IFRS for SME

1. What are not the IASB objectives?
   a) to develop and to promote the use and rigorous application a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.
   b) while developing a single set of high quality, understandable and enforceable global accounting standards and promoting their use to take account of the special needs of small and medium-sized entities and emerging economies.
   c) to strive for worldwide use of International Accounting Standards instead of national accounting standards.

2. What is the primary function of IASB?
   a) to develop and publish IFRS.
   b) to develop and publish IFRS and strive for their worldwide use instead of national accounting standards.
   c) to develop and publish IFRS and strive for their convergence with national accounting standards.
   d) to develop and publish IFRS and strive for their worldwide use in general purpose financial statements and other financial reporting.

3. What is the primary objective of IFRS?
   a) IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements.
   b) IFRS provide a set of high quality, understandable and enforceable global accounting standards aimed to replace national accounting standards.
   c) IFRS provide a tool for achieving highest relevance, representational faithfulness, transparency and comparability of accounting information provided by profit-oriented and nonprofit-oriented entities.

4. What are the major differences between IFRS and US GAAP?
   a) Compared to US GAAP, IFRS are more principles-based, objective-oriented and with emphasis on professional judgment.
   b) Compared to US GAAP, IFRS are more rules-based, procedure-oriented with emphasis on best practice.
   c) IFRS are more principles-based, procedure-oriented with emphasis on best practice.

5. Which indicators are used by EC to define small and medium sized entities (SME)?
   a) total value of balance sheet, total turnover, total number of employees during the financial year.

b) net assets, total turnover, total number of employees during the financial year.
c) total value of balance sheet, net turnover, average number of employees during the financial year.
d) net assets, net turnover, average number of employees during the financial year.

6. Which categories of entities can use IFRS for SME?
   a) stock exchange listed entity (i.e. company without subsidiaries).
   b) stock exchange listed parent.
   c) stock exchange listed subsidiaries.
   d) stock exchange not listed subsidiaries.
   e) subsidiaries without public accountability and whose parent uses full IFRS.
   f) entities holding assets in a fiduciary capacity for a broad group of outsiders as their primary function (asset under management – e.g. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks).

7. The objective of general purpose financial statements prepared in accordance with the IFRS for SME is:
   a) to inform government statistics .
   b) to support entity's tax return .
   c) to meet all information needs of all users of entity's financial statements.
   d) to inform economic decision-making by a broad range of users that are not in a position to demand reports tailored to their needs (e.g. investors and creditors) .

8. Which examples of entities have public accountability?
   a) An entity operates two businesses from its premises - banking and retail clothing. Its banking operation takes deposits from the general public in return for a promise to pay to customers the capital plus a return interest for every deposit received from them. The entity uses the funds generated in its banking operation to partially fund its retail clothing operations.
   b) An entity's shares are not listed on a stock exchange but do trade 'over-the-counter' and the over-the-counter market is subject to government regulation though to a lesser degree than the stock exchange.
   c) An entity's shares are traded on one of the secondary securities markets in the European Union (EU) that are not 'regulated markets' for the purposes of applying the EU's IAS Regulation (i.e. EU law does not require the entity to use full IFRS).
   d) An entity's only business is earning interest on money that it lends to its clients. The entity obtains all of its funds direct from its two owner-managers both of whom are billionaires (i.e. the entity does not take deposits from customers).
   e) The ordinary shares of an entity's parent are listed on a stock exchange.

9. Which examples of entities have public accountability?
   a) An entity that does not have public accountability voluntarily (i.e. it is not required to do so) prepares its financial statements in compliance with the requirements of the IFRS for SME.

The entity sends the financial statements to the entity's primary suppliers, bankers and non-manager owners. The entity makes an explicit and unreserved statement of compliance with the IFRS for SME in the notes.

b) An entity that does not have public accountability prepares financial statements in compliance with the tax requirements for calculating taxable income (and tax expenses) in the jurisdiction in which it operates. The jurisdiction's tax requirements are different from the requirements of the IFRS for SME. The entity sends the financial statements only to the tax authorities. The entity makes an explicit and unreserved statement of compliance with local tax requirements in the notes.

c) The facts are the same as previous example. However, in this example, the entity also sends the financial statements to the entity's bankers and the national repository (a legal requirement of the jurisdiction in which the entity operates). A copy of all financial statements lodged with the national repository can be downloaded by anyone free of charge from the national repository's website.

Concepts and principles

1. What is the primary objective of financial statements of SME?
   a) to insure the highest relevance, representational faithfulness, transparency and comparability of accounting information presented in financial reports which are provided by the entity for a broad range of users.
   b) to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
   c) to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users, both entitled and not entitled to require financial reports tailored to meet their particular information needs.

2. What does qualitative characteristics “reliability” mean?
   a) information presented in financial statements should be precise (e.g. little or no uncertainty in a measurement).
   b) information presented in financial statements should be free from material error and bias and insure a faithfully representation of the economic phenomenon.
   c) information presented in financial statements should be relevant (i.e. its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements).
   d) information presented in financial statements should be comprehensive (i.e. understandable by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence).

3. Decide which of the following statements are true?
   a) Financial position of an entity is relationship of its assets, liabilities and equity at a specific date as presented in the statement of financial position.
   b) Financial position of an entity is relationship of its income and expenses during a reporting period.
   c) Performance of an entity is relationship of its assets, liabilities and equity at a specific date as presented in the statement of income.
   d) Financial position of an entity is “stock” amount while financial performance of an entity is “flow” amount.

4. What are the basic recognition criteria for an item to be recognized in financial statements of an entity (according to IFRS for SME)?
   a) it is certain that any future economic benefit associated with the item will flow to or from the entity and item’s cost or value that can be measured reliably.
   b) it is probable that any future economic benefit associated with the item will flow to or from the entity and item’s cost or value that can be measured approximately.

c) it is probable that any future economic benefit associated with the item will flow to or from the entity and item's cost or value that can be measured reliably.
d) it is certain that any future economic benefit associated with the item will flow to or from the entity and item's cost or value that can be measured approximately.

5. What are the two basic measurement bases applied to items recognized in financial statements of an entity (according to IFRS for SME)?
   a) one – historical cost.
   b) one – fair value.
   c) two – historical cost and fair value.

6. Decide in which of the following examples income is recognized as revenue and in which it is recognized as gain (according to IFRS for SME)?
   a) On 31 December 20X5 an entity sold inventory for CU1,500 when the carrying amount of the inventory was CU1,000.
   b) On 31 December 20X5 an entity sold a machine used by the entity in the manufacture of goods for CU1,500 when the carrying amount of the machine was CU1,000.
   c) A chain of bicycle shops holds bicycles for short-term hire and for sale. The bicycles available for hire are used for two or three years and then sold by the shops as second-hand models. All shops sell both new and second-hand bicycles. The shops have three sources of revenue: (i) the sale of new bicycles, (ii) the sale of second-hand bicycles and (iii) the rental of bicycles.
   d) On 31 December 20X5 an entity received settlement from its foreign customer for invoiced issued in foreign currency. The invoiced amount was FCU100, the exchange rate at the day of its issue was FCU1 = CU1. The exchange rate on 31 December 20X5 was FCU1 = CU1,1.

7. Decide in which of the following examples expense is recognized as expense and in which it is recognized as loss (according to IFRS for SME)?
   a) On 31 December 20X5 an entity sold inventory for CU900 when the carrying amount of the inventory was CU1,000.
   b) On 31 December 20X5 an entity sold a machine used by the entity in the manufacture of goods for CU900 when the carrying amount of the machine was CU1,000.
   c) On 31 December 20X5 an entity settled invoice received from its foreign supplier denominated in foreign currency. The invoiced amount was FCU100, the exchange rate at the day of its receipt was FCU1 = CU1. The exchange rate on 31 December 20X5 was FCU1 = CU1,1.

Exercise 1: James runs a taxi cab business. Identify the following as a current asset, non-current asset, current liability, non-current liability or capital within his business:

- Mercedes used by taxi drivers.
- CU30 owed for gas used in the office of the business.
- Retained profits.
- Computer used in the office.
- CU3,000 borrowed from the bank to purchase a new phone system, repayable in 2 years.
- Soft drink cans for sale to customers in the waiting room.

Exercise 2: Decide whether following items can be recognized or cannot be recognized financial position items? If yes, decide they are assets or liabilities. If cannot, explain why.

Item	Yes/No
Patent bought by an entity that makes possible to increase the volume of profit on CU150,000 annually	
Bill of exchange (issued vs received)	
New sales director of an entity with work contract for 5 years. It is expected that he will increase sales of the entity by CU1,000,000 during next 3 years	
Credit note (received vs issued vs parked)	
Debit note (received vs issued vs parked	
Prepayments (issued vs received)	
Outstanding lawsuit (for plaintiff vs for defendant)	
New machinery on financial leasing	
Deferred income	
Parcel obtained from the state	
Non-controlling interest in subsidiary	
Product warranty	
Deferred payment into state budget for mineral extraction	
Brand name of an entity which is valued for CU170,000 and legally protected through registration with the local government of as a trademark	
Retirement benefits for employees in excess of strict legal obligations	
Product warranties provided for buyers by a manufacturing entity	
Customer list (internally generated vs acquired in a business combination)	

Exercise 3: For following items determine the amount of total assets and total equities. Divide total assets into current and non-current (fixed) assets. Divide equities into owner's equity and liabilities (current and non-current).

Item	Value (CU)
Buildings	138,000
Cash	3,400
Drawings	35,900
Loan	18,000
Taxation	2,000
Accruals	15,445
Fixtures and fittings	33,750
Motor vehicles	12,740
Opening capital	152,465
Profit for the year	51,787
Trade payables	12,445
Prepayments	2,800
Loan interest	1,000
Inventory	13,777
Trade receivables	12,775

Exercise 4: Calculate business the first and second year of trading

Tom starts his business on January 1 and buys 1,000 footballs to sell on to customers. They cost CU2 each. During the year, he sells 600 out of the balls for CU5 each.

In the second year of trading Tom sold 1,100 balls for CU5 each and bought a further 1,000 for CU2 each.

What is Tom's business result fin the first and second year of trading?

Exercise 5: Compile a statement of income and estimate the amount of business result for the year before taxes (EBT):

Item	Value (CU)
Irrecoverable debts	7,134
Loan interest	4,000
Carriage outwards	5,666
Revenue	233,000
Cost of sales	12,332
Opening inventory	119,098
Discounts allowed on merchandise sold	3,444
Depreciation	10,710
Water rates	8,444
Advertising	15,000

Other expenses	3,142
Gas and electricity	14,122
Purchase of inventory	1,009
Carriage inwards	13,777
Closing inventory	114,338
Discounts received in inventory purchased	5,111