

# A comparison of Irish GAAP and the IFRS for SMEs

(Small and Medium-sized entities)



**Note:** This publication is for those who wish to gain a broad understanding of the significant differences between ‘International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)’ and Irish GAAP. It is not comprehensive. It focuses on a selection of those differences most commonly found in practice. When applying the individual accounting frameworks, companies should consult all of the relevant accounting standards and, where applicable, national law.

While every effort has been made to ensure accuracy, information contained in this publication may not be comprehensive or may have been omitted that may be relevant to a particular reader. In particular, this publication is not intended as a study of all aspects of IFRS for SMEs, or as a substitute for reading the standards and interpretations when dealing with specific issues. No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication can be accepted by PricewaterhouseCoopers. Recipients should not act on the basis of this publication without seeking professional advice.



## Welcome

This guide aims to provide a broad understanding of the significant differences between 'International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)' and Irish GAAP. It focuses on a selection of those differences most commonly found in practice.

Companies should start planning and working on the basis that the ASB will require adoption of IFRS in Ireland, either full IFRS or based on the SME standard, by 2012. While this may seem a long way off companies should start thinking about this now. The opening balance sheet for December year ends will be as at 1 January 2011, which means that related conversion decisions need to be made in 2010.

To discuss the impact that these developments will have on your entity's financial statements please call your usual PwC contact, Fiona Hackett (+353 1 792 5413) or myself (+353 1 792 8563). I do hope you find this guide useful.

Visit us at @ [www.pwc.com/ie/ifrsforsme/](http://www.pwc.com/ie/ifrsforsme/) for more information.

Kind regards

A handwritten signature in black ink that reads "Irene O'Keefe". The signature is written in a cursive, flowing style.

Irene O'Keefe  
IFRS for SMEs Partner

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## IFRS for SMEs – is this the future of Irish GAAP?

Current proposals from the Accounting Standards Board (ASB) in the UK, would see Irish and UK GAAP as we currently know it cease to exist by 2012 and be replaced by the IASB's IFRS for SMEs for a large number of private entities.

The proposals would introduce the following three-tier reporting structure as the future of UK and Irish GAAP;

### Tier One

All Irish and UK entities that are 'Publicly Accountable' would use **EU adopted full IFRS**, for their consolidated and individual accounts. All listed companies would be deemed to be publicly accountable, however the definition of 'public accountability' would also typically include banks/deposit-takers, insurance entities, many investment funds and credit unions;

### Tier Two

All Irish and UK non-publicly accountable companies above the small threshold would use the IASB's (International Accounting Standards Board) recently issued **IFRS for SMEs**;

### Tier Three

Small companies that are not publicly accountable would use the ASB's **FRSSE** (Financial Reporting Standard for Smaller Entities). Within the three-tier structure entities would have the option to 'opt-up' to a higher level. Tier three entities could elect to prepare their financial statements using FRSSE, IFRS for SMEs or full IFRS. Tier two entities could elect to prepare their financial statements using IFRS for SMEs or full IFRS.

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## Who is the standard intended to apply to?

The proposals would mean that a number of private companies in Ireland that are considered to be publicly accountable, and therefore included in Tier One, would be faced with transitioning their financial statements to full IFRS.

Under the proposals an entity is deemed to be publicly accountable if;

- i. its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; or
- ii. it is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities broker/dealer, mutual funds or investment banks.

The proposed structure doesn't contain a size threshold in the definition of 'public accountability', therefore a number of companies such as credit unions and investment funds that currently use Irish GAAP may have to prepare their financial statements in accordance with full IFRS.

A significant number of Irish private entities (including subsidiaries of listed companies) would fall into Tier Two of the proposed three tier structure, which would see them transitioning to the IASB's IFRS for SMEs by 2012.

The name IFRS for SMEs is somewhat misleading. A number of private companies with multi-billion Euro balance sheets that aren't publicly accountable could potentially use the IFRS for SMEs to prepare their financial statements.

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## What does the standard mean for Irish private companies?

For many private entities in Ireland adoption of the IFRS for SMEs would present a challenge. Compared to Irish GAAP there is potentially a number of measurement differences and additional disclosure requirements. As was the case when “full” IFRS was introduced in 2005, the effect on tax and distributable profits will be among the main issues that companies need to consider. Preparing financial statements in accordance with the IFRS for SMEs would see a large number of Irish entities coming to terms with a very different ‘look and feel’ for their financial statements.

For these companies, we set out overleaf a summary some of the key differences between existing Irish GAAP and the proposed new approach based on the IFRS for SMEs.

However, this is not the only option. An alternative is to adopt full IFRS. This may seem less obvious but it is worth considering, especially in the following cases:

- Subsidiaries that are consolidated into financial statements prepared in accordance with full IFRS. If implemented as currently drafted the ASB’s proposals would not allow subsidiaries to combine the full IFRS accounting measurements with SME disclosure reductions. As a result some subsidiaries might choose to adopt full IFRS in their individual financial statements so they can use measurements consistent with those used for group reporting and thereby avoid preparing two sets of numbers.
- Companies that want to retain certain treatments or options. The simplifications of the IFRS for SMEs are helpful overall, but they preclude certain treatments that companies might want to use. Examples are capitalisation of borrowing costs and development expenditure, and the measurement of property, plant and equipment at fair value are not allowed as accounting policy options in the IFRS for SMEs.

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## **What do Irish private companies need to do?**

With the ASB's consultation paper on the future of UK and Irish GAAP recently issued it would be prudent for companies to consider how the proposals may impact their financial statements and to perhaps get involved in the ASB's consultation process. The ASB has asked for comments on its proposal by 1 February 2010.

Companies should start planning and working on the basis that the ASB will require adoption of IFRS in Ireland, either full IFRS or based on the SME standard, by 2012. The year 2012 may seem a long way off but companies should start thinking about this now. The opening balance sheet for December year ends will be as at 1 January 2011, which means that related conversion decisions need to be made in 2010.

To discuss the impact that these developments may have on your financial statements, please contact your usual PwC contact or Fiona Hackett (01 792 5413) or Irene O'Keeffe (01 792 8563).

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## Differences between existing Irish GAAP and IFRS for SMEs

Some of the significant recognition and measurement differences – and therefore likely transition adjustments – that arise between current Irish GAAP and the IFRS for SMEs are outlined below.

Existing Irish GAAP	IFRS for SMEs
<b>Tangible fixed assets</b>	
Choice of carrying at historical cost or valuation, in each case less accumulated depreciation and impairment losses.	Carried at historical cost less accumulated depreciation and impairment losses. No option to revalue.
<b>Goodwill</b>	
Capitalised and amortised over useful life, though this could be indefinite. Rebuttable presumption of 20 years maximum life for goodwill.	Goodwill amortised and assumed to have a finite life, with a default period of 10 years if the useful life cannot be estimated reliably.
<b>Intangible assets</b>	
An intangible asset generally has to have a readily ascertainable market value before it can be recognised – rare in practise and usually subsumed in goodwill.	Intangibles are recognised if they are identifiable, not internally generated and cost or fair value can be measured reliably – increased recognition of intangible assets such as brands.
Intangibles may in some circumstances have indefinite lives.	All intangibles are amortised.
<b>Development costs</b>	
Choice of either capitalising development expenditure that meets certain criteria or recognising such expenditure as an expense.	All development costs are expensed.

Existing Irish GAAP	IFRS for SMEs
<b>Borrowing costs</b>	
Choice of capitalising finance costs that are directly attributable to the construction of a tangible fixed asset or recognising such finance costs immediately in the profit and loss account.	All such finance costs are expensed.
<b>Consolidation, acquisitions and mergers</b>	
Depending on circumstances either acquisition or merger accounting is applied.	Purchase method is applied to all acquisitions (slightly different to acquisition accounting). Merger accounting is not permitted.
Exemption from consolidation for small and medium sized groups.	No exemption from consolidation on the basis of size.
<b>Joint venture and associate accounting</b>	
Equity accounting (gross equity method for JVs).	Choice of (1) the cost method, (2) the equity method and (3) fair value through profit and loss account.

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## Differences between existing Irish GAAP and IFRS for SMEs

Existing Irish GAAP	IFRS for SMEs
Deferred tax	
Uses a 'timing difference' approach to calculating deferred tax. Timing differences are calculated by comparing amounts included in the profit and loss account to amounts included in the tax return. Discounting is permitted.	Conceptually different: IFRS for SMEs employs a 'temporary difference' approach to calculating deferred tax (although not the same as in full IFRS). Temporary differences are calculated by comparing carrying values of assets and liabilities in the balance sheet to their tax bases. Discounting is not permitted.
Employee benefits	
Covers retirement benefits. Requires projected unit credit method for defined benefit schemes.	Wider scope – all employee benefits. For defined benefit pension schemes, requires projected unit credit method, assuming the information is available without undue cost or effort. In rare circumstances where such information cannot be obtained without undue cost or effort, there may be provision for measuring pension scheme liabilities excluding the impact of future salary progression, future service or possible mortality during an employee's period of service.
Actuarial gains and losses are recognised outside P&L.	Choice of recognising actuarial gains and losses on the defined benefit obligation immediately in either the profit and loss or in 'Other comprehensive income' (IFRS equivalent of the STRGL).

Existing Irish GAAP	IFRS for SMEs
<b>Financial instruments</b>	
<p>Depends on whether entity has adopted FRS 26, 'Recognition and measurement' (the equivalent of IAS 39, 'Financial instruments: Recognition and measurement'). For most companies cost less impairment is the predominant measure.</p>	<p>Accounting for financial instruments under IFRS for SMEs is the only section of the standard for which there is a fall-back to the recognition and measurement principles of full IFRS, allowing entities a choice of applying the rules set out in IFRS for SMEs or applying the presentation, recognition and measurement requirements of IAS 32, 'Financial instruments: Presentation', and IAS 39, and providing the disclosures required by IFRS 7, 'Financial instruments: Disclosures'.</p> <p>The IFRS for SMEs rules have two categories of financial instruments; 1) Basic financial instruments (e.g. cash, trade receivables and 'plain vanilla loans') adopt a cost-based method. 2) 'Complex financial instruments' (for example, derivatives such as forward foreign exchange contracts or interest rate swaps) are accounted for at fair value.</p>
<b>Revenue</b>	
<p>Limited guidance.</p>	<p>More detailed guidance, although unlikely to give rise to significant differences for most companies.</p>
<b>Cash flow statement</b>	
<p>Requirement for a cash flow statement but with certain exemptions e.g. for 90%+ subsidiaries. Presents movements in cash.</p>	<p>All entities are required to present a statement of cash flows. Presents movements in cash and cash equivalents.</p>

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