

IFRS for SMEs General, Issue 2

Interpretation of 'undue cost or effort' and 'impracticable'

Draft Q&As are published by the SME Implementation Group (SMEIG), which assists the IASB¹ in supporting the implementation of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the Implementation Group by users implementing the *IFRS for SMEs*.

The SMEIG invites comments on whether the proposed Q&A provides useful and sufficient guidance on the matter.

Comment deadline: 30 November 2011.

Comments must be submitted electronically via the IASB's website: <http://go.ifrs.org/IFRS+for+SMEs+QandA>.

Comment documents should state the name and address of the organisation or individual submitting the comment (and, if an organisation, the name of a contact person), and a contact email address.

All comments will be posted on the IASB's website.

Issue

- 1 Several sections of the *IFRS for SMEs* contain 'undue cost or effort' and 'impracticable' exemptions in relation to certain requirements. How should these be interpreted?

Response

- 2 'Impracticable' is defined in the *IFRS for SMEs* as follows: 'Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'. 'Impracticable', therefore, generally only covers situations where information is unavailable, for example where data, that has not been collected at the time of an event, is impossible to create at a later point, rather than situations where the data could be obtained but it would be expensive or time consuming to do so.
- 3 'Undue cost or effort' is deliberately not defined in the *IFRS for SMEs* as it will depend on the SME's specific circumstances and management's professional judgement in assessing the costs and benefits. That assessment should include a consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. Applying a requirement would result in 'undue cost or effort' because of either excessive cost (eg through valuers' fees) or excessive endeavors by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information. Assessing whether a requirement will result in 'undue cost or effort' should be based on information available at the time of the transaction or event about the costs and benefits of the requirement.
- 4 Where 'undue cost or effort' is used together with 'impracticable', this should be applied in the same way as 'undue cost or effort' on its own. 'Undue cost or effort' is used either instead of, or together with, 'impracticable' for certain requirements in the *IFRS for SMEs* in order to include cost or burden as factors to take into account when deciding whether to obtain or determine the information.

¹ International Accounting Standards Board (IASB)
The IASB is the independent standard-setting body of the IFRS Foundation

- 5 To include an exemption for impracticability alone would mean that an SME would be required to follow the requirements if it is possible to obtain or determine the information, regardless of the cost or effort required. For example, an SME would be expected to engage a valuer, actuary or other professional to make a particular measurement, regardless of the cost, provided the valuer expects to be able to develop a reliable valuation of the asset.

Basis for Conclusions

- BC1 Impracticable is defined in the *IFRS for SMEs* in the same way as under full IFRSs. The definition refers to effort, but not to cost. Therefore, some people have concluded that if the data required in order to apply a principle in an IFRS can be obtained, an entity must do so regardless of cost.
- BC2 It could be argued that ‘every reasonable effort to do so’ would not include spending excessive resources in order to comply with a requirement. However, enquiries to the IASB concerning the difference between ‘impracticable’ and ‘undue cost or effort’ suggest that the *IFRS for SMEs* is not clear as to whether cost alone would render a requirement impracticable.
- BC3 The inclusion of ‘undue cost or effort’ for certain requirements in the *IFRS for SMEs* is intended to clarify that cost is a consideration when applying that requirement. Although there is no direct reference to benefits in the term, in order to assess whether cost and effort is ‘undue’ SMEs would have to make an assessment of how important the information is to users.

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30 Cannon Street | London EC4M 6XH | United Kingdom | Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 7249 | Email: publications@ifrs.org | Web: www.ifrs.org

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