery a variable amount of its own equity instrument, or a derivative that probably will be settled other than through the exchange of cash similar for a fixed amount of the entity’s equity.

   Examples of Financial Liabilities are accounts payable, loans issued by an entity and derivative financial liabilities.” (Accounting tools 2016)

6.2.13 Tax Liabilities

Tax liability is taxes to be due to a tax authority arising from a taxable event such as realization of operational income and sale of an asset. Current tax liabilities are those liabilities payable within one year. (Accounting tools 2016)

6.2.14 Deferred tax liabilities

A deferred tax liability is an account on a company’s balance sheet that is a result of temporary differences between accounting practises and tax regulations. The difference which the company owes is not paid at the current point. But will be paid in the future. (Invest words 2016)

6.2.15 Provisions

A provision is the amount of an expense that an entity caters for before knowing the exact amount of the expense. Provisions are usually made for bad debts, sales allowances, and obsolescence.
A Provision is recorded as a liability and is usually classified on the balance sheet as a current liability. (Accounting tools 2016)

7 Statement of Comprehensive Income and Income Statement

An entity is required under IFRS for SMEs to present its total comprehensive income for a period in one or two financial statements, moreover as:

1) Statement of comprehensive income
2) Income statement and a Statement of Comprehensive Income

In the former case, the statement of comprehensive income presents all items of income and expenses attributed to the period unless the standard requires otherwise, while in the latter case the income statement presents all items of income and expense recognised in the period except those recognised in the total comprehensive income outside of profit and loss. (IFRS FOR SMEs 2009, 31)

7.1 Single Statement Approach

When apply a single statement approach; a Statement of comprehensive income – other comprehensive income is recognised as

1) gains and losses arising on translating the Financial statements of a foreign operation, covered in section 12 of the Standard
2) some actuarial gains and losses an actuarial gain or loss is such which arises from the difference between estimates and actual experience in a company's pension or another benefit plan. (Investopedia 2016) covered in section 28 of the Standard

3) some changes in fair values of hedging instruments, covered in section 12 of the standard

It should be noted if a company changes from one approach to another be it from a single statement approach to a two Statement approach or vice versa, it is compelled by section 10 of the standard (Accounting Policies, Estimates and Errors) to disclose of that change and should be reflected as retrospective adjustments. Please refer to Section 10 of the SME standard. (IFRS for SMEs 2009, 31)

7.1.1 Minimal Items-Statement of Comprehensive Income

An entity preparing a statement of comprehensive income should include the minimum items as requested by IFRS these are: -

a) Revenue
b) Finance costs.
c) Profit or loss arising from investments in associates and jointly controlled entities-equity method (section 14 and 15 respectively)
d) Tax expense, except E; G and H of this paragraph. Section 29.27 of the standards stipulates that tax expenses should be recognise in the same component of total comprehensive income or equity as the transaction or other event that resulted in the tax expense.
e) A total of post-tax profit or loss of a discontinued operation and post-tax gains and loss recognised on the measurement to fair value less cost to sell or on the disposal of the net assets constituting the discontinued operation.
f) Profit or loss
g) Other comprehensive income as prior listed except for amounts listed in H.
h) Share of other comprehensive income arising from associates and jointly controlled entities. (Equity method).
i) Total comprehensive income, if none, the term profit and loss can be used.

(IFRS for SMEs 2009, 32)

7.1.2 Separate Disclosers

The following items allocated to the period should be disclosed separately in the statement of comprehensive income:

a) Profit or loss for the period attributable to non-controlling interest and owners of the parents.

b) Total comprehensive income for the period attributable to non-controlling interest and owners of the parents.
(IFRS for SMEs 2009, 32)

7.2 Two-statement approach

Entities using the two-statement approach should include as a minimal in the income statement lines items A-F as is listed under the single statement approach and should conclude with the profit and loss.

The profit and loss will then be the first line of the Statement of comprehensive income. As a minimal the statement of comprehensive income will include should include items G-I listed above. (IFRS for SMEs 2009, 32)

7.3 Requirements common to both approaches

Changes in accounting policies and effects of or error corrections should not be part of the profit and loss of the period in which they arise but should however be retrospective adjustments of prior periods.

Additional line items, headings and subtotals should be included in the statement(s) when it is needed to gain an understanding of the entity's financial performance.

An entity shall not present or describe any items of income and expenses as "extraordinary items" in the statement of comprehensive income, income statement or in the notes. (IFRS for SMEs 2009, 33)

8 Project Management Methods

The Thesis objective is to produce an IFRS handbook for SMEs in Finland, the objective will be fulfilled through desktop research.
“Desk research comprises searching for information using existing resources, such as the press, the Internet, analytical reports and statistical publications. This is then followed by cross referencing and the collation of data” (PMR, 2015).

Justifiably this thesis would be done best as a desktop survey as there is a vast amount of information produced by the International Accounting Standard Board (IASB) in fact the thesis seeks to simplify IASB standards (IFRS) to enable them to be easily adopted in SMEs. Having a commissioned company will not contribute significantly to this project as the thesis seeks to produce a handbook which can be used across the board. Benefit of a company will be possible in the testing stage of the handbook.

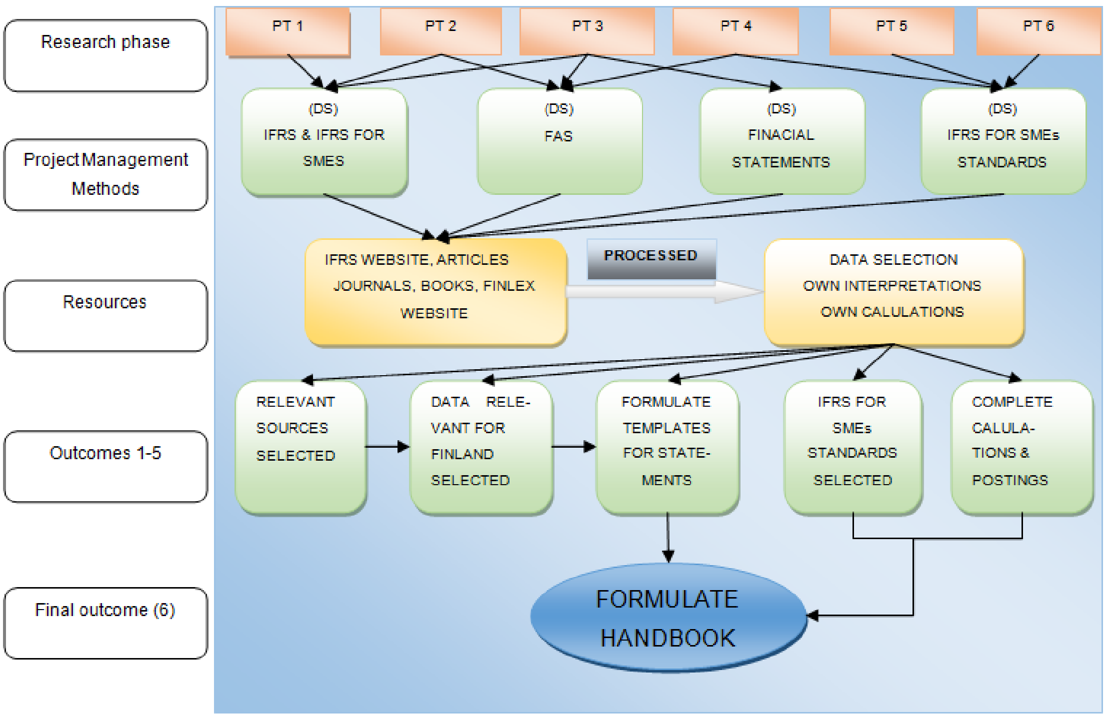

Figure .2 Research methods

The thesis writer intends to use IFRS website as the main source of data. IFRS will be contrasted against IFRS for SMEs the objective of this is to identify the differences in the two, or more importantly the simplicity of IFRS for SMEs. Attention will then be placed on the Finnish Accounting Standard to understand the accounting procedures used and how they differ from the requirements of IFRS. Suitable sources for FAS are Finnish accounting text books, in addition Henry Jarva and Anna-Maija Lantto have written a useful paper. entitled “Information Content of IFRS versus Domestic Accounting Standards: Evidence from Finland" The project will proceed with a detailed analysis of IFRS this time around emphasis would be placed on the standards suitable for the sample Comprehensive Income Statement, and the sample Statement of Financial Position. The research is intended to help the thesis writer apply the standards. After application knowledge has been acquired the aim would be to produce practical examples and produce easy to follow instructions to understand individual standards.

9 Discussion

This chapter analyses the results of the financial statements produced in the handbook i.e. those produced according to the Finnish Accounting Standard compared with those produced according to International Financial Reporting Standards. the chapter relies heavily on the foundation presented in the thesis as it relates to the accounting treatments of the two standards. The thesis writer will continue with an evaluation of the project and finally close with recommendations.

9.1 Conclusion

After assessing the facts presented thus far in this thesis, the writer has observed though IFRS for SMEs and FAS have different accounting treatments the final figures presented in their financial statements differ little. Differences in the statements stem directly from how cost and expenses are deducted in the profit and loss account such as; depreciation ids deducted after profit before taxes under FAS. The statement of comprehensive income; (IFRS for SMEs), and the profit and loss statement (FAS) for the year ending 31st December 2015 has a difference of 12 Euros. Currency translation being added after tax in the statement of comprehensive income (IFRS for SMEs) considering the tax percentage is 20% the sixty Euros gained from currency translation is untaxed under IFRS for SME's while its share of tax 12 Euros is deducted under FAS the end result is thus 12 Euros extra profit under IFRS for SMEs.

Considering the results of the financial statements and the fact that the tell an almost identical financial story of Alpha Tech, one may conclude why is it important to make such a switch in accounting policy if the result would anyway be the same or differ so little that the difference can be over looked. Comparability as has been mentioned repeatedly is the major driver for such a change from our hypothetical scenario we are able compare the two standards but stakeholders would not have the benefit of such information to be informed that the results are almost identical. Apart from comparability on the world financial stage which we knew earlier in the research a major concern of the thesis writer would be the many cases which can result in the figures swaying in opposite directions as a result of conflicting accounting recognition and treatments such as:

Intangible assets – Section 18.4 of the SME standard has clear recognition criteria for intangible assets it could be possible that a firm switching to IFRS for SMEs may have listed intangible assets that may not fit the requirement criteria – internally generated brands, logos, publishing titles, customer lists and items similar in substance, or where probability of future benefits may be less likely. The effect of having a conflict when recognising an intangible asset can be great or small depending on the cost of the asset, but will directly affect the balance sheet. The balance sheet would look more favourable adding value to assets and owners' equity. One can assume the capitalization of research and development of which future benefits do not out match foregone costs. IFRS for SMEs is clear that research and development cost must be expensed. The possibility exists therefore for a firm under FAS to falsely excite banks and financiers by capitalizing intangible assets, rather than expensing them to the profit and loss account.

Valuation of inventories – Since inventories are usually the largest current asset of an entity it is important that their valuation reflect an accurate as possible valuation of the entity. FAS allow inventories to be valued without their inclusive overhead costs. The proper allocation of overhead costs can greatly affect an entity's reported income.

Fair value measurement as opposed to historical cost – one of the major differences between FAS and IFRS for SMEs is the method of valuation where FAS is historical cost based while IFRS for SMEs is market cost based. The difference in the use of the two cost measurement to value assets can be significant and the fact that the finance and accounting world is divided as to which of the two is best offers no consolation. With historical cost assets may be under or over valued in the balance sheet as the historical cost may not reflect actual worth of the asset, in short the end result would mean under or over estimating the actual worth of the business which can be by a significant amount. On the other hand, market valuations tend to vary and an improper valuation, manipulation of asset values are possible with fair value method of valuation. An entity has to be vigilant therefore that when switching to IFRS for SMEs it ensures its assets are reliably valued and the opportunity to use fair valued is not exploited to falsely project the financial statements to be more attractive that they actual are.

9.2 Standards not covered

IFRS for SMEs has 27 sections. The thesis; by focusing on sections 4 statement of financial position and section 5 comprehensive income and income statement, has touched many sections of the standard. The majority of untouched standards are linked to the demarcation of the thesis, theses are: statement of changes in equity and statement of in-

come and retained earnings (section 6), statement of cash flows (section 7), Investments in Associates (section 14), investments in Joint ventures (section 15).
Some standards were related to transactions but were not spoken in the thesis these are: investment property (section 16), accounting policies estimates and errors (section 10). Revenue (section 23) was covered; but examples of review recognition such as Government grants (section 24) and Borrowing costs were not covered in this thesis.
The thesis does not take an in-depth approach to the sections covered except sections 4 and 5 and hence focused on preparing the statements of section 4 & 5 and not on rewriting the IFRS for SME standard.

9.3 Project Evaluation

I had planned to complete my thesis in three months, I felt at the time it was a realistic forecast. All things did not remain equal in my personal life, which affected my thesis writing immensely. Once the project went over the deadline I knew project timeline would have been doubled as summer holidays were already planned. I chose IFRS for SMEs as I was intrigued about IFRS and had little knowledge on the topic I felt writing my thesis on the topic could build the needed foundation for a career path.

I found out IFRS for SMEs was a very broad topic. with a vast amount of information to filter while FAS was unpopular and found few article and books on the topic.
The thesis topic was entailed so much that at times I felt the work was expanding out instead of coming closer to a close. I felt the IFRS for SMEs standard contained a lot of information to research as a result drastic cuts were made.

The thesis developed my knowledge of the different standards, I was able to understand the differences between the two standards and most importantly what IFRS for SMEs require SMEs to do to adopt the standard.

9.4 Recommendations

It is recommended that SMEs, who are interested in applying IFRS for SMEs, be aware of their assets and liabilities; as IFRS is clear on what they should be, companies can refer to the IFRS standard. It is important to plan the transition carefully though it requires little to do the transition a lack of understanding of the requirements and treatments can lead to non-compliance with the standard. It is highly recommended to read section 10 of the standard; accounting policies estimates and errors – the section gives guidance when selecting and applying accounting policies.

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11 Appendices 1

IFRS Handbook for SMEs in Finland

About the guide

This Handbook is a guide to assist users of IFRS for SMEs complete their financial statements namely; Statement of Financial position and Statement of Comprehensive Income statement. It should be noted that this handbook does not cover all the required financial statements an entity would be required to produce under IFRS for SMEs.

This Document in no way is intended to replace the IFRS for SMEs guide but could be used as an extra to the guide. This document is aimed at Finnish SMEs who would like to produce their Financial Statements under IFRS for SMEs as a result comparison and reference to the Finnish Accounting Standard will be made.

This Handbook is prepared as part of a bachelors Thesis (product -based thesis) of which the handbook is the final product. In order to expand on the concepts, the author expresses in this guide one can read the thesis to which this guide belongs.

Who could use this Handbook?

- Adopters of IFRS to SMEs
- Finnish SMEs or anyone desirous of understanding the difference Between FAS and IFRS for SMEs

IFRS for SMEs

IFRS for SMEs is a Standalone standard – independent of full IFRS, applicable to all non-public entities, i.e. Entities who are not required to file financial statements with a securities commission or another regulatory organization and does not issue shares in a public market.

Prior to IFRS for SMEs, private companies found it difficult and costly to prepare their accounts in compliance with full IFRS. It was noted by the International Accounting Standards Board (IASB) that the Financial Statement focus of private entities differed from those of public listed companies. IFRS for SMEs was created to reduce the costliness and improving the benefits for preparers. (Ende 2009, 7)

The development of IFRS for SMEs started back in 2001 when IASB launched a project aimed at suitable standard for SMEs. The International Accounting Standards Board (ISAB) felt the need to address issues related to emerging markets and SMEs, the initiative got support from IASC Foundation (IFRS foundation). In June 2004 a discussion which welcomed comments was published. By January 2005 comments raised were considered and an exposure draft was published. In order to gain further information pertaining to omissions and simplifications, responses were then deliberated on by IFRS advisory council. By 2007 IASB had published an exposure draft which proposed five simplified versions of full IFRS. From March 2008, it took IASB 13 months to re-deliberate exposure draft based on responses and the findings of a field test carried out in 2007. After nine years of deliberation, testing and modifications a final version of IFRS for SMEEs was issued in July 2009. (IFRS FOR SMEs in your pocket 2010)

Hypothetical Scenario

In order to illustrate the accounting required for the transition that falls within the perimeter of this thesis a fictional company was invented creating a hypothetical situation of a company whose financial statements were prepared under the Finnish Accounting Standard and is now transitioning to International Financial Reporting Standards for small and medium sizes entities.

Alpha Tech

Alpha Tech is a Finnish company, which builds microchips by using fabless manufacturing. The company outsources the fabrication of the chips to a semi-conductor factory located in China.The company specializes in the production and sale of two types of chips microchips for animals one, which includes data about the pet owner, and one, which is used just to track the animal.

The company’s trade takes place mainly in the Caribbean as a few countries in the region has recently introduced compulsory tracking for animals; these countries are Guyana, Trinidad & Tobago and Barbados. The company has the sole rights to deliver to the Guyanese market. The company sells directly to public veterinary clinics that are presently solely authorized to insert the chips into animals.

Alpha tech started trading in 2013 with its first financial year running from 1st January 2013 to 31 December 2013. The company is now trying to expand into markets that are more competitive and as a result would like to prepare statements according to IFRS for SMEs The Financial Statements of alpha tech 2015 have been first prepared according to FAS which is then followed by statements produced according to IFRS for SMEs

PROFIT AND LOSS ACCOUNT	Notes	2014		2015	
Net turnover			216000		200000
Cost of goods sold			-250		-200
Gross margin			215750		199800
Selling and marketing exp.	3	-4000		-3000	
Depreciation of Fixed asset	10	-1000		-1000	
Administrative exp.		-15000		-15000	
Other operating income	4	7000		4400	
Other operating charges	5	10500		-16250	
			-22500		-29850
Operating profit			193250		169950
Financial expenses	7		-350		-300
Reduction in value of non current asset	8		0		-300
Other financial income	9		173		60
Profit before tax reserves and taxes			193073		169410
			192073		168410
Income taxes			38414,6		33682
			153658,4		**134728**

NOTE 1
Basis of accounting
This financial statement is prepared according to the Finnish Accountng Standards.
NOTE 2
Number of employees
The company has a total of two employees.

NOTE 3
Selling and marketing expenses
These are mainly advertising expenses for the year.
NOTE 4
Other operating income
Other operating income is made up of rent income and income from sale of equipment.
NOTE 5
Other operating charges
This consists of six different items namely:insurance, lighting and heating,loss on lawsuit,fuel, telephone and internet and stationery.
NOTE 6
Financial expenses
This represents the amount of interest paid on loans contracted.
Note 7
Reduction in value of net current assets
This is as a result of impairment losses recorded during hte financial year
NOTE 8
Other financial income
This is an income resulting from currency translations.
NOTE 10
Basis of depreciation
Fixed assets of the company are depreciated using the straight line method.

BALANCE SHEET 2014

ASSETS		LIABILITIES	
NON-CURRENT ASSETS		**CAPITAL AND RESERVES**	
Land and buildings	39000	Accounts payables	4000
Office equipment	1500	Notes payables	4000
Motor van	8000	Accrued salaries	10000
Furniture and fittings	6000	Total current liabilities	18000
sole right	15000	Non-Current Liabilities	
Machinery and equipment	15000	Deffered income tax	2500
Total non-current assets	84500	Actuarial loss	500
		Provision for doudtful debt	4000
		Total non current liabilities	7000
		Total liabilities	25000
CURRENT ASSETS		**Equity**	134728
Cash and cash equivalents	11000	Retained earnings	12
Bank certificate of deposit	6400		
Treasury bills	20000		
Accounts receivables	6000		
Rent prepaid	1000		
Insurance prepaid	500		
Inventories:			
Raw materials	5340		
Finished goods	10000		
Work in progress	15000		
Totatl current assets	75240		
Total assets	159740	Total liabilities and equity	159740

BALANCE SHEET 2015

ASSETS		**LIABILITIES**	
NON-CURRENT ASSETS		**CAPITAL AND RESERVES**	
Land and buildings	39000	Accounts payables	4000
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Totatl current assets	75240		
Total assets	159740	Total liabilities and equity	159740

note 11

Cash and cash equivalents

The company holds securities in the form of money market fund on the London Stock Exhange with maturity dates not exceeding three months.

Note 12

This is a three month government of Guyana treasure bill purchased from Bank of Guyana.

Note 13

Certificate of deposit

This is a one year fixed interest rate deposit with Bank of Nova Scotia at an interest rate of 3% per annum and a penalty of two months of interest earnings.

Note 14			Accumulated depreciation	
Machinery Land and Building	Cost	Additions /	and Amorti	Net book value
Land and buildings	10300		300	10000
Office equipment	1400	400	400	600
Motor van	9600		1600	8000
Furniture and fittings	6800		800	6000
Patent	6000		1000	5000
Machinery and equipment	6800	-300	1500	5000
Total non-current assets	40900		5600	34600

machinery and equipment suffered an impairment loss of -300

STATEMENT OF COMPREHENSIVE INCOME
by nature of expense

		As at 31 December			
	notes		**2014**		**2015**
Revenue			216000		200000
Other income/Loss:	1,9				
Rent income		6000		4000	
Gain on sale of equipment		1000		400	
Impairment loss	1,5	0		-300	
			7000		4100
Changes in inventories	5		-250		0
Insurance			5000		5000
Wages and salaries			15000		15000
Depreciation expenses	6		1000		1000
Lighting and heating			3300		3600
Adversting expenses			4000		3000
Interest expenses			350		300
Loss from lawsuit			0		6500
Fuel			700		200
Telephone and internet			900		600
Stationery			600		350
Profit before income tax			191900		**168550**
Income tax expense			38380		33710
Profit after income tax	3		153520		**134840**
Other comprehensive income:					
Currency translation gain	4		173		0
Comprehensive income for the year			**153693**		**134840**

STATEMENT OF FINANCIAL POISTION

	NOTES	AS at 31st December 2014	2015
ASSETS			
Current Assets			
Cash and cash equivalents	8	16000	11000
Bank certificate of deposit	10	10000	6400
Treasury bills	9	22000	20000
Accounts receivables	1,3	10500	6000
Rent prepaid	11	1000	1000
Insurance prepaid		500	500
Inventories:	1,4		
Raw materials		6500	5340
Finished goods		8593	10000
Work in progress		15000	15000
Totatl current assets		**90093**	**75240**
Non-current assets			
Land and buildings	6	35000	39000
Office equipment	6	1100	1500
Motor van	6	11200	8000
Furniture and fittings	6	7600	6000
Sole right	1,7	7000	15000
Machinery and equipment	6	16800	15000
Total non-current assets		**78700**	**84500**
Total assets		**168793**	**159740**
Liabilities			
Current Liabilities			
Accounts payables	1,6	2000	4000
Notes payables		1500	4000
Accrued salaries		10000	10000
Total current liabilities		**13500**	**18000**
Non-Current Liabilities			
Deffered income tax	1,2	1000	2500
Actuarial loss		0	500
Provision for doudtful debt	1,8	600	4000
Total non current liabilities		**1600**	**7000**
Total liabilities		**15100**	**25000**
Equity		**153693**	**134740**
Total liabilities and equity		**168793**	**159740**

Reconciliation of Profit and loss for the year ended 31 December 2014

Notes		FAS	Transition	SMEs
		€	€	€
1	Net sales	216000	0	216000
2	Cogs	-250	0	-250
	Gross Profit	215750	0	215750
3	operating expenses	-35250	0	-35250
	operating profit	180500	0	180500
	fair value of financial assets	84500	0	84500
4	Financial expenses	-350	0	-350
	profit (or loss) for the period	84150	0	84150

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1.

Summary of Significant accounting policies

Alpha Tech's Finacials statments have been preparid according to International Financial Reporting Standards for Small and medium size enterprises.

Note 1.1

Basis of presentation

This Financial Statement has been prepared according to the historical cost convention

Note 1.2

Currency Translation

The Financial Statments of Alpha Tech are presented in Euros. Therefore any transactions with external parties outside the eurozone are converted into euros using the current exchage rate.

Note 1.3

Trade Receivables

Sales to credit customers are recognised using the realisation concept, but adjustments to the accounts receivables are made to reflect the propotion of doubtful debts associated with them

Note1.4

Inventories

Closing inventories are recorded at cost or selling price whichever is lower after dedction of completion cost. The inventories are valued usining the weighted average method

Imprement losses associated with the inventories are also taken into consideration in their valuation

Note 1.5

Machinery, Land & Buliding

Machinery land and building are recorded at their historical cost less accumulated depreciation, their historical cost also include cost of accqusition installation and insurance.

Imparement losses are equally accounted for in determining their values over time. During the year an impairment loss arose out of sale of the company's machinery to the tune of 300.

Note 1.6

Trade Payables

debit purchases from suppliers are recognised using the realisation concept, but adjustments to the accounts payable are made to reflect the propotion of doubtful debts associated with them

Note 1.7

Intangiable assets

Patent

the company holds a technological patent, for a advanced design of a microship which can work as a tracker and can also be used to monitor similar chips within a certain radius

NOTES TO THE FINANCIAL STATEMENTS

Note 1.8

Provisions

Provisions for doubtful debts are claulated at 2.5% of the current years account receviable. 200 € of doubtful debt belongs to the previous year accounts receivable while the the remaining balance belongs to the current year.

Note 1.9

Other Income / Loss

Rental income

The company owns equipment that is usually leased for a fee.

gain on sale of Equipmemnt

The company had obselete equipment which was disposed of at an amount exceeding its netbook value

loss on sale of machinery

The company disposed of obselete machinery at an amout below its netbook value

Note 1.10

Deferred tax

The deferred tax represents the remainder of last year's coperate tax liability.

Note 2

Transition to IFRS for SMEs

Alpha Tech's Financial statement for the year ending 31 December 2015 was the company's first time application of IFRS for SMEs.

The transition date of the company was 1st Janurary 2014

Note 3

EQUITY:

Profit for the year	134680
Currency translation difference	60
Equity at the end of the year	134740

		2015	
NOTE 4	ITEMS	EXCHANGE	VALUE
Value of raw materials imported	500 @ 1.01 USD	1 EUR = 1.6	313
Amount paid to suppliers at year end	500 @ 1 EUR = 1.98 USD		253
Currency translation difference			60

		2014	
	ITEMS	EXCHANGE RATE	VALUE
Value of raw materials imported	800 @ 1.0!	1 EUR = 1.4 USD	571,4285714
Amount paid to suppliers at year end	800 @ 1 EUR = 2.01 USD		398,0099502
Currency translation difference			173,4186212

NOTE 5	2015	2014
Previous ending inventory	600	350
Current ending inventory	800	600
Changes in inventory	-200	-250

NOTES TO THE FINANCIAL STATEMENTS

Note 6

Machinery Land and Building	Cost	Additions /	Accumulated depreciation and Amorti:	Net book value
Land and buildings	10300		300	10000
Office equipment	1400	400	400	600
Motor van	9600		1600	8000
Furniture and fittings	6800		800	6000
Patent	6000		1000	5000
Machinery and equipment	6800	-300	1500	5000
Total non-current assets	40900		5600	34600

Note 7

income tax

Profit before income tax	168350
Income tax expense	33670
Deffered income tax	2500

Note 8

Cash and cash equivalents

The company holds securities in the form of money market fund on the London Stock Exhange with maturity dates not exceeding three months.

Note 9

This is a three month government of Guyana treasure bill purchased from Bank of Guyana

Note 10

Certificate of deposit

This is a one year fixed interest rate deposit with Bank of Nova Scotia at an interest rate of 3% per annum and a penalty of two months of interest earnings.

Note 11

Rent prepaid

This represents an advance payment for rent for two months.

Date of Transition

The beginning of the earliest period for which full comparative information is presented incompliance with IFRS for SMEs and its financial statements are prepared in accordance with IFRS for SMEs.

If a company wishes to produce its financial statements according to IFRS for SMEs for the year ending 20x5:

- Reporting date would be 31 December 20x5
- Comparative information should be prepared at least from1st January 20x4 (unless the period 1st January – 31st December was the entities' first year of existence.)
- Date of transition would therefore be 1st January 20x4

Providing the entity provides two years' comparable information comparative information would be from 1st January 20x3 and the transition date will also be 1st January 20x3.

Presentation of Financial Statements

Information about the presentation of financial statements when using IFRS for SMEs can be found in the 3rd section of the standard statements should be prepared:

- as a Going concern (accrual basis as FAS and full IFRS)
- so it can be clearly identified from other published documents,
- clearly display the name of the reporting entity
- so as to clearly state whether it is for a group of companies or an individual company
- to provide information about the reporting period
- stating the currency and level of rounding used (IAS PLUS 2015)

First time adopters

A first time adopter to IFRS would be an entity which presents its first annual financial statements in compliance with IFRS for SMEs. If an entity produces its first set of financial statements which compiles to IFRS for the year ending 20x5 and for the years ending 20x6 and 20x7 it produces statements in compliance with FAS but then in 20x8 produces statements in compliance with IFRS for SMEs it cannot be considered a first time adopter. An entity can be a first time adopter only once. (IFRS Foundation, 4, 2011)

An entity must disclose comparable information (a complete set of financial statements) which is at the date of transition. Disclosed must be information of previous period's monetary amounts stated in the financial statements along with accompanying notes and descriptive information. After it has been determined that an entity is a first time adopter and the date of transition is clear the entity would then need to prepare:

Opening statement of financial position at date of transition

This statement is produced at the beginning of the earliest accounting period when IFRS for SMEs is being used in our Scenario Alpha Tech's Date of Transition would be 1st January 2014. The opening statement of financial position will also address all required changes in accounting policies which resulted from the transition to IFRS for SMEs.

Exclusions to the opening statement

- De-recognition
- Hedging accounting
- Discontinued operations
- Measuring non-controlling Income

Preparation

- All recognizable assets and liabilities must be recognized as is required by IFRS for SMEs
- Do not recognize items as assets and liabilities if IFRs for SMEs do not recognize them as such.
- Items previously recognized as assets and liabilities or component equity but are classified differently under IFRS for SMEs should be reclassified
- Apply IFRS for SMEs in measuring all recognized assets and liabilities

In cases where an asset is treated, or recognized, differently the necessary adjustments must be made except it conforms to an exception stated in paragraphs 35.9-35.11 of the transition guide.

Exemptions for first time adopters

First time adopters can:

1. **Not apply** Section 26 **Share-based payment** transaction providing that equity instruments were granted before the date of transition the entity is not obliged to apply section 26 of the IFRS for SMEs standard.

2. Choose to measure a fixed asset or intangible asset at its **fair value** and set that value **as deemed cost** on the date of transition.

3. Use a previous standard in the **revaluation** fixed assets or an intangible asset at or before the date of transition **as its deemed cost**.

4. **State Translation difference as zero** at the date of transition

5. **Keep** the components of **compound financial instruments inseparable** providing that the liability component is not out standing at the date of transition.

6. **Choose not to recognize deferred tax** whether **assets or liabilities** which result from differences between tax basis and the carrying amount of the asset or liability if recognition would result in undue cost and or effort.

7. Choose **not** to **apply** paragraphs 34.12-34.16 (**service concession arrangements**) providing that the concession arrangements were entered into before the transition date.

8. Choose to **measure oil and gas assets** used in exploration and evaluation or production **at** the **value determined by the previous accounting standard** used if its cost accounting is done under the old standard, however the assets should be tested for impairment at the date of transition.

9. **Determine whether a lease arrangement exists** at the date of transition as arrangements such as outsourcing which conveys right to use the asset in return for

payment. Such arrangements should be accounted for in accordance with Section 20 of IFRS for SMEs

10. **Recognize decommissioning liabilities** (cost associated with dismantling and removing a fixed asset) **at the date of transition** as opposed to the date the cost was incurred. Recognition at Date of transition would require a historical cost record of changes done to the liability. And adjustment to the recorded cost for property plant and equipment at acquisition.

Disclosures needed

An explanation of the effects the transition to IFRS for SMEs has on the entity's reported financial position, performance and cash flow.

In explaining the effects of IFRS for SMEs the first financial statement must:

Describe the nature of the change in accounting policy.

Reconcile equity determined under the previous accounting standard with equity determined under IFRS for SMEs at date of transition and also at the end of the latest period presented in its most recent annual statement which was prepared under the previous accounting standard.

Reconcile profit or loss under its previous accounting standard for the latest period in the entity's most recent annual financial statements to profits and loss determined under IFRS for SMEs for the same period.

All the above disclosures must be done in order for an entity whose first financial statements are being prepared according to IFRS for SMEs to be fully compliant with IFRS for SMEs.

References

KHT-Media .2012. Introduction to Financial Statements in Finland.5th edition.Bookwell Oy.

Soile Tomperi .2014. Käytännon Kirjanpito.bookwell Oy.

IFRS Foundation 2009. Module 35 – Transition to the IFRS for SMEs