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ANALYSIS OF CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) FOR SMALL AND MEDIUM-SIZED ENTITIES

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Abstract: *Since the publication of the IFRS for Small and Medium-sized enterprises in 2009, significant changes have taken place in the global economy, which contributed to the introduction of changes to this standard in 2015, 2018 and the International Accounting Standards Board opened consultations on the proposed modifications to IFRS for small and medium-sized enterprises. Proposals for the modification of this standard relate to 21 sections out of 35, which comprise IFRS for small and medium-sized enterprises. After analyzing the changes submitted by the International Accounting Standards Board to change this standard, the author suggests a number of modifications to improve this standard. These proposals relate primarily to the reflection of cryptocurrencies in accounting, since there is no official approach to solving this issue to date, the author, having analyzed world practice and theory on this issue, offers a number of solutions.*

Keywords: IFRS, small and medium-sized entity, International Accounting Standards Board (IASB), cryptocurrencies.

JEL Classification: M 41

1 Introduction

According to the IASB, as of 2018, in 89 global jurisdictions, IFRS for small and medium-sized enterprises is applied on a mandatory basis or has been approved for use. Thus, a fairly wide application of this standard, as well as current economic changes and modifications of the full version of IFRS, led to the need for changes by improving the "IFRS for SMEs." First of all, these changes relate to the need to bring the provisions of IFRS for small and medium-sized enterprises and the full version of IFRS into compliance. This is due to the fact that a number of important reporting standards have been published, including accounting for leases and insurance contracts. However, to date, there are different opinions about whether it is necessary to do this, or whether, nevertheless, IFRS for small and medium-sized enterprises should be a lightweight version.

In this regard, the IASB has submitted for consultation a Comprehensive Review of the IFRS for SMEs Standard (*Comprehensive Review of the IFRS for SMEs, 2020*), which consists of three main parts:

- *A - Strategic and general questions,*
- *B - Questions on aligning specific sections of the IFRS for SMEs Standard, and*
- *C - Questions on new topics and other matters related to the IFRS for SMEs Standard.*

Part A details the very approach to the revision of the standard that the IASB has decided to use this time. Part B is, in fact, questions on a number of sections that can be brought more in line with the full version of IFRS and their Interpretations. Finally, Part C is devoted to additional topics that are currently not covered by the “IFRS for SMEs” at all, but could potentially be.

Analyzing the proposed changes, it can be stated that they covered those issues that concern:

- *changes in International Financial Reporting Standards introduced after 2015,*
- *adjustments dictated by the practical experience of implementing "IFRS for SMEs" in practice, and the problems discovered in the process.*

It should be noted that the IASB has focused its attention on changes in International Financial Reporting Standards that came into force before January 1, 2019 or earlier, in order to be able to unify their requirements with IFRS for SMEs. (*IFRS for SMEs, 2021*) Therefore, according to later standards that came into force only this year or did not even come into force at all (even if early application is allowed for them), the International Accounting Standards Board (IASB) did not consider these changes.

2 Analysis and evaluation of proposed changes in IFRS for SME

The main issue for consideration is: the definition of business and the new definition of materiality in connection with the amendments made by IFRS 3 “Business Combinations” and IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, which entered into force on January 1, 2020.

Considering the arguments of supporters of unification and bringing the provisions of "IFRS for SMEs" and the full version of IFRS into compliance, the following can be brought:

- *efficiency, which is that it allows elaborators to base on their own experience gained during the development of standards;*
- *unification of accounting principles, when both IFRS and "IFRS for SMEs" are based on the same principles;*
- *a necessity, because small and medium-sized enterprises themselves and users of their reports are looking for opportunities to compare the informations with larger organizations;*
- *the ability to quickly switch to the full version of IFRS, which sooner or later will happen for any small or medium-sized business conducted efficiently.*

At the same time, the main argument of the opponents of the idea is that SMEs represent a separate category of business with their own unique features, so it is necessary to develop requirements for it separately.

In this regard, the principles underlying the unification of the requirements of the two sets of IFRS standards should be considered:

1. *Relevance for SMEs (for example: changes in the full version of IFRS when it is compiled in accordance with “IFRS for SMEs” are timely and useful for users of financial statements);*
2. *Simplicity,*
3. *Truthful reflection of information (reliance on the economic essence of the phenomenon. If the previous criterion of simplicity leads to a violation of the criterion of truthful reflection, this may negatively affect the quality of information and its benefits, which is unacceptable).*

For example: the standards of IFRS 10 " Consolidated Financial Statements" and IFRS 11 " Joint Arrangements" meet the first two conditions, according to the standards of IFRS 3 "Business Combination" and IFRS 13 " Fair Value Measurement", efficiency assessments were carried out after their entry into force, and but IAS 19 "Employee Benefits" they do not plan to assess the effectiveness of practical application of it.

The IASB eventually settled on the need to make changes to the "IFRS for SMEs", which will affect nine sections of this standard:

- *S1—Section 2 Concepts and Pervasive Principles;*
- *S2—Section 9 Consolidated and Separate Financial Statements;*
- *S3—Section 11 Basic Financial Instruments and Section 12 Other Financial Instrument Issues;*
- *S4—Section 15 Investments in Joint Ventures;*
- *S5—Section 19 Business Combinations and Goodwill;*
- *S6—Section 20 Leases;*
- *S7—Section 23 Revenue;*
- *S8—Section 28 Employee Benefits;*
- *S9—Multiple sections: fair value; and*
- *S10—Multiple sections: amendments to IFRS Standards and IFRIC Interpretations.*

In addition, to bring in line with the amendments to IFRS Standards and IFRIC Interpretations. In this regard, modifications of the following tables of IFRS Standards and IFRIC Interpretations set out in Appendix A are necessary:

- *Table A1—Amendments to IFRS Standards—Board is seeking views on aligning the IFRS for SMEs Standard;*
- *Table A2—Amendments to IFRS Standards—Board is seeking views on leaving the IFRS for SMEs Standard unchanged;*
- *Table A3—Amendments to IFRS Standards and IFRIC Interpretations—Board is requesting further information on whether to align the IFRS for SMEs Standard;*
- *Table A4—Amendments to IFRS Standards—Board will consider along with the full IFRS Standards they amend; and*
- *Table A5—Amendments to IFRS Standards with which the IFRS for SMEs Standard is already aligned.*

Another of the most important points that needs to be reconsidered is the issue of fair value. You should also pay attention to the modifications that need to be made to the "IFRS for SMEs", taking into account the updated version of the "Conceptual Framework for Financial Reporting". This basic document for the IFRS system was updated, and the changes at that time turned out to be significant.

It should be emphasized that the "IFRS for SMEs" were developed on the basis of a much more "ancient" version of the "Framework for the Preparation and Presentation of Financial Statements", which date back - hard to believe - to 1989. Section 2 on concepts and fundamental principles is based on them. And one of the main points in the modification of "IFRS for SMEs"

is to correlate the provisions of this standard with the updated version of the "Conceptual Framework for Financial Reporting".

For example: such a concept as "undue cost or effort" is still in the "IFRS for SMEs", but this definition is not in the "Conceptual Framework for Financial Reporting". This does not necessarily mean that this concept will be excluded even in the case of a positive decision to bring "IFRS for SMEs" in line with the updated version "Conceptual Framework for Financial Reporting". Simply, it can also be implemented in different ways - for example, to change the previous definition of an asset to a new one, but at the same time retain the concept of "undue cost or effort".

Another important topic is the reflection of cryptocurrency transactions in accounting. It is relevant for larger companies and a full set of IFRS, where until recently it remained problematic due to confusion with what exactly crypto assets are - stocks, cash, intangible asset, financial asset or something else. A fairly detailed answer on this topic was given by the IFRS Interpretations Committee, which explained the approaches to accounting for cryptocurrencies from the standpoint of rational logic.

Nevertheless, there have been changes in the Interpretations of IFRS, so this new topic should also be added to the "IFRS for SMEs" standard, but only if it is relevant for small and medium-sized enterprises.

According to the author, in the digital economy, the number of transactions with cryptocurrency will increase. Therefore, information about the organization of cryptocurrency accounting for IFRS for SME must be entered into this standard

3 Conclusion

Analyzing the regulations regarding the organization of accounting of cryptocurrencies in the world, it should be noted that there are no unambiguous recommendations, for example, in such regulatory documents as International Financial Reporting Standards.

Let's consider from the point of view of the provisions of IFRS what are the options for reflecting cryptocurrencies in accounting. It should be noted that the definition of cryptocurrency, which is closest to its economic essence, is given by PwC in such document as: Cryptographic assets and related transactions: accounting considerations under IFRS, so as: «Cryptocurrencies are digital tokens or coins based on blockchain technology, such as Bitcoin. They currently operate independently of a central bank and are intended to function as a medium of exchange». (PwC, *Cryptographic assets and related transactions*, 2019)

International Financial Reporting Standards do not have any standard that strictly deals with the reflection in the accounting of any crypto-currency. In modern economy there are over 1,500 cryptocurrencies and more are being developed, such as: digital coins (Bitcoin, euro coin, etc.) and in some cases, it can be a token.

Different cryptocurrencies have various characteristics, and the reasons for obtaining them must be different, thus, the reflecting in the accounting of such transactions may have different results and consequences. As a result, some conditions for the recognition and evaluation of one type of crypto-currency, which are setting in the accounting policies of the enterprise may not be acceptable to others.

Since cryptocurrency is undoubtedly an asset, the figure below reflects those International Financial Reporting Standards that describe the rules for recording assets.

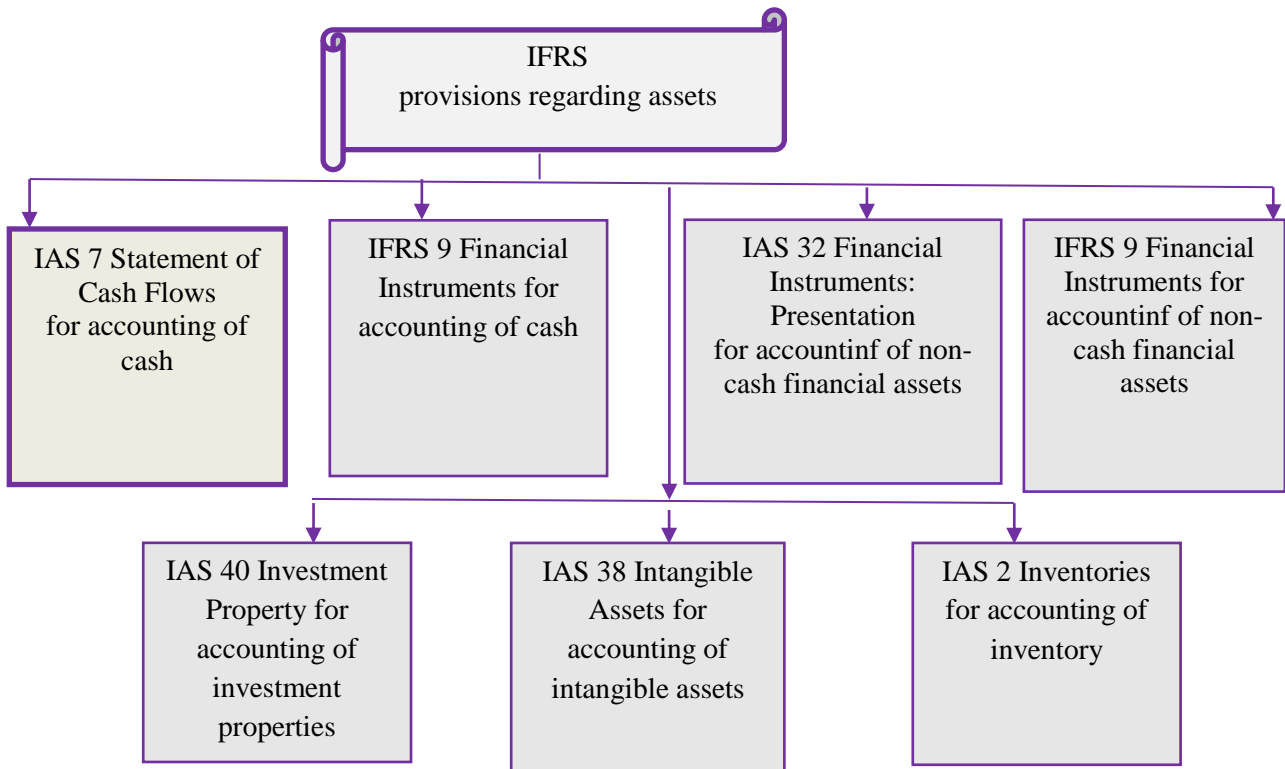


Figure 1. International Financial Reporting Standards, which establish rules for the accounting of assets.

Source: elaborated by author

Such a frame first of all, it is necessary to clarify which of them are relevant to the accounting of cryptocurrencies.

The quintessence of the cryptocurrency is not strictly applicable to the definition of currency, which is setting in IAS 32 “Financial Instruments: Presentation” such as “*currency (cash) is a financial asset because it represents the medium of exchange...* ” (IAS 32, 2001) For example, some cryptocurrencies can not be used as a medium of exchange, they have a limited as means of circulation compared to most traditional fiat currencies. In addition, there are a number of financial institutions that have banned the use of cryptocurrencies, as they represent an increased risk in financial operations.

Cryptocurrencies also do not match to the definition of the cash equivalent as which is “short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”. (IAS 32, 2001)

In most cases, the cryptocurrency is not hold for a short-term period and is aimed at the long-term period. As a conclusion: at the current time, cryptocurrencies can not be recorded as cash or a cash equivalent.

It should be mentioned, that one of the main characteristic of an financial asset is that it’s holder has the contractual right to get cash or another financial asset from another company or to

exchange financial assets or financial liabilities with another company under conditions that are potentially favourable to the holder. Mainly the holder of a cryptocurrency does not have any contractual right, however some contracts such as forward contracts or options to buy or sell cryptocurrencies in the future may meet the definition of a derivative and be subject to financial-instruments accounting.

We offer arguments that may be the basis for the fact that the cryptocurrency can be reflected as intangible assets. IAS 38 "Intangible Assets" defines "an intangible asset as an identifiable non-monetary asset without physical substance" (IAS 38, 2001). It can be stated that cryptocurrencies generally meet this definition and can be recognized as non-monetary assets and are therefore within the scope of IAS 38 "Intangible Assets".

According to the IAS 38's provisions the cryptocurrency can be measured at either cost or at fair value (the revaluation method). Thus, cryptocurrency can be defined as intangible assets with an indefinite service life as indefinite lived intangibles, if there are no factors to indicate a definite useful life.

If the entity will keep records of the cryptocurrency at cost, it must take into account the provisions of the IAS 36 "Impairment of Assets" and records the impairment in the statement of profit or loss. (IAS 36, 2001). To record the cryptocurrency at fair value, it is necessary to have an active market for it, to be able to measure it correctly. The recording under the revaluation method, is more complex: increases in fair value are reflected in other comprehensive income, while decreases are registered on profit or loss.

For the correct determination of the market value of the cryptocurrency, it is necessary to apply the provisions of IFRS 13 "Fair Value Measurement". However, the current application of IAS 38 and the measurement of cryptocurrencies at cost, does not correspond to the economic substance and does not provide relevant information to users of financial statements.

Another important standard that deals with accounting of asset is IAS 2 "Inventories", indeed, its application can be justified if the company holds a cryptocurrency for sale. In accordance with the provisions of IAS 2 "Inventories" cryptocurrencies would be measured at the lower of cost and net realizable value. So as, decreasing in net realizable value would be registered in the statement of profit or loss. (IAS 2, 2003)

This accounting is applicable to "commodity broker-traders those who buy or sell commodities for others or on their own account, for the purpose of selling in the near future and generating a profit from fluctuations in price." They measure inventories of commodities at fair value less costs to sell and changes in value. But this is reflected in the accounting of inventory transactions only for an broker-trader.

It should be noted that Accounting Standards Board of Japan in its issue Accounting for Virtual Currencies proposed to classify cryptocurrencies as a new independent category of assets, it gives the following arguments: *Virtual currencies did not fit into any of the existing categories (ASBJ, Accounting for Virtual Currencies, 2018):*

Characteristics of cryptocurrencies in relation to assets according to Accounting Standards Board of Japan:

- *Foreign currencies* generally refer to fiat currencies, and virtual currencies may have characteristics different from foreign currencies

- *Financial assets-* virtual currencies do not meet the definition of financial assets (other than cash),
- *Inventories held for trading-* virtual currencies are not always held for trading,
- *Intangible assets-* virtual currencies do not have physical substance but intangible assets generally are not intended to be held for trading.

Also, Accounting Standards Board of Japan in its issue Accounting for Virtual Currencies proposed to evaluate the cryptocurrency as follows (ASBJ, *Accounting for Virtual Currencies*, 2018):

- *Initial recognition:* Virtual currencies should be measured at market price at the date they were deposited by the customer,
- *Measurement at the balance sheet date:* Same as virtual currencies held by an entity on its own behalf.

Chartered professional accountants Canada in its issue An Introduction to Accounting for Cryptocurrencies notes that if any company disposes of cryptocurrencies, whether through a barter transaction or simply through trading, the company must determine whether gains or losses are on account of income or capital. (CPAC, *An Introduction to Accounting for Cryptocurrencies*, 2018)

The IFRS Interpretations Committee not long ago published a tentative agenda decision on holdings of cryptocurrencies. In this document for the purposes of its discussion, the Committee considered cryptocurrencies with all the following characteristics:

- *a cryptocurrency that is a digital or virtual currency recorded on a distributed ledger and uses cryptography for security.*
- *a cryptocurrency that is not issued by a jurisdictional authority or other party.*
- *a holding of a cryptocurrency that does not give rise to a contract between the holder and another party. (IFRS ,Holdings of Cryptocurrencies)*

The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

For example: the Committee considers that an entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, IAS 2 applies to that holding. The Committee also observed that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements of IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell.

In accordance with the author's opinion, cryptocurrency being a special kind of asset that is at the junction of long-term and current assets, so for its accounting it is necessary to conduct research and elaborate an International Financial Reporting Standard that would reflect the particularities of operations with cryptocurrency. After the elaboration of the International Financial Reporting Standard in terms of cryptocurrency, these provisions should be reflected in IFRS for Small and Medium-sized enterprises.

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