

IFRS for SMEs General topics

Application of 'undue cost or effort'

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 SME Implementation Group by users implementing the *IFRS for SMEs*.

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Draft and final Q&As, and comments on draft Q&As, may be downloaded without charge from the IASB's website at <http://go.ifrs.org/IFRS+for+SMEs+QandA>.

Issue

- 1 Several sections of the *IFRS for SMEs* contain exemptions in relation to certain requirements on the basis of 'undue cost or effort' or because they are 'impracticable'. '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". 'Undue cost or effort' is not defined. How should 'undue cost or effort' be applied?

Response

- 2 'Undue cost or effort' is deliberately not defined in the *IFRS for SMEs*, because it would depend on the SME's specific circumstances and on management's professional judgement in assessing the costs and benefits. Whether the amount of cost or effort is excessive (undue) necessarily requires 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 if valuers' fees are excessive) or excessive endeavours 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. On any subsequent measurement, 'undue cost or effort' should be based on information available at the subsequent measurement date (eg the reporting date).
- 3 'Undue cost or effort' is specifically included for some requirements. It may not be used for any other requirements in the *IFRS for SMEs*.
- 4 'Undue cost or effort' is used either instead of, or together with, 'impracticable' for certain requirements in the *IFRS for SMEs* to make it clear that if obtaining or determining the information necessary to comply with the requirement would result in excessive cost or an excessive burden for an SME, the SME would be exempt from the requirement. Where 'undue cost or effort' is used together with 'impracticable', this should be applied in the same way as for 'undue cost or effort' on its own.

¹ International Accounting Standards Board (IASB)
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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, not cost. Consequently, some people have interpreted 'impracticable' to mean that if the data required 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 consuming 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 could 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 'undue cost or effort', SMEs that are assessing whether cost or effort is undue would have to make an assessment of how important the information is to users. If the information that the user needs is not provided, they may have to incur additional costs to obtain that information elsewhere or to estimate it.
- BC4 Paragraphs 2.13 and 2.14 of Section 2 *Concepts and Pervasive Principles* highlight the balance between benefit and cost, and state the general principle to which the IASB refers in making its standard-setting decisions. The requirements within the *IFRS for SMEs* have been developed by taking into consideration the balance between benefits and costs. 'Undue cost or effort' is not a general principle/exemption that can be applied by SMEs for every accounting requirement in the *IFRS for SMEs*.

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