EFRAG
European Financial Reporting Advisory Group

IFRS for SMEs and the Fourth and Seventh Council Directives

Compatibility Issues

EFRAG WORKING PAPER

IFRS for SMEs		Council Directives	Assessment	
			Not incompatible	(green)
			Incompatibility assessment dependent upon interpretation of Council Directives	(light green)
			Not assessed	(yellow)
			Incompatible	(red)
1.1	The IFRS for SMEs is intended for use by small and medium-sized entities (SMEs). This section describes the characteristics of SMEs.	No relevant articles	The paragraph states for what entities IFRS for SMEs are intended. The content of the paragraph cannot be incompatible with the Council Directives.	(green)
1.2	Small and medium-sized entities are entities that: (a) do not have public accountability, and (b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.	No relevant articles	The paragraph defines what is considered to be small and medium-sized entities according to IFRS for SMEs. The paragraph is relevant in relation to paragraph 1.1 and is thus not incompatible with the Council Directives	(green)
1.3	An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such	No relevant articles	The paragraph is relevant for paragraph 1.2, and is thus not incompatible with the Council Directives.	(green)

	instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or (b) it 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 brokers/dealers, mutual funds and investment banks.			
1.4	Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.	No relevant articles	The paragraph is relevant for paragraph 1.3 and is thus not incompatible with the Council Directives.	
1.5	If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the IFRS for SMEs—even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities.	The Council Directives do not describe what could be stated as conforming to IFRS for SMEs	As the Council Directives do not describe what could be stated as conforming to IFRS for SMEs, the paragraph is not incompatible with the Council Directives.	
1.6	A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that uses full IFRSs, is not prohibited from using this IFRS in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all of the provisions of this IFRS.	The Council Directives do not describe what could be stated as conforming to IFRS for SMEs	As the Council Directives do not describe what could be stated as conforming to IFRS for SMEs, the paragraph is not incompatible with the Council Directives.	
Concepts and Pervasive Principles				
2.1	This section describes the objective of financial statements of small and medium-sized entities (SMEs) and the qualities that make the information in the financial statements of SMEs useful. It also sets out the concepts and basic principles underlying the financial statements of SMEs.		As par. 2.1 just explains the content of section 2, it is not incompatible with the Council Directives.	
2.2	The objective of financial statements of a small or	The Council Directives do not include any	The Directives do not include a statement	

	medium-sized entity is 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.	objective of the financial statements	regarding the purpose of the financial statements. However, it does not seem to preclude the purpose of 2.2. as long as it is not an overriding principle and the requirements that flow from this is in accordance with the Directives. Accordingly, par. 2.2 is not assessed to be incompatible with the Council Directives.	
2.3	Financial statements also show the results of the stewardship of management—the accountability of management for the resources entrusted to it.		The Directives do not include a statement regarding the purpose of the financial statements. However, it does not seem to preclude the purpose of 2.2. as long as it is not an overriding principle and the requirements that flows from this is in accordance with the Directives. Accordingly, par. 2.2 is not assessed to be incompatible with the Council Directives.	
2.4	Understandability The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.	4. art. 2 2. They shall be drawn up clearly and in accordance with the provisions of this Directive. 3. The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3 Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.	Understandability is not mentioned explicitly in the Council Directives. However, it is assessed that it could be part of a ‘true and fair view’. Accordingly, par. 2.4 is not assessed to be incompatible with the Council Directives.	
2.5	Relevance The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of relevance when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.	4. art. 2.3 The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3	Relevance is not mentioned explicitly in the Council Directives. However, it is assessed that it could be part of a ‘true and fair view’. Accordingly, par. 2.5 is not assessed to be incompatible with the Council Directives.	

		Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.		
2.6	Materiality Information is material—and therefore has relevance—if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the *IFRS for SMEs* to achieve a particular presentation of an entity's financial position, financial performance or cash flows.	The Council Directives state that some specific requirements can be omitted if the amounts are immaterial. However, there is no general materiality principle.	It could be argued that only when the Council Directives specifically state that specific requirements can be omitted if the amounts are immaterial, that information can be omitted if the amounts are immaterial. However, it could also be argued that 'Materiality' could be said to be included in the 'true and fair view'. Accordingly, although the Council Directives do not specifically exempt from requirements if the amounts are immaterial, the Council Directives could be interpreted as if an entity is not required to – but allowed to – omit information that is not material. Accordingly, it has been assessed that par. 2.6 cannot be said to be incompatible with the Council Directives.	
2.7	Reliability The information provided in financial statements must be reliable. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.	4. art. 2.3 The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3 Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.	Although 'true and fair' could/should include more than 'reliability', 'reliability' seems to be a valid interpretation of part of 'true and fair'. Accordingly, it has been assessed that par. 2.7 is not incompatible with the Council Directives.	
2.8	Substance over form Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted	The requirement of substance over form is assessed to be in accordance with the Fourth Council Directive art. 4.6.	

		to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts. 4. art. 2.3 The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3 Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.		
2.9	Prudence The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.	4. art. 31.1(c) valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included, (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, (cc) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit;	It is noted that the Commission in 2003 amended the Council Directives in relation to provisions. Art. 20.2 that was previously required became a Member State option in order to a line the Council Directives and IAS. It is assessed that ‘prudence’ in the Council Directives can be interpreted differently. Some would interpret ‘prudence in the Council Directives to be more conservative than in IFRS for SMEs. Others would interpret it differently. Accordingly, it has been assessed that ‘Prudence’ in the Council Directives can be interpreted differently. However, the definition of IFRS for SMEs cannot be said to be incompatible with the Council Directives.	
2.10	Completeness To be reliable, the information in financial statements must be complete within the bounds of materiality and	4. art. 2.3 The annual accounts shall give a true and	Completeness is not explicitly required by the Council Directives, however, it could be interpreted as being included in the	

	cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.	fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3 Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.	'true and fair view'. It has been assessed whether it would be incompatible with the Council Directives to consider completeness within the bounds of cost. It was noted that the requirements of section 2 of IFRS for SMEs should be taken into consideration when IFRS for SMEs does not specifically address a transaction, other event or condition and to assess when the requirements of IFRS for SMEs would not result in a fair presentation. Accordingly, it was assessed that an entity could not generally avoid presenting information by reference to cost it would incur in doing so. Therefore, it was assessed that the requirements of par. 2.10 – when assessed in the context – would not be incompatible with the Council Directives.	
2.11	Comparability Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity, and in a consistent way across entities. In addition, users must be informed of the accounting policies employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.	4. art. 3 The layout of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, may not be changed from one financial year to the next. 4. art 31.1(b) the methods of valuation must be applied consistently from one financial year to another; Art. 43 In addition to the information required under other provisions of this Directive, the notes on the accounts must set out information in respect of the following matters at least: (1) the valuation methods applied to the various items in the annual accounts, and the methods employed in calculating the value adjustments. For items included in	Both IFRS for SMEs and the Council Directives require that the financial statements are comparable over time. In addition par. 2.11 requires financial statements to be comparable between entities. This is the purpose of the Council Directives, and is accordingly not assessed to be incompatible with the Council Directives.	

		the annual accounts which are or were originally expressed in foreign currency, the bases of conversion used to express them in local currency must be disclosed;		
2.12	Timeliness To be relevant, financial information must be able to influence the economic decisions of users. Timeliness involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.	No explicit requirements regarding timeliness and reliable information in Directives.	Timeliness is not explicit mentioned in the Council Directives. The Member States determine the deadlines for preparing financial statements. Accordingly, the requirement is assessed not to be incompatible with the Council Directives.	
2.13	Balance between benefit and cost The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs are not necessarily borne by those users who enjoy the benefits, and often the benefits of the information are enjoyed by a broad range of external users.	Not addressed in the Council Directives	The issue whether it would be incompatible with the Council Directives to take cost into consideration is discussed in relation to par. 2.10. For the same reasons as stated in relation to par. 2.10, it is assessed that par. 2.13 is not incompatible with the Council Directives.	
2.14	Financial reporting information helps capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual entities also enjoy benefits, including improved access to capital markets, favourable effect on public relations, and perhaps lower costs of capital. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes.	Not addressed in the Council Directives	Par. 2.14 just explains types of benefits. It is assessed that this explanation cannot be incompatible with the Council Directives.	
2.15	The financial position of an entity is the relationship of its assets, liabilities and equity as of a specific date as presented in the statement of financial position. These are defined as follows: (a) An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	No definitions in the Directives	See par. 2.45	

	(b) A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (c) Equity is the residual interest in the assets of the entity after deducting all its liabilities.			
2.16	Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for recognition in paragraphs 2.27–2.32. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.	No such requirement in the Directives	In relation to liabilities see par. 2.39	
2.17	The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Those cash flows may come from using the asset or from disposing of it.	The Council Directives do not explain what assets are.	The explanation in par. 2.17 seems compatible with the Council Directives	
2.18	Many assets, for example property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset. Some assets are intangible.	The Council Directives do not explain what assets are.	The Council Directives do not explain what assets are. However, it appears from the Council Directives that some assets are also according to the Council Directives regarded as intangible (see for example the Fourth Council Directive art. 9). It is therefore assessed that par. 2.18 is not incompatible with the Council Directives.	
2.19	In determining the existence of an asset, the right of ownership is not essential. Thus, for example, property held on a lease is an asset if the entity controls the benefits that are expected to flow from the property.	The Council Directives do not include requirements that assets should be owned by an entity	The Council Directives do not explain what assets are. It is therefore assessed that par. 2.19 is not incompatible with the Council Directives.	
2.20	An essential characteristic of a liability is that the entity has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a constructive obligation. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation that derives from an entity's actions when: (a) by an established pattern of past practice,	The Council Directives do not include an explanation of essential characteristics of a liability	The Council Directives do not explain essential characteristics of a liability. It is therefore assessed that par. 2.19 is not incompatible with the Council Directives.	

	published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities, and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.			
2.21	The settlement of a present obligation usually involves the payment of cash, transfer of other assets, provision of services, the replacement of that obligation with another obligation, or conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.	The Council Directives do not include an explanation about settlement of an obligation	It is assess that par. 2.21 is not incompatible with the Council Directives.	
2.22	Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the statement of financial position. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and gains or losses recognised directly in equity.	The Council Directives do not include an explanation about how to calculate equity. The Council Directives includes requirements regarding subclassifications of equity.	The Council Directives do not state how to calculate equity. On this issue par. 2.22 is assessed not to be incompatible with the Council Directives. The subclassification example listed in par. 2.22 is – as stated - only an example and it is therefore assessed that this part of par. 2.22 is also not incompatible with the Council Directives.	
2.23	Performance is the relationship of the income and expenses of an entity during a reporting period. This IFRS permits entities to present performance in a single financial statement (a statement of comprehensive income) or in two financial statements (an income statement and a statement of comprehensive income). Total comprehensive income and profit or loss are frequently used as measures of performance or as the basis for other measures, such as return on investment or earnings per share. Income and expenses are defined as follows: (a) Income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors. (b) Expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that	4. art. 22 For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26. If a Member State prescribes more than one layout, it may allow companies to choose from among them. By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles.	The Fourth Council Directive requires that entities present a profit and loss account or a statement of their performance (statement of comprehensive income). The Council Directives do not include definitions of income and expenses. The explanations included in par. 2.23 are not by themselves assessed to be incompatible with the Council Directives.	

	result in decreases in equity, other than those relating to distributions to equity investors.			
2.24	The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities. Criteria for the recognition of income and expenses are discussed in paragraphs 2.27–2.32.	The Council Directives do not include any requirements related to whether income and expenses results from the recognition and measurement of assets and liabilities or vice versa.	It is assessed that the explanation in par. 2.24 by itself would not be incompatible with the Council Directives	
2.25	The definition of income encompasses both revenue and gains. (a) Revenue is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent. (b) Gains are other items that meet the definition of income but are not revenue. When gains are recognised in the statement of comprehensive income, they are usually displayed separately because knowledge of them is useful for making economic decisions.	4. art. 28 The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction of sales rebates and of value added tax and other taxes directly linked to the turnover.	The Council Directives do not define revenue and gains. Turnover is defined, however, this term is considered to be more narrowly defined than revenue. The definitions of revenue and gains are not by themselves incompatible with the Council Directives.	
2.26	The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. (a) Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, or property, plant and equipment. (b) Losses are other items that meet the definition of expenses and may arise in the course of the ordinary activities of the entity. When losses are recognised in the statement of comprehensive income, they are usually presented separately because knowledge of them is useful for making economic decisions.	The Council Directives do not include definitions of expenses and losses	The definitions of expenses and losses are not by themselves incompatible with the Council Directives.	
2.27	Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity, and (b) the item has a cost or value that can be measured	The Council Directives do not include any recognition criteria	Criterion (a) is discusses in relation to par. 21.4. Criterion (b) is discussed in relation to par. 2.39.	

	reliably.			
2.28	The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.	The Council Directives do not include a specific statement like the one in par. 2.28.	It is assessed not to be incompatible with the Council Directives to require that items that are required to be recognised cannot just be disclosed.	
2.29	The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.	The Council Directives do not include an explanation about how to assess uncertainty related to different items.	It is assessed that par. 2.29, explaining 'probable' in par. 2.27 is not incompatible with the Council Directives.	
2.30	The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognised in the financial statements.	The Council Directives do not include any explanation about reliability	The issue related to 'reliable' is discussed in relation to par. 2.39	
2.31	An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.	The Council Directives do not include any recognition criteria	As the Council Directives do not include any general recognition criteria, par. 2.31 is assessed not to be incompatible with the Council Directives	
2.32	An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes or explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements		It is generally assed that disclosure requirements included in IFRS for SMEs cannot be incompatible with the Council Directives as the Council Directives do not prohibit additional information to be disclosed in the notes.	
2.33	Measurement is the process of determining the monetary amounts at which an entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This IFRS specifies which	The Council Directives do not explain 'measurement'	The explanation in par. 2.33 of measurement is not incompatible with the Council Directives. The Council Directives do neither explain this term nor use it.	

	measurement basis an entity shall use for many types of assets, liabilities, income and expenses.			
2.34	Two common measurement bases are historical cost and fair value: (a) For assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances (for example, income tax) the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income. (b) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	4. art. 35 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production. 4. Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under 'Assets' must be disclosed in the notes on the accounts. 4. art. 42b 1. The fair value referred to in Article 42a shall be determined by reference to: (a) a market value, for those financial instruments for which a reliable market can readily be identified. Where a market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, the market value may be derived from that of its components or of the similar instrument; or (b) a value resulting from generally accepted valuation models and techniques, for those instruments for which a reliable market cannot be readily identified. Such valuation models and techniques shall ensure a reasonable approximation of the market	The Council Directives to not include an overall definition of historical cost and fair value. In relation to some assets and liabilities it is stated how the cost or fair value shall be calculated. It is assessed whether or not IFRS for SMEs is compatible with the Council Directives in these cases. The general explanation of historical cost and fair value in par. 2.34 is not by itself regarded as incompatible with the Council Directives.	

		value. 2. Those financial instruments that cannot be measured reliably by any of the methods described in paragraph 1, shall be measured in accordance with Articles 34 to 42.		
2.35	The requirements for recognising and measuring assets, liabilities, income and expenses in this IFRS are based on pervasive principles that are derived from the IASB Framework for the Preparation and Presentation of Financial Statements and from full IFRSs. In the absence of a requirement in this IFRS that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.	4. art. 2.3 The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. 7. art. 16.3 Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole.	The Council Directives do not include specific guidance on what to do in absence of a requirement that applies specifically to a transaction or other event or condition. The compatibility of paragraph 10.4 and 10.5 are assessed below. As mentioned above it is generally assessed that the pervasive principles set out in IFRS for SMEs represent valid interpretations of 'true and fair'. Also the concepts of assets and liabilities, income and expenses were assessed not to be incompatible with the Council Directives. Accordingly, it is assessed that the method described in the second level of the hierarchy mentioned in paragraph 2.35 would not be incompatible with the Council Directives.	
2.36	An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.	4. art. 31.1 (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	The Council Directives do not include requirements regarding cash flow statements. Use of the accrual basis in the remaining part of the financial statements is in accordance with the Council Directives.	
2.37	An entity shall recognise an asset in the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the statement of financial position when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the entity beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of	The Council Directives do not include recognition requirements.	The Council Directives do not include general recognition criteria. It has therefore been assessed that par 2.37 is not incompatible with the Directives.	

	comprehensive income (or in the income statement, if presented).			
2.38	An entity shall not recognise a contingent asset as an asset. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.	The Council Directives do not include requirements regarding contingent assets	As the Council Directives do not include requirements regarding contingent assets, it is assessed that par. 2.38 is not incompatible with the Council Directives.	
2.39	An entity shall recognise a liability in the statement of financial position when (a) the entity has an obligation at the end of the reporting period as a result of a past event, (b) it is probable that the entity will be required to transfer resources embodying economic benefits in settlement, and (c) the settlement amount can be measured reliably.	The Council Directives do not include recognition requirements. 4. art. 20 1. Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 2. The Member States may also authorize the creation of provisions intended to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 3. Provisions may not be used to adjust the values of assets.	It is assessed that the Council Directives do not include recognition criteria. Article 20 of the Fourth Council Directive only explains what provisions are, but not when they should be recognised. It is therefore assessed that : Criteria (a) is not incompatible with the Council Directives. Article 20.2 of the Fourth Council Directive (to recognise liabilities that may not be obligations as of the balance sheet date)is only an option. Criteria (b) is not incompatible with the Council Directives, even when 'likely' in art. 20.1 of the Fourth Council Directive is interpreted as a lower probability than 'probable' in par. 2.39 (b), as art. 20.1 only defines provisions and not state when they should be recognised. In relation to criteria (c) it is assessed that in order for the financial statements to be able to present a true and fair view it would also be required by the Council Directives that the settlement amount can be measured reliably in order to be able to recognise a liability.	
2.40	A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 2.39. An entity shall not recognise a contingent liability as a liability, except for contingent liabilities of an acquiree in a	The Council Directives do not include a definition of contingent liabilities.	It is assessed that the Council Directives do not include recognition criteria and par. 2.40 accordingly assessed not to be incompatible with the Council Directives. See par. 19.4 in relation to contingent	

	business combination (see Section 19 Business Combinations and Goodwill).		liabilities of an acquirer in a business combination.	
2.41	The recognition of income results directly from the recognition and measurement of assets and liabilities. An entity shall recognise income in the statement of comprehensive income (or in the income statement, if presented) when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.	Article 31.1 (c) (aa) only profits made at the balance sheet date may be included,	See par 2.9	
2.42	The recognition of expenses results directly from the recognition and measurement of assets and liabilities. An entity shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.	No requirements included in the Council Directives	It is assessed that the Council Directives do not specify whether income and expenses results from recognition and measurement of assets and liabilities or vice versa. Accordingly, it is assessed that par. 2.42 is not incompatible with the Council Directives.	
2.43	Total comprehensive income is the arithmetical difference between income and expenses. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.	The Council Directives do not include recognition principles for total comprehensive income.	As the Council Directives do not include recognition principles for total comprehensive income, it is assessed that par. 2.43 is not incompatible with the Council Directives.	
2.44	Profit or loss is the arithmetical difference between income and expenses other than those items of income and expense that this IFRS classifies as items of other comprehensive income. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.	The Council Directives do not include recognition principles for profit or loss.	It is assessed that profit or loss also under the Council Directives are calculated as stated in par. 2.44. Accordingly, it is assessed that par. 2.44 is compatible with the Council Directives.	
2.45	This IFRS does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the 'matching concept' for measuring profit or loss.	The Council Directives do not include definitions of assets and liabilities.	As the Council Directives do not include definitions of assets and liabilities. It has therefore been assessed whether the definitions would prohibit assets and liabilities, required to be recognised under the Council Directives, from being recognised and vice verse. It has been assessed that the Council Directives allows some items that do not meet the definitions in par. 2.45 to be recognised. However, they do not	

			prohibit that only those items that meet the definition are recognised. Accordingly, it has been assessed that par. 2.45 is not incompatible with the Council Directives.	
2.46	At initial recognition, an entity shall measure assets and liabilities at historical cost unless this IFRS requires initial measurement on another basis such as fair value.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	The basic principle of measuring assets and liabilities at historical cost at initial recognition is in accordance with the Council Directives. Departures from this basic principle are assessed in relation to the relevant paragraphs.	
2.47	An entity measures basic financial assets and basic financial liabilities, as defined in Section 11 Basic Financial Instruments, at amortised cost less impairment except for investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares that are publicly traded or whose fair value can otherwise be measured reliably, which are measured at fair value with changes in fair value recognised in profit or loss.	See section 11	See section 11	
2.48	An entity generally measures all other financial assets and financial liabilities at fair value, with changes in fair value recognised in profit or loss, unless this IFRS requires or permits measurement on another basis such as cost or amortised cost.	See section 12	See section 12	
2.49	Most non-financial assets that an entity initially recognised at historical cost are subsequently measured on other measurement bases. For example: (a) An entity measures property, plant and equipment at the lower of depreciated cost and recoverable amount. (b) An entity measures inventories at the lower of cost and selling price less costs to complete and sell. (c) An entity recognises an impairment loss relating to non-financial assets that are in use or held for sale. Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the entity expects to recover from the sale or use of that asset.	In relation to property, plant and equipment see section 17 In relation to inventories see section 13 In relation to impairment losses see section 27	In relation to property, plant and equipment see section 17 In relation to inventories see section 13 In relation to impairment losses see section 27	
2.50	For the following types of non-financial assets, this IFRS permits or requires measurement at fair value:	See par. 14.10, 15.15. 16.7 and 34.2	As follows, measuring investments in associates and joint ventures (when	

	(a) investments in associates and joint ventures that an entity measures at fair value (see paragraphs 14.10 and 15.15 respectively). (b) investment property that an entity measures at fair value (see paragraph 16.7). (c) agricultural assets (biological assets and agricultural produce at the point of harvest) that an entity measures at fair value less estimated costs to sell (see paragraph 34.2).		these would otherwise be associates)at fair value is in conflict with the Council Directives. However, as measurement of these investments at fair value is only an option, and at least one alternative is not in conflict with the Council Directives, the issue does not result in an incompatibility. See par. 16.7 and 34.2 in relation to investment property and agricultural assets.	
2.51	Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the reporting date.	4. art. 42 Provisions may not exceed in amount the sums which are necessary.	The Council Directives do not specify whether a 'most likely outcome' or an 'expected value' approach or something else should be used for measuring recognised non-financial liabilities. Accordingly, the requirement of par. 2.51 is assessed not to be incompatible with the Council Directives.	
2.52	An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this IFRS. (a) Measuring assets net of valuation allowances—for example, allowances for inventory obsolescence and allowances for uncollectible receivables—is not offsetting. (b) If an entity's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.	4. art. 7 Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited.	Par. 2.52 is not in itself incompatible with the Council Directives. However, if IFRS for SMEs would require something to be offset that would not be allowed under the Council Directives and vice versa, this would be incompatible with the Council Directives. This is, however, not assessed in relation to par. 2.52.	
Financial Statement Presentation				
3.1	This section explains fair presentation of financial statements, what compliance with the IFRS for SMEs requires, and what is a complete set of financial statements.		Par. 3.1 only explains the scope of section 3 and is accordingly not incompatible with the Council Directives.	
3.2	Financial statements shall present fairly the financial position, financial performance and cash flows of an	7. art. 16 (similar to 4. art. 2)	The Council Directives do not require presentation of cash flows. However,	

	entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Section 2 Concepts and Pervasive Principles. (a) The application of the IFRS for SMEs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs. (b) As explained in paragraph 1.5, the application of this IFRS by an entity with public accountability does not result in a fair presentation in accordance with this IFRS. The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this IFRS is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.	1. Consolidated accounts shall comprise the consolidated balance sheet, the consolidated profit-and-loss account and the notes on the accounts. These documents shall constitute a composite whole. Member States may permit or require the inclusion of other statements in the consolidated accounts in addition to the documents referred to in the first subparagraph 2. Consolidated accounts shall be drawn up clearly and in accordance with this Directive. 3. Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included therein taken as a whole. 4. Where the application of the provisions of this Directive would not be sufficient to give a true and fair view within the meaning of paragraph 3 above, additional information must be given. 5. Where, in exceptional cases, the application of a provision of Articles 17 to 35 and 39 is incompatible with the obligation imposed in paragraph 3 above, that provision must be departed from in order to give a true and fair view within the meaning of paragraph 3. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effect on the assets, liabilities, financial position and profit or loss. The Member States may define the exceptional cases in question and lay down the relevant special rules. 6. A Member State may require or permit the disclosure in the consolidated accounts of	they do not prohibit this either (see art. 16.1 of the Seventh Council Directive). The concepts and pervasive principles of section 2 were assessed not to be incompatible with the Council Directives. Accordingly, the fair presentation required by the par. 3.2 would also be assessed not to be incompatible with the Council Directives.	

		other information as well as that which must be disclosed in accordance with this Directive.		
3.3	An entity whose financial statements comply with the IFRS for SMEs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the IFRS for SMEs unless they comply with all the requirements of this IFRS.	The Council Directives do not include requirements regarding statements about compliance with IFRS for SMEs	The Council Directives do not prohibit an entity from stating that its financial statements comply with the IFRS for SMEs, when the requirements are met. Accordingly, par. 3.3 is not incompatible with the Council Directives.	
3.4	In the extremely rare circumstances when management concludes that compliance with this IFRS would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.5 unless the relevant regulatory framework prohibits such a departure.	7. art. 16.5 Where, in exceptional cases, the application of a provision of Articles 17 to 35 and 39 is incompatible with the obligation imposed in paragraph 3 above, that provision must be departed from in order to give a true and fair view within the meaning of paragraph 3. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effect on the assets, liabilities, financial position and profit or loss. The Member States may define the exceptional cases in question and lay down the relevant special rules.	The concepts and pervasive principles of section 2 were generally assessed not to be incompatible with the Council Directives. Accordingly, the fair presentation required by par. 3.4 would also be assessed not to be incompatible with the Council Directives. In response to EFRAG's draft analysis, one constituent noted that a difference between 'extremely rare circumstances' and 'exceptional cases' seemed to exist. This difference would result in fewer departures from the requirements of IFRS for SMEs than from the requirements of the Directives. EFRAG noted that 'extremely rare circumstances' was also used in the context in IAS 1 at 1 May 2002. Accordingly, EFRAG did not assess the issue further.	
3.5	When an entity departs from a requirement of this IFRS in accordance with paragraph 3.4, it shall disclose the following: (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows. (b) that it has complied with the IFRS for SMEs, except that it has departed from a particular requirement to achieve a fair presentation. (c) the nature of the departure, including the treatment	See above	If a departure from IFRS for SME would also be a departure from the Council Directives, an entity should also disclose the effect of the departure on the assets, liabilities, financial position and profit or loss. However, this additional requirement is only considered to be a difference and does not result in par. 3.5 being incompatible with Council Directives.	

	that the IFRS for SMEs would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2, and the treatment adopted.			
3.6	When an entity has departed from a requirement of this IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 3.5(c).	See above	It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any incompatibility issues with the Council Directives.	
3.7	In the extremely rare circumstances when management concludes that compliance with a requirement in this IFRS would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following: (a) the nature of the requirement in this IFRS, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2. (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.	The Council Directives would not prohibit departures from the requirements included in IFRS for SMEs when compliance with the standard would be misleading (see above)	For the reasons stated in the previous column, par. 3.7 is assessed not to be incompatible with the Council Directives.	
3.8	When preparing financial statements, the management of an entity using this IFRS shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.	4. art. 31.1 The Member States shall ensure that the items shown in the annual accounts are valued in accordance with the following general principles: (a) the company must be presumed to be carrying on its business as a going concern; ...	It is assessed to be compatible with the Council Directives to require the management to assess the entity's ability to continue as a going concern.	
3.9	When management is aware, in making its	4. art. 31.2	The Council Directives would also require	

	assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.	Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss.	an entity to disclose the effect of the departure on the assets, liabilities, financial position and profit or loss, if the financial statements are not prepared under the going concern assumption. However, this additional requirement is only considered to be a difference and does not result in par. 3.9 being assessed to be incompatible with the Council Directives. It is generally assessed that requirements included in IFRS for SMEs about note disclosures (including disclosures about material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern) cannot be incompatible with the Council Directives.	
3.10	An entity shall present a complete set of financial statements (including comparative information–see paragraph 3.14) at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following: (a) that fact. (b) the reason for using a longer or shorter period. (c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.	No requirements included in the Fourth and Seventh Council Directives	It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	
3.11	An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless: (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or	4. art. 3 The layout of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, may not be changed from one financial year to the next. Departures from	The cases mentioned in par. 3.11 could be regarded as 'exceptional cases' as mentioned in article 3 of the Fourth Council Directive. Accordingly, the paragraph is assessed not to be incompatible with the Council Directives as IFRS for SMEs do not require more	

	classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Section 10 Accounting Policies, Estimates and Errors, or (b) this IFRS requires a change in presentation.	this principle shall be permitted in exceptional cases. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons therefore.	changes than what would be allowed by the Council Directives.	
3.12	When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose the following: (a) the nature of the reclassification. (b) the amount of each item or class of items that is reclassified. (c) the reason for the reclassification.	4. art. 4.4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant comments.	Reclassifying comparative amounts is compatible with option of the Council Directives to do so. Also it is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	
3.13	If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.	See above	Reclassification of comparative amounts is not required by the Council Directives, and it is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	
3.14	Except when this IFRS permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.	See above	The Council Directives require comparative figures in relation to the balance sheet and the profit and loss account but does not prohibit it in relation to other information as well. Accordingly it is assessed that par. 3.14 is compatible with the Council Directives. Exceptions to the requirement are assessed in relation to the relevant paragraphs.	
3.15	An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.	4. art. 4.3 The balance sheet and profit and loss account items that are preceded by Arabic numerals may be, combined where:	The Council Directives allow some combination of items in the balance sheet and profit and loss account (the Council Directives do not include any requirements for the cash flow statements	

		(a) they are immaterial in amount for the purposes of Article 2 (3); or (b) such combination makes for greater clarity, provided that the items so combined are dealt with separately in the notes on the accounts. Such combination may be required by the Member States. 7. art. 16.2 (similar to 4. art. 2.2) 2. Consolidated accounts shall be drawn up clearly and in accordance with this Directive.	and the requirements of par. 3.15 can therefore be applied in relation to the cash flow statements without creating any conflicts). The Council Directives may limit the options to combine immaterial classes. However, this is regarded as a difference that could be overcome by following the requirements of the Council Directives in these circumstances.	
3.16	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.	The Council Directives do not include an explanation of 'material'	The explanation of 'material' in par. 3.16 is in itself not in conflict with the Council Directives as material is not defined in the Council Directives.	
3.17	A complete set of financial statements of an entity shall include all of the following: (a) a statement of financial position as at the reporting date. (b) either: (i) a single statement of comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income, or (ii) a separate income statement and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive	4. art. 2 1. The annual accounts shall comprise the balance sheet, the profit and loss account and the notes on the accounts. These documents shall constitute a composite whole. Member States may permit or require the inclusion of other statements in the annual accounts in addition to the documents referred to in the first subparagraph. 4. art. 22 By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance	A statement of financial position is another word for 'balance sheet' and 'income statement' the same as profit and loss account. A single statement of comprehensive income is considered to be a statement of performance. Accordingly, IFRS for SMEs requires all the elements also required by the Council Directives and some more, which is not incompatible with the Council Directives.	

	income. (c) a statement of changes in equity for the reporting period. (d) a statement of cash flows for the reporting period. (e) notes, comprising a summary of significant accounting policies and other explanatory information.	instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles 7. art. 16 1. Consolidated accounts shall comprise the consolidated balance sheet, the consolidated profit-and-loss account and the notes on the accounts. These documents shall constitute a composite whole. Member States may permit or require the inclusion of other statements in the consolidated accounts in addition to the documents referred to in the first subparagraph.		
3.18	If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).	4. art. 33.2 (a) Where paragraph 1 is applied, the amount of the difference between valuation by the method used and valuation in accordance with the general rule laid down in Article 32 must be entered in the revaluation reserve under 'Liabilities'. The treatment of this item for taxation purposes must be explained either in the balance sheet or in the notes on the accounts. For purposes of the application of the last subparagraph of paragraph 1, companies shall, whenever the amount of the reserve has been changed in the course of the financial year, publish in the notes on the accounts inter alia a table showing: — the amount of the revaluation reserve at the beginning of the financial year, — the revaluation differences transferred to the revaluation reserve during the financial year, — the amounts capitalized or otherwise	The Council Directives do not require a statement of changes in equity. However, the Council Directives include some requirements about disclosures about changes in certain reserves. These disclosures should be provided in order to comply with the requirements of the Council Directives. However, par. 3.18 does not result in a conflict with the Council Directives. In relation to statement of retained earnings see section 6.	

		transferred from the revaluation reserve during the financial year, the nature of any such transfer being diclosed, — the amount of the revaluation reserve at the end of the financial year. 4. art. 42d (d) / 7. art. 34.14 (d) Where valuation at fair value of financial instruments has been applied, the notes on the accounts shall disclose: (d) a table showing movements in the fair value reserve during the financial year.		
3.19	If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement, or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.		The Council Directives do not require entities to present a statement of comprehensive income. It would be in accordance with the Council Directives always to only present an income statement.	
3.20	Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.	4. art. 4.4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant comments.	Par. 3.20 is assessed to be in accordance with the Council Directives.	
3.21	In a complete set of financial statements, an entity shall present each financial statement with equal prominence.	No specific requirements included in the Council Directives	Par. 3.21 is assessed not to be incompatible with the Council Directives.	
3.22	An entity may use titles for the financial statements other than those used in this IFRS as long as they are not misleading.	No specific requirements in the Council Directives. The Council Directives use the terms 'balance sheet' and 'profit and loss	If an entity applies the terms of the Council Directives this would be in accordance with the Council Directives.	

		account'.		
3.23	An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented: (a) the name of the reporting entity and any change in its name since the end of the preceding reporting period. (b) whether the financial statements cover the individual entity or a group of entities. (c) the date of the end of the reporting period and the period covered by the financial statements. (d) the presentation currency, as defined in Section 30 Foreign Currency Translation. (e) the level of rounding, if any, used in presenting amounts in the financial statements.	7. art. 16.2 (similar to 4. art. 2.2) 2. Consolidated accounts shall be drawn up clearly and in accordance with this Directive.	Par. 3.23 is assessed to be in line with the Council Directives. The additional information required by par. 3.23 is assessed not to be incompatible with the Council Directives.	
3.24	An entity shall disclose the following in the notes: (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office). (b) a description of the nature of the entity's operations and its principal activities.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	
3.25	This IFRS does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.	4. art. 43.1 (8) In addition to the information required under other provisions of this Directive, the notes on the accounts must set out information in respect of the following matters at least: the net turnover within the meaning of Article 28, broken down by categories of activity and into geographical markets in so far as,	The Council Directives do not include requirements regarding earnings per share and interim financial report. However, it is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives. The Council Directives requires segment information about turnover. However, this	

		taking account of the manner in which the sale of products and the provision of services falling within the company's ordinary activities are organized, these categories and markets differ substantially from one another;	difference can be overcome by providing this information in financial statements prepared in accordance with IFRS for SMEs as IFRS for SMEs does not prohibit this information to be disclosed.	
Statement of Financial Position				
4.1	This section sets out the information that is to be presented in a statement of financial position and how to present it. The statement of financial position (sometimes called the balance sheet) presents an entity's assets, liabilities and equity as of a specific date—the end of the reporting period.		Par. 4.1 only explains the scope of section 4 and is accordingly not in conflict with the Council Directives.	
4.2	As a minimum, the statement of financial position shall include line items that present the following amounts: (a) cash and cash equivalents. (b) trade and other receivables. (c) financial assets (excluding amounts shown under (a), (b), (j) and (k)). (d) inventories. (e) property, plant and equipment. (f) investment property carried at fair value through profit or loss. (g) intangible assets. (h) biological assets carried at cost less accumulated depreciation and impairment. (i) biological assets carried at fair value through profit or loss. (j) investments in associates. (k) investments in jointly controlled entities.	4. art. 4 1. In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated. A more detailed subdivision of the items shall be authorized provided that the layouts are complied with. New items may be added provided that their contents are not covered by any of the items prescribed by the layouts. Such subdivision or new items may be required by the Member States. 2. The layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by Arabic numerals must be adapted where the special nature of an undertaking so requires. Such adaptations may be required by the Member States of undertakings forming part of a particular economic sector. 3. The balance sheet and profit and loss account items that are preceded by Arabic numerals may be, combined where: (a) they are immaterial in amount for the purposes of Article 2 (3); or	It has been assessed that entities applying IFRS for SMEs could use the layout schemes presented in the Council Directives in order to be able to comply with the Council Directives. In addition it has been assessed how an entity could comply with the requirements of the Council Directives art. 9 and the requirements of par. 5.5. It is assessed that: (a) cash and cash equivalents could correspond to IV Cash at bank and in hand. As 'cash' is not defined in the Council Directives, it is assessed that the definition of cash and cash equivalents of IFRS for SMEs can be applied. (b) trade and other receivables could correspond to II Debtors (except that subscribed capital called but not paid cannot be included see par 22.7 and prepayments and accrued income should be shown separately in accordance with the option included in the Council Directives)	

	(l) trade and other payables. (m) financial liabilities (excluding amounts shown under (l) and (p)). (n) liabilities and assets for current tax. (o) deferred tax liabilities and deferred tax assets (these shall always be classified as non-current). (p) provisions. (q) non-controlling interest, presented within equity separately from the equity attributable to the owners of the parent. (r) equity attributable to the owners of the parent.	(b) such combination makes for greater clarity, provided that the items so combined are dealt with separately in the notes on the accounts. Such combination may be required by the Member States. 7. art. 21 The amount attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. 7. art. 33 1. Where an undertaking included in a consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest, as defined in Article 17 of Directive 78/660/EEC, that participating interest shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. An undertaking shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the shareholders' or members' voting rights in that undertaking. Article 2 shall apply.	(c) financial assets are further specified in the Council Directives than in IFRS for SMEs, however, the amounts that would correspond to (c) financial assets can be found in a balance sheet prepared in accordance with the requirements of the Council Directives (d) inventories corresponds to (I) Stocks in the Council Directives (e) property plant and equipment corresponds to (II) Tangible assets in the Council Directives (f) investment property carried at fair value through profit or loss. Investment properties are not included in the layout schemes included in the Council Directives and the line item may thus be included. (g) intangible assets corresponds to (I) Intangible assets in the Council Directives. (h) biological assets carried at cost less accumulated depreciation and impairment are not included in the layout schemes included in the Council Directives and the line item may thus be included. Further specification of the item in the Council Directives: (3) Participating interests would be necessary to meet the requirement to present separate amounts for (j) investments in associates and (k) investments in jointly controlled entities. It is assessed that such a specification would be in line with article 4.1 ("A more detailed subdivision of the items shall be authorized provided that	

			the layouts are complied with.”) (l) trade and other payables are specified in the Council Directives in (4) Trade creditors and other accounts if necessary. (m) financial liabilities (excluding amounts shown under (l) and (p) are further specified in the council directives. In order to present (n) liabilities and assets for current tax, ‘tax’ in (8) Other creditors including tax and social security must be specified separately in accordance with the Council Directives. Likewise (4) Other debtors (or other relevant line item) must be further specified. (o) deferred tax liabilities and deferred tax assets (these shall always be classified as non-current). Deferred tax liabilities are included in a separate section of the balance sheet named provisions. A separate line item must be included under assets if a deferred tax asset exists. (p) provisions corresponds to (3) ‘other provisions’ in the Council Directives. In addition to the requirements of article 21 of the Seventh Council Directives, a subtotal should be included showing equity attributable to the owners of the parent.	
4.3	An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.	4. art. 4 1. In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated. A more detailed subdivision of the items shall be	Par 4.3 is assessed not to be incompatible with the Council Directives as long as the requirements of the Council Directives are met when adding line items, headings and subtotals.	

		authorized provided that the layouts are complied with. New items may be added provided that their contents are not covered by any of the items prescribed by the layouts. Such subdivision or new items may be required by the Member States.		
4.4	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).	4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise.	The option/requirement to present the items of the balance sheet based on liquidity when this provides information that is reliable and more relevant cannot be used when an entity is preparing financial statements under the Council Directives the option can be used by entities within the scope of “Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions”. However, these directives are not considered in this analysis. It has been assessed that a difference exists, as a presentation based on liquidity could be said not to provide information that is more reliable for entities within the scope of the Fourth and Seventh Council Directives. Accordingly, entities within the scope of the Council Directives cannot present a balance sheet based on liquidity.	
4.5	An entity shall classify an asset as current when: (a) it expects to realise the asset, or intends to sell or consume it, in the entity’s normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting date; or (d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.	See above.	The Council Directives do not include a definition of current assets and liabilities. The Council Directives include a definition of fixed assets. It is noted that the Council Directives define fixed assets, whereas IFRS for SMEs defines current assets on a general level. It has been considered whether some items should be accounted for as property plant and equipment under IFRS for SMEs – but as something else (for example inventory) under the Council Directives. However, as the Council Directives would allow a presentation	

			based on the current non-current distinction (instead of the fixed/current distinction), it is assessed that 'non-current' is not the same as 'fixed' and accordingly current is not what is not 'fixed'. Instead, it is assessed that distinction between current and non-current can be based on IFRS for SMEs. Accordingly it is assessed that par. 4.5 do not result in conflicts with the Council Directives.	
4.6	An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.	See above.	See above.	
4.7	An entity shall classify a liability as current when: (a) it expects to settle the liability in the entity's normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting date; or (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.	See above.	See above.	
4.8	An entity shall classify all other liabilities as non-current.	See above.	See above.	
4.9	This IFRS does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition: (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position, and (b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to		As mentioned in relation to par. 4.2, entities will have to follow the sequence and other layout rules prescribed in the Council Directives. However, par. 4.9 is not assessed to create a conflict with the Council Directives.	

	an understanding of the entity's financial position.			
4.10	The judgement on whether additional items are presented separately is based on an assessment of all of the following: (a) the amounts, nature and liquidity of assets. (b) the function of assets within the entity. (c) the amounts, nature and timing of liabilities.		As mentioned in relation to par. 4.2, entities will have to follow the sequence and other layout rules prescribed in the Council Directives. The Council Directives would allow further specifications of items. Accordingly, par. 4.10 could be applied in this relation and the paragraph would accordingly not create a conflict with the Council Directives.	
4.11	An entity shall disclose, either in the statement of financial position or in the notes, the following subclassifications of the line items presented: (a) property, plant and equipment in classifications appropriate to the entity. (b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed. (c) inventories, showing separately amounts of inventories: (i) held for sale in the ordinary course of business. (ii) in the process of production for such sale. (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services. (d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals. (e) provisions for employee benefits and other provisions. (f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that, as required by this IFRS, are recognised in other comprehensive income and		If the requirements of par. 4.11 cannot be met by following the provisions of the Council Directives in relation to the lay-out of the balance sheets, the disclosures could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	

	presented separately in equity.			
4.12	An entity with share capital shall disclose the following, either in the statement of financial position or in the notes: (a) for each class of share capital: (i) the number of shares authorised. (ii) the number of shares issued and fully paid, and issued but not fully paid. (iii) par value per share, or that the shares have no par value. (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital. (vi) shares in the entity held by the entity or by its subsidiaries or associates. (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts. (b) a description of each reserve within equity.		If the requirements of par. 4.12 cannot be met by following the provisions of the Council Directives in relation to the lay-out of the balance sheets, the disclosures could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	
4.13	An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.		The Council Directives may not apply to such an entity. However, when this is the case and the requirements of par. 4.13 cannot be met by following the provisions of the Council Directives in relation to the lay-out of the balance sheets, the disclosures could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	
4.14	If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:		It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	

	(a) a description of the asset(s) or the group of assets and liabilities. (b) a description of the facts and circumstances of the sale or plan. (c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.			
Statement of Comprehensive Income and Income Statement				
5.1	This section requires an entity to present its total comprehensive income for a period—ie its financial performance for the period—in one or two financial statements. It sets out the information that is to be presented in those statements and how to present it.		Par. 5.1 only explains the scope of section 5 and is accordingly not incompatible with the Council Directives	
5.2	An entity shall present its total comprehensive income for a period either: (a) in a single statement of comprehensive income, in which case the statement of comprehensive income presents all items of income and expense recognised in the period, or (b) in two statements—an income statement and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of profit or loss as permitted or required by this IFRS.	4. art. 22 For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26. If a Member State prescribes more than one layout, it may allow companies to choose from among them. By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles. 7. art. 16 (similar to 4. art. 2) 1. Consolidated accounts shall comprise the consolidated balance sheet, the consolidated profit-and-loss account and the notes on the accounts. These documents	It is compatible with the Council Directives to present either a single statement of comprehensive income or an income statement and a statement of comprehensive income.	

		shall constitute a composite whole. Member States may permit or require the inclusion of other statements in the consolidated accounts in addition to the documents referred to in the first subparagraph		
5.3	A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 Accounting Policies, Estimates and Errors applies.	4. art. 3 The layout of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, may not be changed from one financial year to the next. Departures from this principle shall be permitted in exceptional cases. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons therefore.	Section 10 of IFRS for SMEs includes some circumstances when an entity could change accounting policies. These circumstances can be considered 'exceptional cases'. Also section 10 includes disclosure requirements that would meet the requirements of article 3 of the Fourth Council Directive.	
5.4	Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this IFRS requires otherwise. This IFRS provides different treatment for the following circumstances: (a) The effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10). (b) Three types of other comprehensive income are recognised as part of total comprehensive income, outside of profit or loss, when they arise: (i) some gains and losses arising on translating the financial statements of a foreign operation (see Section 30 Foreign Currency Translation). (ii) some actuarial gains and losses (see Section 28 Employee Benefits). (iii) some changes in fair values of hedging instruments (see Section 12 Other Financial Instruments Issues).	4. art. 4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant comments. 4. art. 10a Instead of the presentation of balance sheet items in accordance with Articles 9 and 10, Member States may permit or require companies, or certain classes of company, to present those items on the basis of a distinction between current and non-current items provided that the information given is at least equivalent to that otherwise required by Articles 9 and 10.	The Council Directives do not include specific requirements in relation to the effects of corrections of errors and changes in accounting policies. It is assessed that the requirements of par. 5.4 in this regard are not incompatible with art. 4 of the Fourth Council Directive. IFRS for SMEs requires that exchange differences arising on monetary items that forms part of a reporting entity's net investment in a foreign operation in the financial statements that include the foreign operation shall be recognised in other comprehensive income and reported as a component of equity. They shall not again be recognsed in profit or loss on disposal of the net investment. (see par. 30.12) It is noted that art. 42c of the Fourth Council Directive requires that such exchange differences shall be included in a fair value reserve (even) when the related financial instruments are	

		4. art. 36 By way of derogation from Article 35 (1) (c) (cc), the Member States may allow investment companies within the meaning of Article 5 (2) to set off value adjustments to investments directly against 'Capital and reserves'. The amounts in question must be shown separately under 'Liabilities' in the balance sheet. 4. art. 42c 1. Notwithstanding Article 31(1)(c), where a financial instrument is valued in accordance with Article 42b, a change in the value shall be included in the profit and loss account. However, such a change shall be included directly in equity, in a fair value reserve, where: (a) the instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account; or (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity. 2. Member States may permit or require a change in the value on an available for sale financial asset, other than a derivative financial instrument, to be included directly in equity, in the fair value reserve. 4. art. 43	measured at fair value. The Council Directives do not specify whether the fair value reserve shall be recycled through profit and loss when amounts shown therein are no longer necessary. Accordingly, it is assessed that it could not be concluded to be incompatible with the Council Directives not to recycle these amounts until the Council Directives are clarified on this issue. IFRS for SMEs allows entities to recognise some actuarial gains and losses in other comprehensive income (see par. 28.24). EFRAG's initial opinion is that it would not be compatible with the Council Directives to recognise actuarial gains and losses in other comprehensive income. However, the issue needed a thorough analysis. However the option does in any case not result in an incompatibility issue, as it is only an option and it is assessed that the alternative (to recognise actuarial gains and losses in profit and loss is not in conflict with the Council Directives). Therefore it has not been assessed whether the option is in conflict with the Council Directives or not. Such an analysis would require a thorough analysis of how the concept of other comprehensive income should be understood in relation to the Council Directives and such an analysis is not within the scope of this comparison. In relation to hedging see par. 12.19. As the Council Directives require some changes in fair value of hedges to be included directly in equity, these requirements are assessed not to be incompatible with the Council Directives.	

		1. In addition to the information required under other provisions of this Directive, the notes on the accounts must set out information in respect of the following matters at least: (1) the valuation methods applied to the various items in the annual accounts, and the methods employed in calculating the value adjustments. For items included in the annual accounts which are or were originally expressed in foreign currency, the bases of conversion used to express them in local currency must be disclosed;	In response to EFRAG's draft analysis one constituent noted that the concept of OCI was not defined in the Council Directives. It thought that a statement of comprehensive income could result in different results for the financial year under IFRS for SMEs and the Council Directives as this statement should "only present" the information required by the Council Directives for the preparation of the profit and loss account. Also, the constituent noted that EFRAG in its draft letter had chosen not to consider the requirements regarding recycling included in the IFRS for SMEs to be incompatible as the Council Directives were silent on recycling. The constituent, however, thought it was important to take a position on the accounting treatment proposed by the IFRS for SMEs as the subject had potentially significant impact on the profit and loss. EFRAG noted, that it, contrary to the constituent, did not read the Council Directives as prohibiting other information, than what was required for the profit and loss account, to be presented in a statement of comprehensive income. Article 10a of the Fourth Council Directive states that the information provided in such a statement should "at least equivalent" that otherwise required to be presented in the profit and loss account. Also EFRAG noted that it had considered the items that could be recognised directly in other comprehensive income according to the Council Directives. It concluded initially that it was not in accordance with the Council Directives to recognise actuarial	

			gains and losses on a pension liability in equity/OCI. However, a comprehensive analysis about the content etc. of comprehensive income statements prepared in accordance with the Council Directives was needed before EFRAG could provide an opinion on the issue. However, as it is only an option in IFRS for SMEs to recognise actuarial gains and losses in equity, the issue was not considered as an incompatibility, as the alternative option – to recognise the actuarial gains and losses in profit or loss was not considered to be incompatible with the Council Directives. In relation to recycling EFRAG noted – as stated by the constituent – that the Council Directives does not include any specific requirements. Therefore EFRAG could not conclude that the requirements of IFRS for SMEs on this issue would be incompatible with the Council Directives.	
5.5	As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period: (a) revenue. (b) finance costs. (c) share of the profit or loss of investments in associates (see Section 14 Investments in Associates) and jointly controlled entities (see Section 15 Investments in Joint Ventures) accounted for using the equity method. (d) tax expense excluding tax allocated to items (e), (g) and (h) below (see paragraph 29.27). (e) a single amount comprising the total of (i) the post-tax profit or loss of a discontinued operation, and	4. art. 4 1. In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated. A more detailed subdivision of the items shall be authorized provided that the layouts are complied with. New items may be added provided that their contents are not covered by any of the items prescribed by the layouts. Such subdivision or new items may be required by the Member States. 2. The layout, nomenclature and terminology of items in the balance sheet and profit and loss account that are preceded by Arabic numerals must be adapted where the special nature of an undertaking so requires.	It has been assessed that entities applying IFRS for SMEs should use the layout schemes presented in the Council Directives in order to be able to comply with the Council Directives In addition it has been assessed how to comply with the requirements of the Council Directives art. 23 (income statement – expenses classified by nature) and the requirements of par. 5.5. It is assessed that: (a) Revenue would correspond to 1. Turnover (b) finance cost would correspond to 13 Interest payable and similar charges, with a separate indication of those concerning affiliated undertakings.	

	(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the net assets constituting the discontinued operation. (f) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented). (g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). (h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method. (i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).	Such adaptations may be required by the Member States of undertakings forming part of a particular economic sector. 3. The balance sheet and profit and loss account items that are preceded by Arabic numerals may be, combined where: (a) they are immaterial in amount for the purposes of Article 2 (3); or (b) such combination makes for greater clarity, provided that the items so combined are dealt with separately in the notes on the accounts. Such combination may be required by the Member States. 4. art. 22 For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26. If a Member State prescribes more than one layout, it may allow companies to choose from among them. By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles. 4. art. 30 The Member States may permit taxes on the profit or loss on ordinary activities and taxes on the extraordinary profit or loss to be shown in total as one item in the profit and loss account before 'Other taxes not shown	(c) share of the profit…. would correspond to (9) Income from participating interests, with a separate indication of that derived from affiliated undertakings. (d) tax expense excluding tax allocated to items (e), (g) and (h) below would correspond to the figure allowed in art. 30 of the Fourth Council Directive. In relation to discontinued operations see below: In relation to (e) it has been assessed whether it would be incompatible with the Council Directives to present discontinued operations as required by IFRS for SMEs. It was noted that The Fourth Council Directive art. 4.2 states that accounts that are preceded by Arabic numerals must be adapted where the special nature of an undertaking so requires. If an entity has discontinued operations this is special nature of the undertaking that would require amendments to the terminology. Also art. 4.1 allows new items to be added provided that their contents are not covered by any of the items prescribed by the layouts. The result from discontinued operations and the related tax are not covered by any other items and may therefore be added.	

		under the above items'. In that case, 'Profit or loss on ordinary activities after taxation' shall be omitted from the layouts prescribed in Articles 23 to 26. Where this derogation is applied, companies must disclose in the notes on the accounts the extent to which the taxes on the profit or loss affect the profit or loss on ordinary activities and the 'Extraordinary profit or loss'.		
5.6	An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period: (a) profit or loss for the period attributable to (i) non-controlling interest. (ii) owners of the parent. (b) total comprehensive income for the period attributable to (i) non-controlling interest. (ii) owners of the parent.	7. art. 23 The amount of any profit or loss attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated profit-and-loss account as a separate item with an appropriate heading.	The requirement in par. 5.6 (a) is in line with art. 23 of the Seventh Council Directive. The Council Directives do not include any requirements related to par. 5.6. (b) – however, the Council Directives do not prohibit should a disclosure.	
5.7	Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.	See par. 5.5	See par. 5.5	
5.8	Under this IFRS, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (see Section 10).	4. art. 4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant	The Council Directives do not include specific requirements in relation to the effects of corrections of errors and changes in accounting policies. It is assessed that the requirements of par. 5.8 are not incompatible with art. 4 of the Fourth Council Directive.	

		comments.		
5.9	An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.	4. art. 4.1 In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated. A more detailed subdivision of the items shall be authorized provided that the layouts are complied with. New items may be added provided that their contents are not covered by any of the items prescribed by the layouts. Such subdivision or new items may be required by the Member States.	Par 5.9 is assessed to be compatible with the Council Directives as long as the requirements of the Council Directives are met when adding line items, headings and subtotals.	
5.10	An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.	4. art. 29.1 1. Income and charges that arise otherwise than in the course of the company's ordinary activities must be shown under Extraordinary income and extraordinary charges'.	Par. 5.10 is not compatible with the Council Directives as art. 29 of the Fourth Council Directive requires certain items of income and expenses to be presented as extraordinary items.	
5.11	An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant. Analysis by nature of expense (a) Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (eg depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. Analysis by function of expense (b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity	The layout provided for in the Fourth Council Directive art. 23 present an analysis of expenses using a classification based on nature. The layout provided for in the Fourth Council Directive art. 25 present an analysis of expenses using a classification based on function of expenses. The layout includes the separate item 'cost of sales'.	It is assessed that par. 5.11 is not in conflict with the Council Directives.	

	discloses its cost of sales under this method separately from other expenses.			
Statement of Changes in Equity and Statement of Income and Retained Earnings				
6	This section sets out requirements for presenting the changes in an entity's equity for a period, either in a statement of changes in equity or, if specified conditions are met and an entity chooses, in a statement of income and retained earnings. The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 3.18 permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. In addition to the information required by Section 5, the statement of income and retained earnings includes: (a) retained earnings at the beginning of the reporting period. (b) dividends declared and paid or payable during the period. (c) restatements of retained earnings for corrections of prior period errors. (d) restatements of retained earnings for changes in accounting policy. (e) retained earnings at the end of the reporting period.	4. art. 6 The Member States may authorize or require adaptation of the layout of the balance sheet and profit and loss account in order to include the appropriation of profit or the treatment of loss. 7. art. 16 (similar to 4. art. 2) 1. Consolidated accounts shall comprise the consolidated balance sheet, the consolidated profit-and-loss account and the notes on the accounts. These documents shall constitute a composite whole. Member States may permit or require the inclusion of other statements in the consolidated accounts in addition to the documents referred to in the first subparagraph 4. art. 22 For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26. If a Member State prescribes more than one layout, it may allow companies to choose from among them. By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by	The Council Directives do not require an entity to present a statement of Changes in Equity. However, it is not prohibited either. The Council Directives allows entities to present a statement of performance instead of a profit a loss account. It is assessed that this could be interpreted as a statement of comprehensive income. In relation to what to include in the statement of comprehensive income see par. 5.4 See also par. 3.18.	

		those Articles.		
Statement of Cash Flows				
7	Section 7 of IFRS for SMEs requires an entity to present a statement of Cash Flows and describes the requirements to this statement and the related disclosures	The Council Directives do not require entities to present a statement of cash flows	The Council Directives do not prohibit entities from presenting a statement of cash flows in accordance with IFRS for SMEs	
Notes to the Financial Statements				
8	Section 8 of IFRS for SMEs sets out the principles underlying information that is to be presented in the notes to the financial statements and how to present it. It requires disclosure of significant accounting policies, information about judgements and estimations, together with other supporting information for items shown in the primary financial statements. It also requires the notes to be presented in a systematic manner and that each item in the financial statements are cross-referenced to any related in information in the notes.	4. art. 2.2 They shall be drawn up clearly and in accordance with the provisions of this Directive.	It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives. Also, the requirements to include cross-references and present the notes in a systematic manner seems to be in accordance with the Council Directives	
Consolidated and Separate Financial Statements				
9.1	This section defines the circumstances in which an entity presents consolidated financial statements and the procedures for preparing those statements. It also includes guidance on separate financial statements and combined financial statements.		Par. 9.1 only explains the scope of section 9 and is accordingly not incompatible with the Council Directives	
9.2	Except as permitted or required by paragraph 9.3, a parent entity shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this IFRS. Consolidated financial statements shall include all subsidiaries of the parent.	7. art. 4.1 For the purposes of this Directive, a parent undertaking and all of its subsidiary undertakings shall be undertakings to be consolidated where either the parent undertaking or one or more subsidiary undertakings is established as one of the following types of company: (j) *in the United Kingdom:* public companies limited by shares or by guarantee, private companies limited by shares or by guarantee; The first subparagraph shall also apply where either the parent undertaking or one or more subsidiary undertakings is	It is assessed that par. 9.2 is not in conflict with the Council Directives.	

		constituted as one of the types of company mentioned in Article 1 (1), second or third subparagraph of Directive 78/660/EEC. 4. art. 1 (2) second subparagraph: The coordination measures prescribed by this Directive shall also apply to the Member States' laws, regulations and administrative provisions relating to the following types of company: (l) in the United Kingdom: partnerships, limited partnerships, unlimited companies; 4. art. 1 (2) third subparagraph: where all members having unlimited liability are companies of the types set out in the first subparagraph or companies which are not governed by the laws of a Member State but which have a legal form comparable to those referred to in Directive 68/151/EEC. This Directive shall also apply to the types of companies or firms referred to in the second subparagraph where all members having unlimited liability are themselves companies of the types set out in that or the first subparagraph.		
9.3	A parent need not present consolidated financial statements if: (a) both of the following conditions are met: (i) the parent is itself a subsidiary, and (ii) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with this IFRS; or	7. art. 7 1. Notwithstanding Articles 4 (2), 5 and 6, a Member State shall exempt from the obligation imposed in Article 1 (1) any parent undertaking governed by its national law which is also a subsidiary undertaking if its own parent undertaking is governed by the law of a Member State in the following two cases:	Firstly, an entity can choose whether to use the exemption of par. 9.3 or not. Accordingly, any potential conflicts can be overcome by not allowing entities preparing financial statements in accordance with IFRS for SMEs to use the exemption. It is therefore assessed that par. 9.3 is not incompatible with the Council Directives.	

	(b) it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary: (i) at fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably, or (ii) otherwise at cost less impairment (see paragraph 11.14(c)).	(a) where that parent undertaking holds all of the shares in the exempted undertaking. The shares in that undertaking held by members of its administrative, management or supervisory bodies. pursuant to an obligation in law or in the memorandum or articles of association shall be ignored for this purpose; or (b) where that parent undertaking holds 90 % or more of the shares in the exempted undertaking and the remaining shareholders in or members of that undertaking have approved the exemption. 2. Exemption shall be conditional upon compliance with all of the following conditions: (a) the exempted undertaking and, without prejudice to Articles 13 and 15, all of its subsidiary undertakings must be consolidated in the accounts of a larger body of undertakings, the parent undertaking of which is governed by the law of a Member State; (b) (aa) the consolidated accounts referred to in (a) above and the consolidated annual report of the larger body of undertakings must be drawn up by the parent undertaking of that body and audited, according to the law of the Member State by which the parent undertaking of that larger body of undertakings is governed, in accordance with this Directive; (bb) the consolidated accounts referred to in (a) above and the consolidated annual report referred to in (aa) above, the report by the person responsible for auditing those accounts and, where appropriate, the	However, in assessing any differences between par. 9.3 and the Council Directives it is assumed that all other paragraphs of IFRS for SMEs are compatible with the Council Directives. The first exemption listed in par. 9.3 relates to a parent that is a subsidiary itself. The Council Directives includes more requirements than par. 9.3. (a). These requirements depend on the actual facts and circumstances. These additional requirements must be fulfilled before an entity (a parent that is also a subsidiary) can be exempted from preparing consolidated financial statements. In relation to par. 9.3 (b), article 13.3 (c) of the Seventh Council Directive allows an entity not to include subsidiaries in the consolidation when the shares of that subsidiary are held exclusively with a view to their subsequent resale. However, the Fourth Council Directive does not allow entities to measure such a subsidiary at fair value – as full IFRS would require such subsidiaries to be consolidated. In some cases, full IFRS would require such subsidiaries to be accounted for in accordance with IFRS 5. However, IFRS 5 requires measurement at the lowest of fair value and the carrying amount – which is assessed not to be the same as fair value.	

		appendix referred to in Article 9 must be published for the exempted undertaking in the manner prescribed by the law of the Member State governing that undertaking in accordance with Article 38. That Member State may require that those documents be published in its official language and that the translation be certified; (c) the notes on the annual accounts of the exempted undertaking must disclose: (aa) the name and registered office of the parent undertaking that draws up the consolidated accounts referred to in (a) above; and (bb) the exemption from the obligation to draw up consolidated accounts and a consolidated annual report. 3. This Article shall not apply to companies whose securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Directive 93/22/EEC. 7. art. 8 1. In cases not covered by Article 7 (1), a Member State may, without prejudice to Articles 4 (2), 5 and 6, exempt from the obligation imposed in Article 1 (1) any parent undertaking governed by its national law which is also a subsidiary undertaking, the parent undertaking of which is governed by the law of a Member State, provided that all the conditions set out in Article 7 (2) are fulfilled and that the shareholders in or members of the exempted undertaking who own a minimum proportion of the subscribed capital of that undertaking have not requested the preparation of consolidated		

		accounts at least six months before the end of the financial year. The Member States may fix that proportion at not more than 10 % for public limited liability companies and for limited partnerships with share capital, and at not more than 20 % for undertakings of other types. 2. A Member State may not make it a condition for this exemption that the parent undertaking which prepared the consolidated accounts described in Article 7 (2) (a) must also be governed by its national law. 3. A Member State may not make exemption subject to conditions concerning the preparation and auditing of the consolidated accounts referred to in Article 7 (2) (a). 7. art. 11 1. Without prejudice to Articles 4 (2), 5 and 6, a Member State may exempt from the obligation imposed in Article 1 (1) any parent undertaking governed by its national law which is also a subsidiary undertaking of a parent undertaking not governed by the law of a Member State, if all of the following conditions are fulfilled: (a) the exempted undertaking and, without prejudice to Articles 13 and 15, all of its subsidiary undertakings must be consolidated in the accounts of a larger body of undertakings; (b) the consolidated accounts referred to in (a) above and, where appropriate, the consolidated annual report must be drawn up in accordance with this Directive or in a manner equivalent to consolidated accounts		

		and consolidated annual reports drawn up in accordance with this Directive; (c) the consolidated accounts referred to in (a) above must have been audited by one or more persons authorized to audit accounts under the national law governing the undertaking which drew them up. 2. Articles 7 (2) (b) (bb) and (c) an 8 to 10 shall apply. 3. A Member State may provide for exemptions under this Article only if it provides for the same exemptions under Articles 7 to 10. 7. art 13.3 (c) In addition, an undertaking need not be included in consolidated accounts where: the shares of that undertaking are held exclusively with a view to their subsequent resale. 4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42a.1 By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be		

		restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. art. 42a.4 Valuation according to paragraph 1 shall not apply to: … (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
9.4	A subsidiary is an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a	In relation to consolidation requirements see par. 9.5 In relation to SPEs see par. 9.10 – 9.12	In relation to consolidation requirements see par. 9.5 In relation to SPEs see par. 9.10 – 9.12	

	special purpose entity (SPE) to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity (see paragraphs 9.10–9.12).		It is assessed that the explanation of par. 9.4 is not in incompatible with the Council Directives	
9.5	Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has: (a) power over more than half of the voting rights by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the entity under a statute or an agreement; (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.	7. art. 1 A Member State shall require any undertaking governed by its national law to draw up consolidated accounts and a consolidated annual report if that undertaking (a parent undertaking): (a) has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking); or (b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking; or (c) has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions. A Member State need not prescribe that a parent undertaking must be a shareholder in or member of its subsidiary undertaking. Those Member States the laws of which do not provide for each contracts or clauses shall not be required to apply this provision; or (d) is a shareholder in or member of an	It is noted that it could be assessed whether the Council Directives contrary to IFRS for SMEs, would always require an entity that holds the majority of the shareholders' or members' voting rights in another undertaking to consolidate that undertaking. However, IAS 27 of 2002 states (similarly to par. 9.5 of IFRS for SMEs): "Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control." As Directive 2003/51/EC in its preamble states: "the amendments will remove all inconsistencies between Directives […] on the one hand and IAS in existence at 1 May 2002, on the other", it has been assessed that par. 9.5 cannot be said to be incompatible with the Council Directives.	

		undertaking, and: (aa) a majority of the members of the administrative, management or supervisory bodies of that undertaking (a subsidiary undertaking) who have held office during the financial year, during the preceding financial year and up to the time when the consolidated accounts are drawn up, have been appointed solely as a result of the exercise of its voting rights; or (bb) controls alone, pursuant to an agreement with other shareholders in or members of that undertaking (a subsidiary under- taking), a majority of shareholders' or members' voting rights in that undertaking. The Member States may introduce more detailed provisions concerning the form and contents of such agreements. The Member States shall prescribe at least the arrangements referred to in (bb) above. They may make the application of (aa) above dependent upon the holding's representing 20 % or more of the shareholders' or members' voting rights. However, (aa) above shall not apply where another undertaking has the rights referred to in subparagraphs (a), (b) or (c) above with regard to that subsidiary undertaking. 2. Apart from the cases mentioned in paragraph 1 the Member States may require any undertaking governed by their national law to draw up consolidated accounts and a consolidated annual report if: (a) that undertaking (a parent undertaking) has the power to exercise, or actually exercises, dominant influence or control over another undertaking (the subsidiary		

		undertaking); or (b) that undertaking (a parent undertaking) and another undertaking (the subsidiary undertaking) are managed on a unified basis by the parent undertaking. 7. art. 13.3 In addition, an undertaking need not be included in consolidated accounts where: (a) severe long-term restrictions substantially hinder: (aa) the parent undertaking in the exercise of its rights over the assets or management of that undertaking; or (bb) the exercise of unified management of that undertaking where it is in one of the relationships defined in Article 12 (1); or (b) the information necessary for the preparation of consolidated accounts in accordance with this Directive cannot be obtained without disproportionate expense or undue delay; or (c) the shares of that undertaking are held exclusively with a view to their subsequent resale.		
9.6	Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling entity.	7. art. 1.2 Apart from the cases mentioned in paragraph 1 the Member States may require any undertaking governed by their national law to draw up consolidated accounts and a consolidated annual report if: (a) that undertaking (a parent undertaking) has the power to exercise, or actually exercises, dominant influence or control over another undertaking (the subsidiary	It has been discussed whether it would be in conflict with the Council Directives to take options and convertible instruments into consideration when determining whether or not an entity would be controlled. It is noted that the Council Directives are silent on the issue and also uses the word 'right' (right to) in many places where control is discussed. This seems to imply that also options and convertible instruments could be taken into consideration when assessing	

		undertaking); or	whether or not control exists. In response to EFRAG's draft analysis one constituent thought that the IASB's opinion to consider the actual presence on the shareholders' meeting when assessing control was incompatible with the Council Directives. EFRAG has considered this argument, but has decided that it would not include IASB's opinions but only the requirements as stated in the IFRS for SMEs into consideration in its assessment.	
9.7	A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation or similar entity.	The Council Directives includes options to exempt financial holding companies (7. Art. 5) or in cases mentioned in 7. Art. 13 or 15).	The Council Directives list some cases where subsidiaries may be excluded from consolidation – however, it is not required that they are excluded from consolidation. Accordingly, it is assessed that par. 9.7 is not incompatible with the Council Directives.	
9.8	A subsidiary is not excluded from consolidation because its business activities are dissimilar to those of the other entities within the consolidation. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.	The Council Directives includes options to exempt financial holding companies (7. Art. 5) or in cases mentioned in 7. Art. 13 or 15).	The Council Directives lists some cases where subsidiaries may be excluded – however, it is not required that they are excluded from consolidation. Accordingly, it is assessed that par. 9.8 is not incompatible with the Council Directives.	
9.9	A subsidiary is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring cash or other assets out of the jurisdiction.	The Council Directives includes options to exempt financial holding companies (7. Art. 5) or in cases mentioned in 7. Art. 13 or 15).	The Council Directives lists some cases where subsidiaries may be excluded – however, it is not required that they are excluded from consolidation. Accordingly, it is assessed that par. 9.9 is not incompatible with the Council Directives.	
9.10	An entity may be created to accomplish a narrow objective (eg to effect a lease, undertake research and development activities or securitise financial assets). Such an SPE may take the form of a corporation, trust, partnership or unincorporated entity. Often, SPEs are created with legal arrangements that impose strict requirements over		Par. 9.10 includes an explanation and no accounting requirements. Accordingly, it is assessed that the paragraph cannot be incompatible with the Council Directives.	

	the operations of the SPE.			
9.11	An entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity. In addition to the circumstances described in paragraph 9.5, the following circumstances may indicate that an entity controls an SPE (this is not an exhaustive list): (a) the activities of the SPE are being conducted on behalf of the entity according to its specific business needs. (b) the entity has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated. (c) the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE. (d) the entity retains the majority of the residual or ownership risks related to the SPE or its assets.	7. art. 1.2 Apart from the cases mentioned in paragraph 1 the Member States may require any undertaking governed by their national law to draw up consolidated accounts and a consolidated annual report if: (a) that undertaking (a parent undertaking) has the power to exercise, or actually exercises, dominant influence or control over another undertaking (the subsidiary undertaking); or (b) that undertaking (a parent undertaking) and another undertaking (the subsidiary undertaking) are managed on a unified basis by the parent undertaking.	As article 1.2 of the Seventh Council Directive states that when a parent undertaking has control over another undertaking Member States may require this undertaking to be included in the consolidation. The list included in par. 9.11 states when an entity controls an SPE and is assessed not to be incompatible with the Council Directives.	
9.12	Paragraphs 9.10 and 9.11 do not apply to post-employment benefit plans or other long-term employee benefit plans to which Section 28 Employee Benefits applies.		The requirements of section 28 are assessed in section 28.	
9.13	The consolidated financial statements present financial information about the group as a single economic entity. In preparing consolidated financial statements, an entity shall: (a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses; (b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary; (c) measure and present non-controlling interest in the profit or loss of consolidated subsidiaries for the reporting period separately from the interest of the owners of the parent; and	7. art. 19 1. The book values of shares in the capital of undertakings included in a consolidation shall be set off against the proportion which they represent of the capital and reserves of those undertakings: … (b) A Member State may require or permit set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary. 7. art. 21	The requirements of paragraph 9.13 are assessed not to be incompatible with the Council Directives	

	(d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of: (i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 Business Combinations and Goodwill, and (ii) the non-controlling interest's share of changes in equity since the date of the combination.	The amount attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. 7. art. 22 The income and expenditure of undertakings included in a consolidation shall be incorporated in full in the consolidated profit-and-loss account. 7. art. 23 The amount of any profit or loss attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated profit-and-loss account as a separate item with an appropriate heading. 7. art. 26 1. Consolidated accounts shall show the assets, liabilities, financial positions and profits or losses of the undertakings included in a consolidation as if the latter were a single undertaking.		
9.14	The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interest are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.	No explicit requirements in the Council Directives	The requirements of paragraph 9.13 are assessed not to be incompatible with the Council Directives	
9.15	The financial statements of the parent and its subsidiaries used in the preparation of the	7. art. 27	The council directives do not include an 'impracticable' exemption. Accordingly	

	consolidated financial statements shall be prepared as of the same reporting date unless it is impracticable to do so.	1. Consolidated accounts must be drawn up as at the same date as the annual accounts of the parent undertaking. 2. A Member State may, however, require or permit consolidated accounts to be drawn up as at another date in order to take account of the balance sheet dates of the largest number or the most important of the undertakings included in the consolidation. Where use is made of this derogation that fact shall be disclosed in the note on the consolidated accounts together with the reasons therefore. In addition, account must be taken or disclosure made of important events concerning the assets and liabilities, the financial position or the profit or loss of an undertaking included in a consolidation which have occurred between that undertaking's balance sheet date and the consolidated balance sheet date. …	that option is not available under the Council Directives. However, it is difficult to imagine how an entity could meet the requirements of the Council Directives if it is impracticable to do so. Accordingly, the potential conflict is not considered to be a conflict.	
9.16	The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is impracticable to do so.	3. Where an undertaking's balance sheet date precedes the consolidated balance sheet date by more than three months, that undertaking shall be consolidated on the basis of interim accounts drawn up as at the consolidated balance sheet date.	The requirements of paragraph 9.16 are assessed not to be incompatible with the Council Directives.	
9.17	Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.	7. art. 29 1. Assets and liabilities to be included in consolidated accounts shall be valued according to uniform methods and in accordance with Sections 7 and 7a and Article 60 of Directive 78/660/EEC. 2. (a) An undertaking which draws up consolidated accounts must apply the same methods of valuation as in its annual accounts. However, a Member State may require or permit the use in consolidated accounts of other methods of valuation in	The requirements of paragraph 9.17 are assessed not to be incompatible with the Council Directives.	

		accordance with the abovementioned Articles of Directive 78/660/EEC. (b) Where use is made of this derogation that fact shall be disclosed in the notes on the consolidated accounts and the reasons therefor given. 3. Where assets and liabilities to be included in consolidated accounts have been valued by undertakings included in the consolidation by methods differing from those used for the consolidation, they must be revalued in accordance with the methods used for the consolidation, unless the results of such revaluation are not material for the purposes of Article 16 (3). Departures from this principle shall be permitted in exceptional cases. Any such departures shall be disclosed in the notes on the consolidated accounts and the reasons for them given.	
9.18	The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 Foreign Currency Translation, is recognised in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary.	No specific requirements included in the Council Directives	The requirements of paragraph 9.18 are assessed not to be incompatible with the Council Directives.
9.19	If an entity ceases to be a subsidiary but the investor (former parent) continues to hold an investment in the former subsidiary, that investment shall be accounted for as a financial asset in accordance with Section 11 Basic Financial Instruments or Section 12 Other Financial Instruments Issues from the date the entity	It also seems to follow from the Council Directives that an investment should be accounted for as what it is. The Council Directives do not include specific requirements regarding the	The requirements of paragraph 9.19 are assessed not to be incompatible with the Council Directives.

	ceases to be a subsidiary, provided that it does not become an associate (in which case Section 14 Investments in Associates applies) or a jointly controlled entity (in which case Section 15 Investments in Joint Ventures applies). The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of the financial asset.	calculation of cost of financial assets when an entity ceases to be a subsidiary but becomes another investment.		
9.20	An entity shall present non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent, as required by paragraph 4.2(q).	7. art. 21 The amount attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated balance sheet as a separate item with an appropriate heading.	The requirement of paragraph 9.20 is assessed not to be incompatible with the Council Directives	
9.21	An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income, as required by paragraph 5.6 (or in the income statement, if presented, as required by paragraph 5.7).	7. art. 23 The amount of any profit or loss attributable to shares in subsidiary undertakings included in the consolidation held by persons other than the undertakings included in the consolidation shall be shown in the consolidated profit-and-loss account as a separate item with an appropriate heading	The requirement of paragraph 9.21 is assessed not to be incompatible with the Council Directives	
9.22	Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest. Total comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.	No specific requirements included in the Council Directives	Par. 9.22 is assessed not to be incompatible with the Council Directives	
9.23	The following disclosures shall be made in consolidated financial statements: (a) the fact that the statements are consolidated financial statements. (b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	

	(c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements. (d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.			
9.24	Paragraph 9.2 requires a parent to present consolidated financial statements. This IFRS does not require presentation of separate financial statements for the parent entity or for the individual subsidiaries.		This issue relates to what entities should prepare separate financial statements. Separate financial statements could be required without creating a conflict between IFRS for SMEs and the Council Directives.	
9.25	The financial statements of an entity that does not have a subsidiary are not separate financial statements. Therefore, an entity that is not a parent but is an investor in an associate or has a venturer's interest in a joint venture presents its financial statements in compliance with Section 14 or Section 15, as appropriate. It may also elect to present separate financial statements.		The explanation of what is considered to be a separate financial statement is not by itself incompatible with the Council Directives.	
9.26	When a parent, an investor in an associate, or a venturer with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to the *IFRS for SMEs*, those statements shall comply with all of the requirements of this IFRS. The entity shall adopt a policy of accounting for its investments in subsidiaries, associates and jointly controlled entities either: (a) at cost less impairment, or (b) at fair value with changes in fair value recognised in profit or loss. The entity shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or jointly controlled entities), but it can elect different policies for different classes.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35, (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. 4. art. 42a By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in	Measurement of investments in associates and jointly controlled entities at cost less impairment seems in accordance with Fourth Council Directive art. 32 and 35. Measurement of investments in associates and jointly controlled entities at fair value with changes in fair value with changes in fair value recognised in profit or loss seems in accordance with Fourth Council Directive art. 42a provided the related disclosures of (full) IFRS are provided.	

		accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
9.27	When a parent, an investor in an associate, or a venturer with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose: (a) that the statements are separate financial statements, and (b) a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates, and shall identify the consolidated financial statements or other primary financial statements to which they relate.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	
9.28	Combined financial statements are a single set of financial statements of two or more entities controlled by a single investor. This IFRS does not require combined financial statements to be prepared.		Combined financial statements could be required without creating a conflict between IFRS for SMEs and the Council Directives.	
9.29	If the investor prepares combined financial statements and describes them as conforming to the IFRS for SMEs, those statements shall comply with all of the requirements of this IFRS. Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same	No requirements included in the Council Directives as to what requirements should be fulfilled in order to be in line with IFRS for SMEs. 7. art. 26 1. Consolidated accounts shall show the assets, liabilities, financial positions and profits or losses of the undertakings included	It is assessed that the requirements of par. 9.29 are in accordance with those of art. 26 of the Seventh Council Directive. Also, it is noted that par. 27.3 of the Seventh Council Directive does not prohibit entities to prepare the financial statements of the entities as of the same reporting date.	

	reporting date unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances.	in a consolidation as if the latter were a single undertaking. In particular: (a) debts and claims between the undertakings included in a consolidation shall be eliminated from the consolidated accounts; (b) income and expenditure relating to transactions between the undertakings included in a consolidation shall be eliminated from the consolidated accounts; (c) where profits and losses resulting from transactions between the undertakings included in a consolidation are included in the book values of assets, they shall be eliminated from the consolidated accounts. Pending subsequent coordination, however, a Member State may allow the eliminations mentioned above to be effected in proportion to the percentage of the capital held by the parent undertaking in each of the subsidiary undertakings included in the consolidation. 2. A Member State may permit derogations from the provisions of paragraph 1 (c) above where a transaction has been concluded according to normal market conditions and where the elimination of the profit or loss would entail undue expense. Any such derogations must be disclosed and where the effect on the assets, liabilities, financial position and profit or loss of the undertakings, included in the consolidation, taken as a whole, is material, that fact must be disclosed in the notes on the consolidated accounts. 3. Derogations from the provisions of paragraph 1 (a), (b) or (c) above shall be permitted where the amounts concerned are not material for the purposes of Article 16 (3).		

		7. art. 27.3 Where an undertaking's balance sheet date precedes the consolidated balance sheet date by more than three months, that undertaking shall be consolidated on the basis of interim accounts drawn up as at the consolidated balance sheet date.		
9.30	The combined financial statements shall disclose the following: (a) the fact that the financial statements are combined financial statements. (b) the reason why combined financial statements are prepared. (c) the basis for determining which entities are included in the combined financial statements. (d) the basis of preparation of the combined financial statements. (e) the related party disclosures required by Section 33 Related Party Disclosures.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot be incompatible with the Council Directives.	
Accounting Policies, Estimates and Errors				
10.1	This section provides guidance for selecting and applying the accounting policies used in preparing financial statements. It also covers changes in accounting estimates and corrections of errors in prior period financial statements.		Par. 10.1 only explains the scope of section 10 and is accordingly not incompatible with the Council Directives	
10.2	Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.	The Council Directives do not explain what accounting policies are	The explanation by itself is not incompatible with the Council Directives.	
10.3	If this IFRS specifically addresses a transaction, other event or condition, an entity shall apply this IFRS. However, the entity need not follow a requirement in this IFRS if the effect of doing so would not be material.	The Council Directives do not include a general exemption for immaterial transactions and other events.	It has generally been assessed that the Council Directives could be interpreted as including a materiality threshold. In any case, the exemption to apply IFRS for SMEs if the effect of doing so would not be material is only an option. It would neither be a violation of IFRS for SMEs nor the Council Directives not to apply the option.	
10.4	If this IFRS does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy that results in	4. art. 2 (7 art. 16) … 2. They shall be drawn up clearly and in	It is assessed that the requirements in (a) - (b) of par. 10.4 are valid interpretations of a true and fair view.	

	information that is: (a) relevant to the economic decision-making needs of users, and (b) reliable, in that the financial statements: (i) represent faithfully the financial position, financial performance and cash flows of the entity; (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; (iii) are neutral, ie free from bias; (iv) are prudent; and (v) are complete in all material respects.	accordance with the provisions of this Directive. 3. The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss.	In cases when IFRS for SMEs does not specifically address a transaction, other event or condition, an entity should first consult the Council Directives. Only when the Council Directives do not specifically address the issue, (a) – (b) should be applied. However, it is assessed that the Council Directives most likely would not address a transaction, other event or condition that is not covered by IFRS for SMEs.	
10.5	In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements and guidance in this IFRS dealing with similar and related issues, and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 Concepts and Pervasive Principles.	See above	See above.	
10.6	In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues.	See above	The guidance of par. 10.6 can only be applied if the requirements of full IFRS are not in conflict with the Council Directives. However, as par. 10.6 is not a requirement, it is not incompatible with the Council Directives.	
10.7	An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If this IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.	4. art. 31.1 (b) the methods of valuation must be applied consistently from one financial year to another; 4. art. 33 The application of any such method, the balance sheet and profit and loss account	The Council Directives do not specifically include the requirement of par. 10.7. In relation to revaluation and measurement of inventory, the Council Directives requires a consistent application. However, the requirement of par. 10.7 is assessed not to be incompatible with the Council Directives.	

		items concerned and the method by which the values shown are calculated shall be disclosed in the notes on the accounts. 4. art. 40 The Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices or by the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or some similar method.		
10.8	An entity shall change an accounting policy only if the change: (a) is required by changes to this IFRS, or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.	4. art. 31 2. Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss.	The circumstances listed in par. 10.8 could be considered as 'exceptional cases' whereby par. 10.8 would be in accordance with the Council Directives.	
10.9	The following are not changes in accounting policies: (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring. (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material. (c) a change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that this IFRS would otherwise require or permit to be measured at fair value.	The Council Directives do not specify a change in accounting policy.	Par. 10.9 is assessed not to be incompatible with the Council Directives.	
10.10	If this IFRS allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an entity changes its previous choice, that is a change in accounting policy.	The Council Directives do not specify a change in accounting policy.	Par. 10.10 is assessed not to be incompatible with the Council Directives.	

10.11	An entity shall account for changes in accounting policy as follows: (a) an entity shall account for a change in accounting policy resulting from a change in the requirements of this IFRS in accordance with the transitional provisions, if any, specified in that amendment; (b) when an entity has elected to follow IAS 39 Financial Instruments: Recognition and Measurement instead of following Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues as permitted by paragraph 11.2, and the requirements of IAS 39 change, the entity shall account for that change in accounting policy in accordance with the transitional provisions, if any, specified in the revised IAS 39; and (c) an entity shall account for all other changes in accounting policy retrospectively (see paragraph 10.12).	4. art. 31 2. Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss.	The Council Directives would require that a change in valuation method should be accompanied by: - a disclosure in the notes of this fact and the reasons for the change - an assessment of the effect on the assets, liabilities, financial position and profit or loss. If the specific requirements related to the changes in IFRS for SMEs do not require these information, a difference exist. This difference can be overcome by requiring the disclosures of the Council Directives. Accordingly, par. 10.11 is not incompatible with the Council Directives. See also par. 10.13 and 10.14 below.	
10.12	When a change in accounting policy is applied retrospectively in accordance with paragraph 10.11, the entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is impracticable to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.	4. art. 4.4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant comments.	The Council Directives allow both prospective and retrospective application. Accordingly, it is assessed that par. 10.12 is not incompatible with the Council Directives.	
10.13	When an amendment to this IFRS has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:	4. art. 31 2. Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the	It is assessed that par. 10.13 is in accordance with the Council Directives.	

	(a) the nature of the change in accounting policy. (b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected. (c) the amount of the adjustment relating to periods before those presented, to the extent practicable. (d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above. Financial statements of subsequent periods need not repeat these disclosures.	notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss.		
10.14	10.14 When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following: (a) the nature of the change in accounting policy. (b) the reasons why applying the new accounting policy provides reliable and more relevant information. (c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately: (i) for the current period; (ii) for each prior period presented; and (iii) in the aggregate for periods before those presented. (d) an explanation if it is impracticable to determine the amounts to be disclosed in (c) above. Financial statements of subsequent periods need not repeat these disclosures.	4. art. 31 2. Departures from these general principles shall be permitted in exceptional cases. Any such departures must be disclosed in the notes on the accounts and the reasons for them given together with an assessment of their effect on the assets, liabilities, financial position and profit or loss.	It is assessed that par. 10.14 is in accordance with the Council Directives.	
10.15	A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations	The Council Directives do not include requirements regarding accounting estimates.	It is assessed that par. 10.15 is not incompatible with the Council Directives.	

	associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.			
10.16	An entity shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 10.17 applies, prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only, or (b) the period of the change and future periods, if the change affects both.	The Council Directives do not include requirements regarding accounting estimates.	It is assessed that par. 10.15 is not incompatible with the Council Directives.	
10.17	To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.	The Council Directives do not include requirements regarding accounting estimates.	It is assessed that par. 10.15 is not incompatible with the Council Directives.	
10.18	An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.	The Council Directives do not include requirements regarding accounting estimates.	It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	
10.19	Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorized for issue, and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.	The Council Directives do not include requirements regarding prior period errors.	It is assessed that par. 10.19 is not incompatible with the Council Directives.	
10.20	Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.	The Council Directives do not explain prior period errors.	The explanation included in par. 10.20 is not in itself incompatible with the Council Directives.	
10.21	To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its	The Council Directives do not include requirements regarding prior period errors.	It is assessed that par. 10.21 is not incompatible with the Council Directives.	

	discovery by: (a) restating the comparative amounts for the prior period(s) presented in which the error occurred, or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.			
10.22	When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).	The Council Directives do not include requirements regarding prior period errors.	It is assessed that par. 10.22 is not incompatible with the Council Directives.	
10.23	An entity shall disclose the following about prior period errors: (a) the nature of the prior period error. (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected. (c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented. (d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above. Financial statements of subsequent periods need not repeat these disclosures.	The Council Directives do not include requirements regarding prior period errors.	It is generally assessed that requirements included in IFRS for SMEs about note disclosures cannot create any conflicts with the Council Directives.	
Basic Financial Instruments				
11.1	Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues together deal with recognising, derecognising, measuring and disclosing financial instruments (financial assets and financial liabilities). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.		Par 11.1 only explains the scope of section 11 and is accordingly not incompatible with the Council Directives.	

11.2	An entity shall choose to apply either: (a) the provisions of both Section 11 and Section 12 in full, or (b) the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of Sections 11 and 12 to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for, and what information should be disclosed about the change.		This document only assesses whether the accounting requirements stated in IFRS for SMEs are in accordance with the Council Directives. Accordingly, it is not assessed whether the recognition and measurement provisions of IAS 39 are compatible with the Council Directives.	
11.3	A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.	No definition/explanation of a financial instrument is included in the Council Directives.	The definition/explanation of a financial instrument is not in itself incompatible with the Council Directives.	
11.4	Section 11 requires an amortised cost model for all basic financial instruments except for investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares that are publicly traded or whose fair value can otherwise be measured reliably.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 3. Paragraph 1 shall apply only to liabilities that are:	According to the Council Directives all financial instruments can be measured at cost. Also all financial instruments can be measured at fair value – expect for those listed in art. 42a.3 and 42a.4. These financial instruments can only be measured at fair value if they can be measured at fair value according to international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006. Investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares that are publicly traded or whose fair value can otherwise be measured reliably can be	

		(a) held as part of a trading portfolio; or (b) derivative financial instruments. 4. Valuation according to paragraph 1 shall not apply to: (a) to non-derivative financial instruments held to maturity; (b) to loans and receivables originated by the company and not held for trading purposes; and (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.	measured at fair value according to the Council Directives unless they are interests in subsidiaries, associated undertakings or joint ventures. In these cases measurement at fair value is assessed in relation to par. 14.7, 15.9 and 9.3. According to par. 11.7 these investment are also out of the scope of section 11. In other cases par. 11.4 is not incompatible with the Council Directives.	
11.5	[par. 11.5 includes a list of examples of financial instruments that normally satisfy the conditions to be within the scope of section 11. The list is not		Examples of instruments within the scope of section 11 cannot itself be incompatible with the Council Directives	

	reproduced in this document]			
11.6	[par. 11.6 includes a list of examples of financial instruments that do not normally satisfy the conditions to be within the scope of section 11. The list is not reproduced in this document]		Examples of instruments within the scope of section 11 cannot itself be incompatible with the Council Directives	
11.7	Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following: (a) investments in subsidiaries, associates and joint ventures that are accounted for in accordance with Section 9 Consolidated and Separate Financial Statements, Section 14 Investments in Associates or Section 15 Investments in Joint Ventures. (b) financial instruments that meet the definition of an entity's own equity (see Section 22 Liabilities and Equity and Section 26 Share-based Payment). (c) leases, to which Section 20 Leases applies. However, the derecognition requirements in paragraphs 11.33–11.38 apply to derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee. Also, Section 12 may apply to leases with characteristics specified in paragraph 12.3(f). (d) employers' rights and obligations under employee benefit plans, to which Section 28 Employee Benefits applies.		Par 11.7 only explains the scope of section 11 and is accordingly not incompatible with the Council Directives.	
11.8	An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11: (a) cash. (b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9. (c) a commitment to receive a loan that: (i) cannot be settled net in cash, and		Par 11.8 only explains the scope of section 11 and is accordingly not incompatible with the Council Directives.	

	(ii) when the commitment is executed, is expected to meet the conditions in paragraph 11.9. (d) an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.			
11.9	A debt instrument that satisfies all of the conditions in (a)–(d) below shall be accounted for in accordance with Section 11: (a) Returns to the holder are (i) a fixed amount; (ii) a fixed rate of return over the life of the instrument; (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or (iv) some combination of such fixed rate and variable rates (such as LIBOR plus 200 basis points), provided that both the fixed and variable rates are positive (eg an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period. (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision. (c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events. (d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).		Par 11.9 only explains the scope of section 11 and is accordingly not in conflict with the Council Directives.	

11.10	[par. 11.10 includes a list of examples of financial instruments that would normally satisfy the conditions in par. 11.9. The list is not reproduced in this document]		Examples of instruments that would satisfy the conditions in par. 11.9 cannot itself be in conflict with the Council Directives	
11.11	[par. 11.11 includes a list of examples of financial instruments that do not satisfy the conditions in par. 11.9. The list is not reproduced in this document]		Examples of instruments that would not satisfy the conditions in par. 11.9 cannot itself be in conflict with the Council Directives	
11.12	An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.	No specific recognition criteria included in the Council Directives.	Par. 11.12 is assessed not to be in conflict with the Council Directives.	
11.13	When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. [an example is included in the paragraph. This example is not reproduced in this document.]	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35 (for fixed assets) 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	The Council Directives do not specify whether or not transaction cost should be included in the transaction price when the financial instrument is not a fixed asset. Also, the Council Directives do not specify how to account for deferred payment. Par. 11.13 is assess not to result in a conflict with the Council Directives.	
11.14	At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal: (a) Debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at amortised cost using the effective interest method. Paragraphs	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 41	The Council Directives do not explicitly allow measurement at amortised cost using the effective interest method. However, they do not seem to prohibit this either. The text of art. 41 of the Fourth Council Directive allows presenting the difference between the amount repayable and the amount	

	11.15–11.20 provide guidance on determining amortised cost using the effective interest method. Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21–11.26) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13). If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. (b) Commitments to receive a loan that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment. (c) Investments in non-convertible preference shares and non-puttable ordinary or preference shares that meet the conditions in paragraph 11.8(d) shall be measured as follows (paragraphs 11.27–11.33 provide guidance on fair value): (i) if the shares are publicly traded or their fair value can otherwise be measured reliably, the investment shall be measured at fair value with changes in fair value recognised in profit or loss. (ii) all other such investments shall be measured at cost less impairment. Impairment or uncollectibility must be assessed for financial instruments in (a), (b) and (c)(ii) above. Paragraphs 11.21–11.26 provide guidance.	1. Where the amount repayable on account of any debt is greater than the amount received, the difference may be shown as an asset. It must be shown separately in the ba-lance sheet or in the notes on the accounts. 2. The amount of this difference must be written off by a reasonable amount each year and completely written off no later than the time of repayment of the debt. 4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 3. Paragraph 1 shall apply only to liabilities that are: (a) held as part of a trading portfolio; or (b) derivative financial instruments. 4. Valuation according to paragraph 1 shall not apply to: (a) to non-derivative financial instruments held to maturity; (b) to loans and receivables originated by the company and not held for trading purposes; and (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a	received as an asset. Accordingly, this treatment is not required but only an option ("'may' be show"). The Council Directives do not include specific requirements regarding deferred payment. The requirements in relation to deferred payments of par. 11.14 do not seem to conflict with the Council Directives. A commitment to receive a loan (that cannot be settled net in cash) may be regarded as an intangible asset (if it is has a positive value) according to the Council Directives. Measurement at cost less impairment would in that case be in accordance with the Council Directives. It is assumed that 11.14 (c) does not deal with cases where the commitment has a negative value (see section 21) The investments mentioned in 11.14 can be measured at either cost less impairment or at fair value according to the Council Directives. Accordingly, par. 11.14 (c) would not result in a conflict with the Council Directives.

		business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
11.15 - 11.19	[par. 11.15 to 11.19 contain a description of how measurement at amortised cost using the effective interest method is carried out. The paragraphs are not reproduced in this document	The Council Directives do not prescribe a method to calculated amortised cost using the effective interest method.	Par. 11.15 – 11.19 are not considered to be in conflict with the Council Directives (as it is assessed not to be incompatible with the Council Directives to measure at amortised cost.	
11.20	If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The entity shall recognise the adjustment as income or expense in profit or loss at the date of the revision. [The paragraph includes an example of determining amortised cost for a five-year loan using the effective	The Council Directives do not prescribe a method how to revise estimates of cash flows when using the effective interest method.	Par. 11.20 is not considered to be incompatible with the Council Directives.	

	interest method. The example is not reproduced in this document].			
11.21	At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately.	4. art. 35.1 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. … (cc) The value adjustments referred to in (aa) and (bb) must be charget to the profit and loss account and disclosed separately in the notes on the accounts if they have not been shown separately in the profit and loss account. … 4. art. 39.1 1. (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date.	The Council Directives do not require 'objective evidence of impairment', however, it is assessed that it does not result in a conflict with the Council Directives to require 'objective evidence'. In relation to current financial assets the Council Directives do not directly mention that impairment losses shall be recognised in profit or loss. However, the layout-schemes for the profit and loss account include a line item 'value adjustments in respect of financial assets and of investments held as current assets. Accordingly, the requirements of par. 11.21 are assessed not to be incompatible with the Council Directives.	
11.22	Objective evidence that a financial asset or group of assets is impaired includes observable data that	The Council Directives do not include an explanation of when there is objective	It is assessed that par. 11.22 is not incompatible with the Council Directives.	

	come to the attention of the holder of the asset about the following loss events: (a) significant financial difficulty of the issuer or obligor. (b) a breach of contract, such as a default or delinquency in interest or principal payments. (c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider. (d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation. (e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.	evidence that a financial asset or group of assets is impaired.		
11.23	Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.	The Council Directives do not include an explanation of when there is objective evidence that a financial asset or group of assets is impaired.	It is assessed that par. 11.22 is not incompatible with the Council Directives.	
11.24	An entity shall assess the following financial assets individually for impairment: (a) all equity instruments regardless of significance, and (b) other financial assets that are individually significant. An entity shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.	The Council Directives do not include an explanation of how impairment should be assessed.	It seems in accordance with the Directives to assess each financial assets individually. Assessment could be carried out on a group level as long as the requirements of the Council Directives are met.	
11.25	An entity shall measure an impairment loss on the following instruments measured at cost or amortised cost as follows: (a) for an instrument measured at amortised cost in	4. art. 35.1 (fixed assets) (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed	It is not specified in the Council Directives what 'lower figure to be attributed to them' and 'particular circumstances' are. Accordingly, it is assessed that par. 11.25 is not incompatible with the Council	

	accordance with paragraph 11.14(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. (b) for an instrument measured at cost less impairment in accordance with paragraph 11.14(b) and (c)(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.	to them at the balance sheet date. 4. art. 39.1 (current assets) (b) Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date.	Directives.	
11.26	If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognised. The entity shall recognise the amount of the reversal in profit or loss immediately.	4. art. 35.1 (dd)Valuation at the lower of the values provided for in (aa) and (bb) may not be continued if the reasons for which the value adjustments were made have ceased to apply. 4. art. 39.1 (current assets) (d) Valuation at the lower value provided for in (b) and (c) may not be continued if the reasons for which the value adjustments were made have ceased to apply.	Par 11.26 is assessed not to be incompatible with the Council Directives.	
11.27	Paragraph 11.14(c)(i) requires an investment in ordinary shares or preference shares to be measured at fair value if the fair value of the shares can be measured reliably. An entity shall use the following hierarchy to estimate the fair value of the shares: (a) The best evidence of fair value is a quoted price for an identical asset in an active market. This is usually the current bid price. (b) When quoted prices are unavailable, the price of a	4. art. 42b 1. The fair value referred to in Article 42a shall be determined by reference to: (a) a market value, for those financial instruments for which a reliable market can readily be identified. Where a market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, the	It is noted that the Fourth Council Directive explicitly requires the use of market values for an instrument's component or a similar instrument before the use of a valuation model – whereas this is not required by par. 11.27. However, use of market values for an instrument's component or a similar instrument can be regarded as a valuation technique (see 11.28 and 11.29 below). Accordingly, entities should apply	

	recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. (c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Other sections of this IFRS make reference to the fair value guidance in paragraphs 11.27–11.32, including Section 12, Section 14, Section 15 and Section 16 *Investment Property*. In applying that guidance to assets covered by those sections, the reference to ordinary shares or preference shares in this paragraph should be read to include the types of assets covered by those sections.	market value may be derived from that of its components or of the similar instrument; or (b) a value resulting from generally accepted valuation models and techniques, for those instruments for which a reliable market cannot be readily identified. Such valuation models and techniques shall ensure a reasonable approximation of the market value. 2. Those financial instruments that cannot be measured reliably by any of the methods described in paragraph 1, shall be measured in accordance with Articles 34 to 42.	this valuation technique under IFRS for SMEs if the relevant information is available. Accordingly, it is assessed that there is no incompatibility – only a difference.	
11.28	Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, if available, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.	See above	Par. 11.28 is assessed not to be incompatible with the Council Directives.	
11.29	The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length	See above	Par. 11.29 is assessed not to be incompatible with the Council Directives.	

	exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the asset, and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.			
11.30	The fair value of investments in assets that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset, or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.	The Council Directives do not include an explanation of when something can be measured reliably at fair value.	Par. 11.30 is assessed not to be incompatible with the Council Directives.	
11.31	There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the asset at fair value.	The Council Directives do not include an explanation of when something can be measured reliably at fair value.	Par. 11.31 is assessed not to be incompatible with the Council Directives.	
11.32	If a reliable measure of fair value is no longer available for an asset measured at fair value (eg an equity instrument measured at fair value through profit or loss), its carrying amount at the last date the asset was reliably measurable becomes its new cost. The entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available.	The Council Directives do not include requirements on how to measure cost of financial assets previously measured at fair value.	Par. 11.32 is assessed not to be incompatible with the Council Directives.	

11.33	An entity shall derecognise a financial asset only when: (a) the contractual rights to the cash flows from the financial asset expire or are settled, or (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the entity, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall: (i) derecognise the asset, and (ii) recognise separately any rights and obligations retained or created in the transfer. The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in profit or loss in the period of the transfer.	The Council Directives do not include derecognition criteria.	Par. 11.33 is assessed not to be incompatible with the Council Directives.	
11.34	If a transfer does not result in derecognition because the entity has retained significant risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.	The Council Directives do not include any requirements related to transferred but non-derecognised assets.	Par. 11.34 is assessed not to be in conflict with the Council Directives	
11.35	If a transferor provides non-cash collateral (such as	The Council Directives do not include any	In the situation described in par. 11.35 (a)	

	debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows: (a) If the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its statement of financial position (eg as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets. (b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral. (c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral. (d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset. [an example of transfer that qualifies for derecognition is included in the paragraph. The example is not reproduced in this document].	requirements related to non-cash collateral provided to a transferee. 4. art 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 4. art. 42 Provisions may not exceed in amount the sums which are necessary. The provisions shown in the balance sheet under 'Other provisions' must be disclosed in the notes on the accounts if they are material.	the entity would have to meet the requirements related to the presentation of the balance sheet included in the Council Directives. However, it is assessed that this would not result in a conflict between IFRS for SMEs and the Council Directives as it would be possible to meet the requirements of both. It has been assessed that it would not be incompatible with the Council Directives to measure the liability to replace the non-cash collateral at fair value. It has been assessed that the liability to replace the collateral (par. 11.35 (b)) seems to meet the definition of a provision included in the Fourth Council Directive. It is also assessed that measurement at fair value would meet the criteria of art. 42 of the Fourth Council Directive. The Council Directives do not prescribe how account for defaults of the transferor. Par. 35 (c) is considered not to be incompatible with the Council Directives. Also, par. 35 (d) is assessed not to be incompatible with the Council Directives.	
11.36	An entity shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished—ie when the obligation specified in the contract is discharged, is cancelled or expires.	The Council Directives do not include derecognition criteria.	Par. 11.36 is assessed not to be incompatible with the Council Directives.	
11.37	If an existing borrower and lender exchange financial instruments with substantially different terms, the entities shall account for the transaction as an	The Council Directives do not include derecognition criteria.	Par. 11.37 is assessed not to be incompatible with the Council Directives.	

	extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.			
11.38	The entity shall recognise in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.		Par. 11.38 is assessed not to be incompatible with the Council Directives.	
11.39 - 11.48	[par. 11.39 – 11.48 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures cannot be incompatible with the Council Directives.	
Other Financial Instruments Issues				
12.1	Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues together deal with recognising, derecognising, measuring, and disclosing financial instruments (financial assets and financial liabilities). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.		Par 12.1 only explains the scope of section 12 and is accordingly not in itself incompatible with the Council Directives.	
12.2	An entity shall choose to apply either: (a) the provisions of both Section 11 and Section 12 in full, or (b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12 to account for all of its financial instruments. An		This document only assesses whether the accounting requirements stated in IFRS for SMEs are in accordance with the Council Directives. Accordingly, it is not assessed whether the recognition and measurement provisions of IAS 39 are in conflict with the Council Directives.	

	entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for, and what information should be disclosed about the change in accounting policy.			
12.3	Section 12 applies to all financial instruments except the following: (a) those covered by Section 11. (b) interests in subsidiaries (see Section 9 *Consolidated and Separate Financial Statements*), associates (see Section 14 *Investments in Associates*) and joint ventures (see Section 15 *Investments in Joint Ventures*). (c) employers' rights and obligations under employee benefit plans (see Section 28 *Employee Benefits*). (d) rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to: (i) changes in the insured risk; (ii) changes in foreign exchange rates; or (iii) a default by one of the counterparties. (e) financial instruments that meet the definition of an entity's own equity (see Section 22 *Equity* and Section 26 *Share-based Payment*). (f) leases (see Section 20 *Leases*) unless the lease could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to: (i) changes in the price of the leased asset; (ii) changes in foreign exchange rates; or (iii) a default by one of the counterparties. (g) contracts for contingent consideration in a business combination (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.		Par 12.3 only explains the scope of section 12 and is accordingly not in itself incompatible with the Council Directives.	

12.4	Most contracts to buy or sell a non-financial item such as a commodity, inventory, or property, plant and equipment are excluded from this section because they are not financial instruments. However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell tangible assets. For example, this section applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties.	The Council Directives do (except in relation to commodity-based contracts – see par. 12.5) not define what a financial instrument is.	Par 12.4 only explains the scope of section 12 and is accordingly not in itself incompatible with the Council Directives. Also the definition/explanation of financial instruments is considered to be applicable to 'financial instruments' in the Council Directives.	
12.5	In addition to the contracts described in paragraph 12.4, this section applies to contracts to buy or sell non-financial items if the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not financial instruments for the purposes of this section.	4. art 42a 2. For the purpose of this Directive commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument shall be considered to be derivative financial instruments, except when: (a) they were entered into and continue to meet the company's expected purchase, sale or usage requirements; (b) they were designated for such purpose at their inception; and (c) they are expected to be settled by delivery of the commodity.	Par 12.5 only explains the scope of section 12 and is accordingly not in itself incompatible with the Council Directives. Also the definition/explanation of financial instruments is considered to be applicable to 'financial instruments' in the Council Directives.	
12.6	An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument	The Council Directives do not include recognition criteria.	Par. 12.6 is assessed not to be incompatible with the Council Directives.	
12.7	When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value, which is normally the transaction price.	See par. 12.8	See par 12.8.	
12.8	At the end of each reporting period, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	According to the Council Directives all financial instruments can be measured at cost. Also, all financial instruments can be measured at fair value – expect for those listed in art. 42a.3 and 42a.4. These financial instruments can only be	

	contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 3. Paragraph 1 shall apply only to liabilities that are: (a) held as part of a trading portfolio; or (b) derivative financial instruments. 4. Valuation according to paragraph 1 shall not apply to: (a) to non-derivative financial instruments held to maturity; (b) to loans and receivables originated by the company and not held for trading purposes; and (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting	measured at fair value if they can be measured at fair value according to international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006. IFRS for SMEs would require other liabilities than those listed in art 42a.3 of the Fourth Council Directives to be measured at fair value. However, the criteria to measure financial instruments at fair value included in IFRS for SMEs are different those of (full) IFRS. According to full IFRS, when disregarding financial liabilities arising on the transfer of a financial asset and hedged items, financial liabilities can only be measured at fair value if it meets either of the following conditions (IAS 39.9): (a) It is classified as held for trading. A financial liability is classified as held for trading if: (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).	

		standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.	(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 *Related Party Disclosures* (as revised in 2003)), for example the entity's board of directors and chief executive officer. IAS 39.11A Notwithstanding paragraph 11, if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: (a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (b) it is clear with little or no analysis	

			when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost. In cases where a financial liability is not held for trading, measurement at fair value does not eliminate an accounting mismatch and it is not managed on a fair value basis, the liability can only be measured at fair value if the requirements of IAS 39.11a are met. A financial liability could included an embedded derivate – for example a leverage feature – that does not significantly modify the cash flows that otherwise would be required by the contract. According to IFRS for SMEs par. 11.9 this instrument cannot be considered as a basic financial instrument and should therefore be measured at fair value. As this instrument cannot be measured at fair value according to (full) IFRS or other criteria included in the Council Directives, the requirement is incompatible with the Council Directives.	
12.9	If a reliable measure of fair value is no longer available for an equity instrument that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date the instrument was reliably measurable is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until a reliable measure of fair value becomes available.	4. art. 42a 2. Those financial instruments that cannot be measured reliably by any of the methods described in paragraph 1, shall be measured in accordance with Articles 34 to 42.	Par. 12.9 is assessed not to be incompatible with the Council Directives.	
12.10	An entity shall apply the guidance on fair value in paragraphs 11.27–11.32 to fair value measurements in accordance with this section as well as for fair	See par. 11.27	See par. 11.27	

	value measurements in accordance with Section 11.			
12.11	The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.	See par. 11.27	It could be argued that if a market value of a financial liability that is due on demand is less than the amount payable, discounted from the first date that the amount could be required to be paid, then either the market value is not reliable or the entities credit rating is taking into consideration. The Council Directives do not require an entities credit rating to be taken into account when determining the fair value. Accordingly, it is assessed that par. 12.11 is not incompatible with the Council Directives.	
12.12	An entity shall not include transaction costs in the initial measurement of financial assets and liabilities that will be measured subsequently at fair value through profit or loss. If payment for an asset is deferred or is financed at a rate of interest that is not a market rate, the entity shall initially measure the asset at the present value of the future payments discounted at a market rate of interest.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.	The Council Directives do not require that an entity should initially be measured at cost if it subsequently is measured at fair value. However, at the balance sheet date both Council Directives and IFRS for SMEs require measurement at fair value. Accordingly, par. 12.12 is not considered to be incompatible with the Council Directives.	
12.13	An entity shall apply the guidance on impairment of a financial instrument measured at cost in paragraphs 11.21–11.26 to financial instruments measured at cost less impairment in accordance with this section.	See par. 11.21	See par. 11.21.	
12.14	An entity shall apply the derecognition requirements in paragraphs 11.33–11.38 to financial assets and financial liabilities to which this section applies.	See par. 11.33 – 11.38	See par. 11.33 – 11.38.	
12.15	If specified criteria are met, an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same	The Council Directives do neither prohibit nor require hedge accounting for certain items	It is assessed that par. 12.15 is not incompatible with the Council Directives.	

	time.			
12.16	To qualify for hedge accounting, an entity shall comply with all of the following conditions: (a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument. (b) the hedged risk is one of the risks specified in paragraph 12.17. (c) the hedging instrument is as specified in paragraph 12.18. (d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.	The Council Directives do neither prohibit nor require hedge accounting for certain items.	It is assessed that par. 12.16 is not incompatible with the Council Directives.	
12.17	This IFRS permits hedge accounting only for the following risks: (a) interest rate risk of a debt instrument measured at amortised cost. (b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction. (c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity. (d) foreign exchange risk in a net investment in a foreign operation. Foreign exchange risk of a debt instrument measured at amortised cost is not in the list above because hedge accounting would not have any significant	The Council Directives do neither prohibit nor require hedge accounting for certain items.	It is assessed that par 12.17 is not incompatible with the Council Directives.	

	effect on the financial statements. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph 11.5(d)). This would include payables denominated in a foreign currency. Paragraph 30.10 requires any change in the carrying amount of the payable because of a change in the exchange rate to be recognised in profit or loss. Therefore, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the liability is measured) and the forward rate (at which the swap is measured).			
12.18	This IFRS permits hedge accounting only if the hedging instrument has all of following terms and conditions: (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk. (b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on). (c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item. (d) it has a specified maturity date not later than (i) the maturity of the financial instrument being hedged, (ii) the expected settlement of the commodity purchase or sale commitment, or (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.	The Council Directives do not include any requirements to hedging instruments.	It is assessed that par 12.17 is not incompatible with the Council Directives.	

	(e) it has no prepayment, early termination or extension features.			
12.19	If the conditions in paragraph 12.16 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall: (a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss, and (b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 3. Paragraph 1 shall apply only to liabilities that are: (a) held as part of a trading portfolio; or (b) derivative financial instruments. 4 art. 42a.5 By way of derogation from Article 32, Member States may in respect of any assets and liabilities which qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, permit valuation at the specific amount required under that system. 4. art. 42c 1. Notwithstanding Article 31(1)(c), where a financial instrument is valued in accordance with Article 42b, a change in the value shall be included in the profit and loss account. However, such a change shall be included directly in equity, in a fair value reserve, where: (a) the instrument accounted for is a hedging	According to par. 12.18 only derivatives can be used as hedging instruments. These instruments can be measured at fair value through profit and loss according to art 42a and 42c of the Council Directives. Hedged items can be measured at any amount under the hedge system according to art. 42a.5. It is assess that the changes in fair value related to this risk of a financial instrument can also be recognised in profit and loss according to art. 42c. Accordingly, it is assessed that par. 12.19 is not incompatible with the Council Directives.	

		instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account; or (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity.		
12.20	If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the entity shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.	4. art. 31.1 (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	It is assessed that par. 12.20 is not incompatible with the Council Directives.	
12.21	The entity shall discontinue the hedge accounting specified in paragraph 12.19 if: (a) the hedging instrument expires or is sold or terminated; (b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 12.16; or (c) the entity revokes the designation.	The Council Directives do not include criteria regarding the discontinuation of hedge accounting.	It is assessed that par. 12.21 is not incompatible with the Council Directives.	
12.22	If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged instrument.	The Council Directives do not specify how to account for items related to discontinued hedge accounting	It is assessed that par. 12.22 is not incompatible with the Council Directives.	
12.23	If the conditions in paragraph 12.16 are met and the hedged risk is (a) the variable interest rate risk in a debt instrument measured at amortised cost, (b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction, (c) the commodity price risk in a firm commitment or	4. art. 42c 1. Notwithstanding Article 31(1)(c), where a financial instrument is valued in accordance with Article 42b, a change in the value shall be included in the profit and loss account. However, such a change shall be included directly in equity, in a fair value reserve, where:	The Council Directives do not specify whether or not it is possible to re-cycle the amount included in the fair value reserve. However, as the Council Directives do not prohibit this it is assessed that par. 12.23 cannot be said to be incompatible with the Council Directives.	

	highly probable forecast transaction, or (d) the foreign exchange risk in a net investment in a foreign operation, the entity shall recognise in other comprehensive income the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The entity shall recognise in profit or loss any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.	(a) the instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account; or (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity.		
12.24	If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the entity shall subsequently recognise in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.	4. art. 31.1 (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	It is assessed that par. 12.24 is not incompatible with the Council Directives.	
12.25	The entity shall discontinue the hedge accounting specified in paragraph 12.23 if: (a) the hedging instrument expires or is sold or terminated; (b) the hedge no longer meets the criteria for hedge accounting in paragraph 12.16; (c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or (d) the entity revokes the designation. If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified from	The Council Directives do not include any requirements relating to when an entity should discontinue hedge accounting.	The Council Directives do not specify whether or not it is possible to re-cycle the amount included in the fair value reserve. However, as the Council Directives do not prohibit this, it is assessed that par. 12.25 cannot be said to be incompatible with the Council Directives.	

	other comprehensive income to profit or loss.			
12.26 - 12.29	[par. 12.26 – 12.29 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures cannot be incompatible with the Council Directives.	
Inventories				
13.1	This section sets out the principles for recognising and measuring inventories. Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.	*Stocks* 1. Raw materials and consumables. 2. Work in progress. 3. Finished goods and goods for resale. 4. Payments on account.	The Directives does not include a specific list of what inventories are. However, in art. 9.D.1 and 10.D.1 it is specified what should be presented under the heading 'stocks' in the balance sheet. It is assessed that par. 13.1 is not incompatible with the Council Directives in itself as it only specifies the scope of section 13.	
13.2	This section applies to all inventories, except: (a) work in progress arising under construction contracts, including directly related service contracts (see Section 23 *Revenue*). (b) financial instruments (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*). (c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see Section 34 *Specialised Activities*).		Par. 13.2 only specifies the scope of section 13 and cannot be incompatible with the Council Directives.	
13.3	This section does not apply to the measurement of inventories held by: (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through profit or loss, or (b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 2. For the purpose of this Directive	The Council Directives seems to allow forest products and commodity brokers' inventory to be measured at fair value less cost to sell as "by reference to fair value" in art. 42e is interpreted also to include fair value less cost to sell. It may be that commodity-based contract in some cases should be accounted for as a financial instrument under the Council Directives. However, the same rules apply under IFRS for SMEs (see par. 12.15). Accordingly it is assessed that par. 13.3	

		commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument shall be considered to be derivative financial instruments, except when: (a) they were entered into and continue to meet the company's expected purchase, sale or usage requirements; (b) they were designated for such purpose at their inception; and (c) they are expected to be settled by delivery of the commodity. 4. art. 42e: By way of derogation from Article 32, Member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. art 42f: Notwithstanding Article 31(1)(c), Member States may permit or require in respect of all companies or any classes of company that, where an asset is valued in accordance with Article 42e, a change in the value is included in the profit and loss account.	is not incompatible with the Council Directives.	
13.4	An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.	4. Art 39: (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or,	It is unclear whether the term “market value” of the directive would be the same as estimated selling price less costs to complete and sell. It would be reasonable to assume that it could be close to estimated selling price less costs to	

		in particular circumstances, another lower value to be attributed to them at the balance sheet date. (c) The Member States may permit exceptional value adjustments where, on the basis of a reasonable commercial assessment, these are necessary if the valuation of these items is not to be modified in the near future because of fluctuations in value. The amount of these value adjustments must be disclosed separately in the profit and loss account or in the notes on the accounts. (d) Valuation at the lower value provided for in (b) and (c) may not be continued if the reasons for which the value adjustments were made have ceased to apply. Interpretative communication: 2.5.8. Valuation of inventories (Article 39 (1) (b)) 44. Article 39 (1) (b) states that current assets should be shown at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date. 45. Although the Directive does not make any specific reference to the concept of net realizable value, it appears difficult to imagine any practical case where the lower value to be attributed to inventories at the balance sheet date is materially different from the net realizable value. The concept of net realizable value is therefore compatible with the Directive.	complete. On the other hand, it seems more doubtful that also costs to sell could be subtracted. However, as the Council Directives also allows measurement in particular circumstances at another lower value to be attributed to the asset, it is assessed that par. 13.4 is not incompatible with the Council Directives.	
13.5	An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.	4. art. 39.1: (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below.	It is assessed that 13.5 of IFRS for SMEs is in accordance with the Council Directives. The Council Directives prohibits distribution costs to be included in cost of inventories. However, distribution cost is regarded as cost	

		4. art. 39.2: The definitions of purchase price and of production cost given in Article 35 (2) and (3) shall apply. The Member States may also apply Article 35 (4). Distribution costs may not be included in production costs. 4. art. 35.2: The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production. 4. art. 35.4: Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under 'Assets' must be disclosed in the notes on the accounts.	incurred after a product has been sold. IFRS for SMEs requires cost related to moving the inventory (before it is sold) which does not seem to be prohibited by the Council Directives.	
13.6	The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are	See above	The paragraph seems to be in accordance with the Council Directives. The Council Directives do not specify how to account for trade discounts etc.	

	deducted in determining the costs of purchase.			
13.7	An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest expense over the period of the financing and is not added to the cost of the inventories.	See above	The paragraph seems compatible with the Council Directives. The Council Directives do not specify how purchase on deferred settlement terms should be accounted for.	
13.8	The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.	See above	The paragraph requires all direct cost to be included in the production cost this is in line with the Council Directives. The inclusion of production overheads is in accordance with art. 35.3 as long as the production costs relate to the period of production. The fact that par. 13.8 states that the cost should be incurred in converting materials into finished goods and the prohibition of par. 13.9 to increase overhead allocation to each unit of production as a consequence of low production or idle plant is regarded as a mean to meet the requirement of art. 35.3.	
13.9	An entity shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured	See above	See above	

	above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.			
13.10	A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.	See above	The paragraph is assessed not to be incompatible with the Council Directives. The Council Directives do not specify how to allocate cost between a main product and a by-product.	
13.11	An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.	See above	The paragraph is assessed to be in accordance with the Council Directives. The paragraph seems to sate what is stated in art. 35.3 (a) of the Fourth Council Directive	
13.12	Paragraph 12.19(b) provides that, in some circumstances, the change in the fair value of the hedging instrument in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.	4. art. 42a.5 By way of derogation from Article 32, Member States may in respect of any assets and liabilities which qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, permit valuation at the specific amount required under that system.	Art. 42a.5 seems to allow any valuation for hedged items if this valuation is in accordance with the hedging system. Par. 13.12 is thus assess to be in accordance with the Council Directives.	
13.13	Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are: (a) abnormal amounts of wasted materials, labour or other production costs. (b) storage costs, unless those costs are necessary during the production process before a further	4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question.	The paragraph seems to be in accordance with the Fourth Council Directive art. 35.3.	

	production stage. (c) administrative overheads that do not contribute to bringing inventories to their present location and condition. (d) selling costs.	(b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.		
13.14	To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.	4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	The paragraph seems to be in accordance with the Fourth Council Directive art. 35.3.	
13.15	Section 34 requires that inventories comprising agricultural produce that an entity has harvested from its biological assets should be measured on initial recognition at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.	Art. 42e: By way of derogation from Article 32, member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. 4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question.	Art. 42e allows Member States to specify that non-financial assets should or could be measured by reference to fair value. It is assessed not to be incompatible with art. 35.3 to assume that this value is the costs directly attributable to the 'production' of the inventory	
13.16	An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the	4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question.	Firstly, it is noted that par. 13.16 is only an option. Accordingly, the paragraph does not result in IFRS for SMEs being incompatible with the Council Directives, as it would be possible to measure inventories at cost under both IFRS for SMEs and the Council Directives.	

	light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.	(b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production. 4. art. 33.1 The Member States may declare to the Commission that they reserve the power, by way of derogation from Article 32 and pending subsequent coordination, to permit or require in respect of all companies or any classes of companies: (a) valuation by the replacement value method for tangible fixed assets with limited useful economic lives and for stocks;	The use of e.g. the retail method or most recent purchase price will result in a different result than what would result from applying a cost method in accordance with the Fourth Council Directive. However, par. 13.16 states that the method can only be used if it approximates cost (as calculated by IFRS). As appears above, the way cost is calculated according to IFRS for SMEs in relation to inventory is in accordance with the Council Directives. Therefore, use of e.g. retail method or most recent purchase price according to IFRS for SMEs can only be used if it would approximates cost as calculated by the Council Directives. As it has also been assessed that the Council Directives could be interpreted as including a materiality threshold, it could be argued – for materiality reasons – that measuring inventories using the retail method or most recent purchase price if the result approximates cost would not be incompatible with the Council Directives. It is also noted that the retail method was also included in IAS 2 as of 1 May 2002, which previously has been assessed to be compatible with the Council Directives.	
13.17	An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.	4. art. 40.1 The Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices or by the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or some similar method.	The requirements of IFRS for SMEs seem to be the basic rule also in the Council Directives. Accordingly, par. 13.17 is assessed to be in accordance with the Council Directives.	
13.18	An entity shall measure the cost of inventories, other	4. art. 40.1	IFRS for SMEs seems to within the	

	than those dealt with in paragraph 13.17, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this IFRS.	The Member States may permit the purchase price or production cost of stocks of goods of the same category and all fungible items including investments to be calculated either on the basis of weighted average prices or by the 'first in, first out' (FIFO) method, the 'last in, first out' (LIFO) method, or some similar method.	permission given by the Council Directives	
13.19	Paragraphs 27.2–27.4 require an entity to assess at the end of each reporting period whether any inventories are impaired, ie the carrying amount is not fully recoverable (eg because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell, and to recognise an impairment loss. Those paragraphs also require a reversal of a prior impairment in some circumstances.	4. art. 39.1 (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date. (c) The Member States may permit exceptional value adjustments where, on the basis of a reasonable commercial assessment, these are necessary if the valuation of these items is not to be modified in the near future because of fluctuations in value. The amount of these value adjustments must be disclosed separately in the profit and loss account or in the notes on the accounts. (d) Valuation at the lower value provided for in (b) and (c) may not be continued if the reasons for which the value adjustments were made have ceased to apply. (e) If current assets are the subject of exceptional value adjustments for taxation purposes alone, the amount of the adjustments and the reasons for making	It is in accordance with art. 39. 1 of the Fourth Council Directive to impair inventories and reverse the impairment. The requirements of paragraphs 27.2 – 27.4 are assessed below.	

		them must be disclosed in the notes on the accounts.		
13.20	When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.	According to art. 23 – art .26 of the Fourth Council Directive it follows that cost of sales (or reduction in stocks of finished goods) should be included on the face of the profit or loss account	The requirements of paragraph 13.20 seem to be in accordance with the Fourth Council Directive	
13.21	Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this IFRS relevant to that type of asset.	4. art. 35.2-3(a) The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question.	It is in accordance with the Council Directives to include inventory as a component of self-constructed property, plant or equipment.	
13.22	This paragraph includes disclosure requirements. If the disclosures are provided in the notes it will not result in any conflicts.		This paragraph includes disclosure requirements. If the disclosures are provided in the notes it will not result in any conflicts.	
Investments in Associates				
14.1	This section applies to accounting for associates in consolidated financial statements and in the financial statements of an investor that is not a parent but that has an investment in one or more associates. Paragraph 9.26 establishes the requirements for accounting for associates in separate financial statements.		This paragraph only states when section 14 of IFRS for SMEs should be used. No resulting compatibility issues.	
14.2	An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.	4. art. 17 For the purposes of this Directive, *participating interest* shall mean rights in the capital of other undertakings, whether or not represented by certificates, which, by creating a durable link with those undertakings, are intended to contribute to the company's activities. 7. art. 33 1. Where an undertaking included in a	The definition is not in itself incompatible with the Council Directives. However, the fact that the definition for example affects what entities can measure using the equity method, could result in the different definitions leading to conflicts. Accordingly, it could be questioned whether the fact that art. 17 of the Council Directives focus on ‘creating a durable link’ whereas IFRS for SMEs does not include this requirement could result in a conflict if entities not fulfilling the ‘durable link’ criterion are measured at fair value	

		consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest, as defined in Article 17 of Directive 78/660/EEC, that participating interest shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. An undertaking shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the shareholders' or members' voting rights in that undertaking. Article 2 shall apply.	(for the reasons see 14.7) or by using the equity method. However, it is noted that IAS 28 as of 1 May 2002 did not include the 'durable link' requirement and this standard has previously been assessed not to be incompatible with the Council Directives.	
14.3	Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. (a) If an investor holds, directly or indirectly (eg through subsidiaries), 20 percent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. (b) Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. (c) A substantial or majority ownership by another investor does not preclude an investor from having significant influence.	4. art. 17 (continued) The holding of part of the capital of another company shall be presumed to constitute a participating interest where it exceeds a percentage fixed by the Member States which may not exceed 20 %. 4. art. 59 1. A Member State may require or permit that participating interests, as defined in Article 17, in the capital of undertakings over the operating and financial policies of which significant influence is exercised, be shown in the balance sheet in accordance with paragraphs 2 to 9 below, as sub-items of the items 'shares in affiliated undertakings' or 'participating interests', as the case may be. An undertaking shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the 'shareholders' or 'members' voting rights in that undertaking. Article 2 of Directive 83/349/EEC shall apply. 7. art. 33.1	The definition of significant influence does not result in a conflict in itself. However, the fact that the definition for example affects what entities can measure using the equity method, could result in the different definitions leading to conflicts. Art. 59 of the Fourth Council Directive and art. 33 of the Seventh Council Directive state that a company shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the […] voting rights, whereas IFRS for SMEs in fact states that this is just a rebuttable presumption that can be overcome if it can be clearly stated that the investor does not have significant influence. It could therefore be questioned whether this difference would result in par. 14.3 to be incompatible with the Council Directives. However, it is noted that IAS 28 as of 1 May 2002 also stated that the 20 percent threshold was only a rebuttable presumption and this standard has previously been assessed not to be incompatible with the Council Directives.	

		Where an undertaking included in a consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest, as defined in Article 17 of Directive 78/660/EEC, that participating interest shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. An undertaking shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the shareholders' or members' voting rights in that undertaking.		
14.4	An investor shall account for all of its investments in associates using one of the following: (a) the cost model in paragraph 14.5. (b) the equity method in paragraph 14.8. (c) the fair value model in paragraph 14.9.		The option to use the fair value model is assessed to be in conflict with the Council Directives. See below regarding 14.7.	
14.5	An investor shall measure its investments in associates, other than those for which there is a published price quotation (see paragraph 14.7) at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of Assets*.	4. art. 35 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date.	It is assessed that measuring associates at cost less accumulated impairment losses is in accordance with the Council Directives. Whether it is possible to measure associates at fair value is assessed in relation to par. 14.7. Whether the impairment mechanism in IFRS for SMEs is in accordance with Council Directives is assessed in relation to section 27.	
14.6	The investor shall recognise dividends and other distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.	4. art. 31 (c) valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included,	In response to EFRAG's draft analysis, one constituent argued that distribution of accumulated profit arisen before the acquisition date would only be realised in relation to the other shareholders. For the remaining part it would only be a matter of transferring cash outside the associate that was already in the	

			associate or joint venture. It was thus argued that for a fully controlled subsidiary, distributing reserves existing before acquisition would be incompatible with the Fourth Accounting Directive, as this directive required that only realised income could be recognised. EFRAG notes that par. 14.6 does not relate to fully owned subsidiaries. EFRAG further assesses that distributions received from associates could be regarded as realised, no matter whether the distributions were from accumulated profits of the associate arising before or after the date of acquisition. Also, distribution of pre-acquisition dividend could result in an impairment (even though IFRS for SMEs unlike IAS 36 does not regard the distribution as an impairment trigger) The reduced value of the associate could therefore equal out the income from the dividend received and thus not result in a profit being made at the balance sheet date.	
14.7	An investor shall measure its investments in associates for which there is a published price quotation using the fair value model (see paragraph 14.9).	7 art. 33 1. Where an undertaking included in a consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest, as defined in Article 17 of Directive 78/660/EEC, that participating interest shall be shown in the consolidated balance sheet as a separate item with an appropriate heading. An undertaking shall be presumed	It is assessed that the Council Directives in the consolidated financial statements requires associates to be measured using the equity method. Measurement at cost or fair value is therefore in conflict with the Council Directives. In a financial statement that is not a consolidated financial statement according to the Council Directives and not a separate financial statement according to IFRS for SMEs an entity cannot measure associates at fair value	

		to exercise a significant influence over another undertaking where it has 20 % or more of the shareholders' or members' voting rights in that undertaking. Article 2 shall apply. 2. When this Article is applied for the first time to a participating interest covered by paragraph 1 above, that participating interest shall be shown in the consolidated balance sheet either: (a) at its book value calculated in accordance with the valuation rules laid down in Directive 78/660/EEC. The difference between that value and the amount corresponding to the proportion of capital and reserves represented by that participating interest shall be disclosed separately in the consolidated balance sheet or in the notes on the accounts. That difference shall be calculated as at the date as at which that method is used for the first time; or (b) at an amount corresponding to the proportion of the associated undertaking's capital and reserves represented by that participating interest. The difference between that amount and the book value calculated in accordance with the valuation rules laid down in Directive 78/660/EEC shall be disclosed separately in the consolidated balance sheet or in the notes on the accounts. That difference shall be calculated as at the date as at which that method is used for the first time. (c) A Member State may prescribe the application of one or other of (a) and (b) above. The consolidated balance sheet or the notes on the accounts must indicate	as this would not be allowed according to (full) IFRS (however, it is in accordance with the Council Directives to measure such interests at cost). In a separate financial statement (according to the definition of IFRS for SMEs) there are no conflicts as full IFRS allows associates to be measured at fair value (or cost). However, as the requirement of par. 14.7 only applies when investments in associates are measured using the cost method and as an entity could choose to measure investments in associates using the equity method – which would not be incompatible with the Council Directives, the fact that par. 14.7 is in conflict with the Council Directives, does not result in the requirements regarding measurement of associates being incompatible with the Council Directives.	

		whether (a) or (b) has been used. (d) In addition, for the purposes of (a) and (b) above, a Member State may require or permit the calculation of the difference as at the date of acquisition of the shares or, where they were acquired in two or more stages, as at the date on which the undertaking became an associated undertaking. 3. Where an associated undertaking's assets or liabilities have been valued by methods other than those used for consolidation in accordance with Article 29 (2), they may, for the purpose of calculating the difference referred to in paragraph 2 (a) or (b) above, be revalued by the methods used for consolidation. Where such revaluation has not been carried out that fact must be disclosed in the notes on the accounts. A Member State may require such revaluation. 4. The book value referred to in paragraph 2 (a) above, or the amount corresponding to the proportion of the associated undertaking's capital and reserves referred to in paragraph 2 (b) above, shall be increased or reduced by the amount of any variation which has taken place during the financial year in the proportion of the associated undertaking's capital and reserves represented by that participating interest; it shall be reduced by the amount of the dividends relating to that participating interest. 5. In so far as the positive difference referred to in paragraph 2 (a) or (b) above cannot be related to any category of assets or liabilities it shall be dealt with in accordance with Articles 30 and 39 (3). …		

		7. The eliminations referred to in Article 26 (1) (c) shall be effected in so far as the facts are known or can be ascertained. Article 26 (2) and (3) shall apply. 8. Where an associated undertaking draws up consolidated accounts, the foregoing provisions shall apply to the capital and reserves shown in such consolidated accounts. 9. This Article need not be applied where the participating interest in the capital of the associated undertaking is not material for the purposes of Article 16 (3). 4. art. 32. The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. Valuation according to paragraph 1 shall not apply to: … (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company,		

		contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments.		
14.8	Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss and other comprehensive income of the associate. (a) *Distributions and other adjustments to carrying amount*. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items of other comprehensive income. (b) *Potential voting rights*. Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights. (c) *Implicit goodwill and fair value adjustments*. On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate in accordance with paragraphs 19.22–19.24. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional depreciation or amortisation of the associate's depreciable or amortizable assets (including goodwill) on the basis of	4. art. 59 1. A Member State may require or permit that participating interests, as defined in Article 17, in the capital of undertakings over the operating and financial policies of which significant influence is exercised, be shown in the balance sheet in accordance with paragraphs 2 to 9 below, as sub-items of the items 'shares in affiliated undertakings' or 'participating interests', as the case may be. An undertaking shall be presumed to exercise a significant influence over another undertaking where it has 20 % or more of the 'shareholders' or 'members' voting rights in that undertaking. Article 2 of Directive 83/349/EEC shall apply. 2. When this Article is first applied to a participating interest covered by paragraph 1, it shall be shown in the balance sheet either: (a) at its book value calculated in accordance with Section 7 or 7a. The difference between that value and the amount corresponding to the proportion of capital and reserves represented by the participating interest shall be disclosed separately in the balance sheet or in the notes on the accounts. That difference shall be calculated as at the date as at which the method is applied for the first time; or (b) at the amount corresponding to the	The requirements of the Fourth Council directive are not as detailed as the requirements under IFRS for SMEs. And generally the requirements of IFRS for SMEs seem not to be incompatible with the Council Directives on this issue. In relation to whether or not the Council Directives would allow contingent liabilities to be included in the proportion of the capital and reserves of the associate see par. 19.4	

	the excess of their fair values over their carrying amounts at the time the investment was acquired. (d) *Impairment*. If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment for impairment in accordance with Section 27 as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole. (e) *Investor's transactions with associates*. If an associate is accounted for using the equity method, the investor shall eliminate unrealised profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred. (f) *Date of associate's financial statements*. In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the financial statements of the investor unless it is impracticable to do so. If it is impracticable, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends. (g) *Associate's accounting policies*. If the associate uses accounting policies that differ from those of the investor, the investor shall adjust the associate's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so. (h) *Losses in excess of investment*. If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate,	proportion of the capital and reserves represented by the participating interest. The difference between that amount and the book value calculated in accordance with section 7 or 7a shall be disclosed separately in the balance sheet or in the notes on the accounts. That difference shall be calculated as at the date as at which the method is applied for the first time. (d) In addition, when applying (a) and (b) above, a Member State may require or permit calculation of the difference as at the date of acquisition of the participating interest referred to in paragraph 1 or, where the acquisition took place in two or more stages, as at the date as at which the holding became a participating interest within the meaning of paragraph 1 above. 3. Where the assets or liabilities of an undertaking in which a participating interest within the meaning of paragraph 1 above is held have been valued by methods other than those used by the company drawing up the annual accounts, they may, for the purpose of calculating the difference referred to in paragraph 2 (a) or (b) above, be revalued by the methods used by the company drawing up the annual accounts. Disclosure must be made in the notes on the accounts where such revaluation has not been carried out. A Member State may require such revaluation. 4. The book value referred to in paragraph 2 (a) above, or the amount corresponding to the proportion of capital and reserves referred to in paragraph 2 (b) above, shall be increased or reduced by the amount of the variation which has taken place during the financial year in the proportion of capital and		

	the investor shall discontinue recognising its share of further losses. After the investor's interest is reduced to zero, the investor shall recognise additional losses by a provision (see Section 21 *Provisions and contingencies*) only to the extent that the investor has incurred legal or constructive obligations or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised. (i) *Discontinuing the equity method*. An investor shall cease using the equity method from the date that significant influence ceases. (i) If the associate becomes a subsidiary or joint venture, the investor shall remeasure its previously held equity interest to fair value and recognise the resulting gain or loss, if any, in profit or loss. (ii) If an investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in profit or loss the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investor shall account for any retained interest using Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*, as appropriate. (iii) If an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 and 12, as appropriate.	reserves represented by that participating interest; it shall be reduced by the amount of the dividends relating to the participating interest. 5. In so far as a positive difference covered by paragraph 2 (a) or (b) above cannot be related to any category of asset or liability, it shall be dealt with in accordance with the rules applicable to the item 'goodwill'. 6. (a) The proportion of the profit or loss attributable to participating interests within the meaning of paragraph 1 above shall be shown in the profit-and-loss account as a separate item with an appropriate heading. (b) Where that amount exceeds the amount of dividends already received or the payment of which can be claimed, the amount of the difference must be placed in a reserve which cannot be distributed to shareholders. (c) A Member State may require or permit that the proportion of the profit or loss attributable to the participating interests referred to in paragraph 1 above be shown in the profit-and-loss account only to the extent of the amount corresponding to dividends already received or the payment of which can be claimed. 7. The eliminations referred to in Article 26 (1) (c) of Directive 83/349/EEC shall be effected in so far as the facts are known or can be ascertained. Article 26 (2) and (3) of that Directive shall apply. 8. Where an undertaking in which a participating interest within the meaning of paragraph 1 above is held draws up consolidated accounts,	

		the foregoing paragraphs shall apply to the capital and reserves shown in such consolidated accounts. 9. This Article need not be applied where a participating interest as defined in paragraph 1 is not material for the purposes of Article 2 (3).		
14.9	When an investment in an associate is recognised initially, an investor shall measure it at the transaction price. Transaction price excludes transaction costs.	4. art 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35 (relating to fixed assets) The purchase price shall be calculated by adding to the price paid the expenses incidental thereto.	Par. 14.9 relates to when an investment in an associate is measured at fair value. It is in conflict with the Council Directives to measure an associate at fair value in consolidated and non-separate financial statements. However, as this is only an option, and as an entity could choose to measure investments in associates using the equity method, the requirement does not result in an incompatibility /see par. 14.7)	
14.10	At each reporting date, an investor shall measure its investments in associates at fair value, with changes in fair value recognised in profit or loss, using the fair valuation guidance in paragraphs 11.27–11.32. An investor using the fair value model shall use the cost model for any investment in an associate for which it is impracticable to measure fair value reliably without undue cost or effort.	See above regarding 14.7	See above regarding 14.7.	
14.11	An investor shall classify investments in associates as non-current assets.	According to Fourth Council Directive art. 9 and 10 is 'participating interests' presented as fixed assets. 4. art. 15.2 Fixed assets shall comprise those assets which are intended for use on a continuing basis for the purpose of the undertaking's activities.	Both IFRS for SMEs and the Council Directives seem to require associates to be presented as non-current / fixed assets.	
14.12	An investor in an associate shall disclose the following: (a) its accounting policy for investments in associates. (b) the carrying amount of investments in associates		The disclosures required by 14.12 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note	

	(see paragraph 4.2(j)). (c) the fair value of investments in associates accounted for using the equity method for which there are published price quotations.		disclosures are not incompatible with the Council Directives.	
14.13	For investments in associates accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.		The disclosures required by 14.13 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
14.14	For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any discontinued operations of such associates.		The disclosures required by 14.14 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
14.15	For investments in associates accounted for by the fair value model, an investor shall make the disclosures required by paragraphs 11.41–11.44.	See 11.41 – 11.44	See 11.41 – 11.44	
Investments in Joint Ventures				
15.1	This section applies to accounting for joint ventures in consolidated financial statements and in the financial statements of an investor that is not a parent but that has a venturer's interest in one or more joint ventures. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a joint venture in separate financial statements.		This paragraph only states when section 14 of IFRS for SMEs should be used. No resulting compatibility issues.	
15.2	Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).	7. art. 32 Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidated accounts in proportion to the rights in its capital held by the undertaking included in the consolidation.	Joint control is not precisely defined in the Council Directives and the definition of IFRS for SMEs seems not to be incompatible with the Council Directives.	
15.3	A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly		A joint venture is not defined in the Council Directives and the definition of IFRS for SMEs seems not to be incompatible with the Council Directives.	

	controlled assets, or jointly controlled entities.			
15.4	The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.		Par. 15.4 is an explanation and does not state any accounting requirements. Accordingly, it is not incompatible with the Council Directives.	
15.5	In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements: (a) the assets that it controls and the liabilities that it incurs, and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.		The Council Directives seem only to consider joint ventures as jointly controlled entities. Par. 15.5 does not seem to conflict any requirements of the Council Directives.	
15.6	Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.		The Council Directives seem only to consider joint ventures as jointly controlled entities. Par. 15.5 does not seem to be incompatible with any requirements of the Council Directives	
15.7	In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements: (a) its share of the jointly controlled assets, classified according to the nature of the assets; (b) any liabilities that it has incurred; (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture; (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and (e) any expenses that it has incurred in respect of its interest in the joint venture.		The Council Directives seem only to consider joint ventures as jointly controlled entities. Par. 15.5 does not seem to be incompatible with any requirements of the Council Directives	
15.8	A jointly controlled entity is a joint venture that	The Council Directives do not define a jointly	The Council Directives do not define a	

	involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.	controlled entity.	jointly controlled entity. Accordingly, par. 15.8 is assessed not to be incompatible with the Council Directives.	
15.9	A venturer shall account for all of its interests in jointly controlled entities using one of the following: (a) the cost model in paragraph 15.10. (b) the equity method in paragraph 15.13. (c) the fair value model in paragraph 15.14.	7. art 32. 1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidated accounts in proportion to the rights in its capital held by the undertaking included in the consolidation. 3. Where this Article is applied, Article 33 shall not apply if the undertaking proportionally consolidated is an associated undertaking as defined in Article 33. 4. art. 32. The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.	In the consolidated financial statements the Council Directives requires that an interest in jointly controlled entities are measured either using the equity method or pro-rata consolidation, when the jointly controlled entity would otherwise be an associate). Accordingly, the cost model and the fair value model allowed in IFRS for SMEs would not be allowed. When the jointly controlled entity would not otherwise be an associate (for example because there are ten investors each holding 10 percent of the jointly controlled entity), measurement at cost is in accordance with the Council Directives. Also measurement using the equity method would be allowed by reference to article 42a (5a) as the use of the equity method is allowed according to the endorsed IAS 31. In a financial statement that is not a consolidated financial statement according to the Council Directives and not a separate financial statement according to IFRS for SMEs an entity cannot measure joint ventures that would otherwise be associates at fair value as this would not be allowed according to (full) IFRS. However, it is in accordance with the Council Directives to measure such interests at cost or by using the equity method. Par. 15.9 does not apply to separate	

		4. Valuation according to paragraph 1 shall not apply to: … (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards	financial statements. Accordingly, as an entity could measure jointly controlled entities using the equity method in accordance with both IFRS for SMEs and the Council Directives, the requirements regarding measuring jointly controlled entities are not incompatible with the Council Directives.	
15.10	A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated impairment losses recognised in accordance with Section 27 Impairment of Assets.	See above	This is an option (see above)	
15.11	The investor shall recognise distributions received	4. art. 31 (c)	In response to EFRAG's draft analysis,	

	from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.	valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included,	one constituent argued that distribution of accumulated profit arisen before the acquisition date would only be realised in relation to the other shareholders. For the remaining part it would only be a matter of transferring cash outside the jointly controlled entity that was already in the joint venture. It was thus argued that for a fully controlled subsidiary, distributing reserves existing before acquisition would be incompatible with the Fourth Accounting Directive, as this directive required that only realised income could be recognised. EFRAG notes that par. 15.11 does not relate to fully owned subsidiaries. EFRAG further assessed that distributions received from associates could be regarded as realised, no matter whether the distributions were from accumulated profits of the associate arising before or after the date of acquisition. See 14.6 It should be noted that it is assessed that it is in conflict with the Council Directives to measure joint ventures at cost in the consolidated financial statements, when the joint venture would otherwise be an associate)	
15.12	A venturer shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).	7. art 32. 1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidated accounts in proportion to the rights in its capital held by the undertaking included in the consolidation.	It is in conflict with the Council Directives to measure an investment in a jointly controlled entity using the fair value model in the consolidated financial statements. This is also the case in non-separate financial statements. However, as par. 15.12 only applies when an entity chooses the cost model and as an alternative to measure jointly controlled entities using the equity method is in line with the Council Directives par. 15.12	

		3. Where this Article is applied, Article 33 shall not apply if the undertaking proportionally consolidated is an associated undertaking as defined in Article 33. 4. art. 42a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards	does not result in an incompatibility. this is only an option, and as one of the alt	
15.13	A venturer shall measure its investments in jointly controlled entities by the equity method using the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').	7. art 32. 1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidated accounts in proportion to the rights in its capital held by the undertaking included in the consolidation. 3. Where this Article is applied, Article 33 shall not apply if the undertaking	In cases where the jointly controlled entity venture would otherwise be an associate, The Council Directives would allow measurement by use of the equity method. In cases where the jointly controlled entity would not otherwise be an associate, measurement by the equity method will have to be made by reference to the Fourth Council Directive's article 42a and the related disclosures of (full) IFRS should be provided.	

		proportionally consolidated is an associated undertaking as defined in Article 33. 4. art. 42a By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
15.14	When an investment in a jointly controlled entity is recognised initially, a venturer shall measure it at transaction price. Transaction price excludes transaction costs.	4. art 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35 (relating to fixed assets) The purchase price shall be calculated by adding to the price paid the expenses incidental thereto.	The paragraph is related to when investment in a jointly controlled entity is measured at fair value. As mentioned above, it would in many cases (but not in all cases) not be compatible with the Council Directives to measure investments in jointly controlled entities at fair value.	
15.15	At each reporting date, a venturer shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in profit or loss, using the fair valuation guidance in paragraphs 11.27–11.32. A venture using the fair value model	See 15.12	See 15.9	

	shall use the cost model for any investment in a jointly controlled entity for which it is impracticable to measure fair value reliably without undue cost or effort.			
15.16	When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.	4. art. 31.1(c) (aa) only profits made at the balance sheet date may be included	This requirement of IFRS for SMEs is assessed to be in accordance with the Council Directives.	
15.17	When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.	4. art. 31.1(c) (aa) only profits made at the balance sheet date may be included	This requirement of IFRS for SMEs is assessed to be in accordance with the Council Directives.	
15.18	An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 or, if it has significant influence in the joint venture, in accordance with Section 14 *Investments in Associates*.	7. art 32. 1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidated accounts in proportion to the rights in its capital held by the undertaking included in the consolidation.	This requirement of IFRS for SMEs is assessed to be in accordance with the Council Directives.	
15.19	An investor in a joint venture shall disclose: (a) the accounting policy it uses for recognising its interests in jointly controlled entities. (b) the carrying amount of investments in jointly controlled entities (see paragraph 4.2(k)). (c) the fair value of investments in jointly controlled entities accounted for using the equity method for		The disclosures required by 14.14 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	

	which there are published price quotations. (d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.			
15.20	For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.	See par. 14.14	See par 14.14	
15.21	For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44.	See par. 11.41 – 11.44	See par. 11.41 – 11.44	
Investment Property				
16.1	This section applies to accounting for investments in land or buildings that meet the definition of investment property in paragraph 16.2 and some property interests held by a lessee under an operating lease (see paragraph 16.3) that are treated like investment property. Only investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through profit or loss. All other investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.		The paragraph is only a description of the scope of section 16 of IFRS for SMEs. Accordingly, the paragraph is not incompatible with the Council Directives.	
16.2	Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of business.		The paragraph is only a description of the scope of section 16 of IFRS for SMEs. Accordingly, the paragraph is not incompatible with the Council Directives.	
16.3	A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of		The paragraph is only a description of the scope of section 16 of IFRS for SMEs. Accordingly, the paragraph is not incompatible with the Council Directives.	

	an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.			
16.4	Mixed use property shall be separated between investment property and property, plant and equipment. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.		The Council Directives do not include specific requirements regarding this issue and the requirements are not assessed to be incompatible with the Council Directives	
16.5	An entity shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10–17.14.	4. art 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35 (relating to fixed assets) The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 4. art. 35.3: (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	The requirement of IFRS for SMEs is assessed to not be incompatible with the Council Directives. The Council Directives do not include specific requirements about deferred payments. However, the requirements of IFRS for SMEs on this issue do not seem to be in conflict with the Council Directives.	
16.6	The initial cost of a property interest held under a lease and classified as an investment property shall	4. art 32	It is noted that measurement of items held under a finance lease at the lower of	

	be as prescribed for a finance lease by paragraph 20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability in accordance with paragraph 20.9.	The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 35.1.(c)(bb) (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent. 4. art. 35.4 Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under 'Assets' must be disclosed in the notes on the accounts. 4. art. 42e By way of derogation from Article 32, Member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.	the fair value of the item and the present value of the minimum lease payments was also required by IAS 17 as of 1 May 2002. This standard has previously been assessed not to be incompatible with the Council Directives.	
16.7	Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. If a	4. art. 42e By way of derogation from Article 32, Member States may permit or require in	The requirement to measure investment property at fair value is considered to be in accordance with the Council Directives.	

	property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27–11.32 provide guidance on determining fair value. An entity shall account for all other investment property as property, plant and equipment using the cost depreciation-impairment model in Section 17.	respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.		
16.8	If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item as property, plant and equipment in accordance with Section 17 until a reliable measure of fair value becomes available. The carrying amount of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.	See above	Measurement at fair value is only an option in the Fourth Council Directive. When the fair value is no longer available it does not seem to conflict with the Council Directives to consider this as the production cost of a piece of property, plant and equipment.	
16.9	Other than as required by paragraph 16.8, an entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.	See above	See above	
16.10	An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7): (a) the methods and significant assumptions applied in determining the fair value of investment property. (b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed. (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. (d) contractual obligations to purchase, construct or develop investment property or for repairs,		The disclosures required by 16.10 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	

	maintenance or enhancements. (e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately: (i) additions, disclosing separately those additions resulting from acquisitions through business combinations. (ii) net gains or losses from fair value adjustments. (iii) transfers to property, plant and equipment when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 16.8). (iv) transfers to and from inventories and owner-occupied property. (v) other changes. This reconciliation need not be presented for prior periods.			
16.11	In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.	See section 20	See section 20	
Property, Plant and Equipment				
17.1	This section applies to accounting for property, plant and equipment and investment property whose fair value cannot be measured reliably without undue cost or effort. Section 16 *Investment Property* applies to investment property whose fair value can be measured reliably without undue cost or effort.		The paragraph is a description of the scope of section 17 of IFRS for SMEs and is accordingly not incompatible with the Council Directives.	
17.2	Property, plant and equipment are tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and (b) are expected to be used during more than one period.	4. art. 15.2 Fixed assets shall comprise those assets which are intended for use on a continuing basis for the purposes of the undertaking's activities. 4. art. 10a Instead of the presentation of balance sheet items in accordance with Articles 9 and 10, Member States may permit or require	Differences between terms do not themselves result in conflicts. However, if something is a piece of property, plant or equipment under IFRS for SMEs and for example inventory under the Council Directives, it would result in a different accounting treatment and accordingly in a conflict. However, it has been assessed that par. 17.2 is not incompatible with the Council Directives (see par. 4.5).	

		companies, or certain classes of company, to present those items on the basis of a distinction between current and non-current items provided that the information given is at least equivalent to that otherwise required by Articles 9 and 10.		
17.3	Property, plant and equipment does not include: (a) biological assets related to agricultural activity (see Section 34 *Specialised Activities*), or (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.		The paragraph is a description of the scope of section 17 of IFRS for SMEs and is accordingly not incompatible with the Council Directives.	
17.4	An entity shall apply the recognition criteria in paragraph 2.27 in determining whether to recognise an item of property, plant or equipment. Therefore, the entity shall recognise the cost of an item of property, plant and equipment as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity, and (b) the cost of the item can be measured reliably.		The Council Directives do not include specific requirements on the issue. IFRS for SMEs is assessed not to be incompatible with the Council Directives on this issue.	
17.5	Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.		The Council Directives do not include specific requirements on this issue. IFRS for SMEs is assessed not to be incompatible with the Council Directives on this issue.	
17.6	Parts of some items of property, plant and equipment may require replacement at regular intervals (eg the roof of a building). An entity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 17.27–17.30. Paragraph 17.16 provides that if the major components of an item of property, plant and	4. art. 35 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. 2. The purchase price shall be calculated by	Assessed not to be incompatible with the Council Directives	

	equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.	adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.		
17.7	A condition of continuing to operate an item of property, plant and equipment (eg a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.	4. art. 35 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question	Assessed not to be incompatible with the Council Directives.	
17.8	Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.	4. Art. 9.C.II: 1. Land and buildings	Land and buildings are listed in the same line in the prescribed layouts of the Fourth Council Directives. However, it is assessed that they can be regarded as separable assets under the Council Directives. Accordingly, it is assessed that this paragraph of IFRS for SMEs is not incompatible with the Council Directives.	
17.9	An entity shall measure an item of property, plant and	4. Art. 32	It is assessed that this paragraph of IFRS	

	equipment at initial recognition at its cost.	The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	for SMEs is not incompatible with the Council Directives.	
17.10	The cost of an item of property, plant and equipment comprises all of the following: (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality. (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.	4. art. 35 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question.	It is noted that IAS 16 as of 1 May 2002 also required that cost of an item of property, plant and equipment should comprise the initial estimate of the costs of dismantling and removing the item and restoring the site when the obligation incurs when the item is acquired. In addition, as the Council Directives do not specify what to include in the cost of an asset, it is assessed that it would not be incompatible with the Council Directives also to include costs of dismantling etc. an entity incurs as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.	
17.11	The following costs are not costs of an item of property, plant and equipment, and an entity shall recognise them as an expense when they are incurred: (a) costs of opening a new facility. (b) costs of introducing a new product or service (including costs of advertising and promotional activities). (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training). (d) administration and other general overhead costs. (e) borrowing costs (see Section 25 *Borrowing Costs*).	4. art. 35. 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production. 4. Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under	It is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives. In relation to par. 17.11 (e) it is noted that art. 35.4 of the Fourth Council Directive does not require but allows borrowing costs to be capitalised.	

		'Assets' must be disclosed in the notes on the accounts.		
17.12	The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.	See above	It is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives.	
17.13	The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.	4. art. 35. 4. Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under 'Assets' must be disclosed in the notes on the accounts.	The Council Directives do not include requirements regarding deferred payments. However, as the Council Directives do not require (but allow) borrowing costs to be capitalised, it is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives.	
17.14	An item of property, plant or equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.		The Council Directives do not include requirements regarding exchanges of assets. It is assessed that the method of the paragraph would not be incompatible with the Council Directives.	
17.15	An entity shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.	4. art. 35.1 (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. (bb)Value adjustments must be made in respect of fixed assets, whether their useful	It is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives. As the costs of day-to-day servicing are not included in the cost of an asset, if follows that these costs should be recognised in profit or loss in the period in which the costs are incurred.	

		economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent.		
17.16	If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.	4. art. 35.1 (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives.	The Council Directives do not include specific guidelines about how assets should be depreciated – other than it should be a systematically over the useful life. The Council Directives do not seem to prohibit the cost being allocated to the major component of an 'asset'. Also, the Council Directives only require assets with limited economic lives to be depreciated. If land does not have a limited useful life, it seems appropriate not to depreciate land. Accordingly, it has been assessed that the paragraph is in accordance with the Council Directives.	
17.17	The depreciation charge for each period shall be recognised in profit or loss unless another section of this IFRS requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*).	4. art. 23 (layout of profit and loss account) 7. (a) Value adjustments in respect of formation expenses and of tangible and intangible fixed assets. 4. art. 35 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	A line item in the profit and loss account of the Fourth Council Directive for value adjustments of tangible fixed assets shows that these costs should be recognised in the profit or loss. In addition, art. 35 of the Fourth Council Directive allows or requires these costs to be capitalised if they constitute production costs. Accordingly, it is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives.	
17.18	An entity shall allocate the depreciable amount of an	4. art. 35.1	It is assess that par. 17.18 is in	

	asset on a systematic basis over its useful life.	(b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives.	accordance with the Council Directives.	
17.19	Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.	The Council Directives do not require or prohibit changes in the residual value or useful life and how they should be accounted for.	It is assess that par. 17.19 is not incompatible with the Council Directives	
17.20	Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.	The Council Directives do not specify when the depreciation should start or end. 4. art. 31.1 (c) (cc) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit;	It is assess that par. 17.20 is not incompatible with the Council Directives as the method required in par 17.20 is systematic and does for example not conflict with art. 31.1 (c) (cc)	
17.21	An entity shall consider all the following factors in determining the useful life of an asset: (a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output. (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.	The Council Directives do not specify how to determine the useful life of an asset.	It is assess that par. 17.21 is not incompatible with the Council Directives.	

	(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.		
17.22	An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.	4. art. 35.1 (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives.	It is assess that par. 17.22 is not incompatible with the Council Directives as the prescribed method is considered to result in a systematic depreciation.
17.23	If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.	The Council Directive do not include any requirements regarding how changes in the pattern by which an entity expects to consume an assets should be reflected in the financial statements	It is assessed that par. 17.23 is not incompatible with the Council Directives.
17.24	At each reporting date, an entity shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.		Par. 17.24 is a reference to section 27 and is not in itself incompatible with the Council Directives.
17.25	An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	The Council Directives do not specify when compensation from third parties can be recognised. However, par. 17.25 is assessed not to be incompatible with the Council Directives.
17.26	Paragraph 27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of	4. art. 35.1 (c) (bb) Value adjustments must be made in respect of fixed assets, whether their useful	In principles, the Council Directives would require recognition of an impairment loss in all situations when a lower figure to be attributed an asset is expected to be

	determining whether the asset is impaired.	economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent.	permanent. It is therefore not incompatible ith the Council Directives to assess impairment when the entity plans to dispose of an asset before the previously expected date.	
17.27	An entity shall derecognise an item of property, plant and equipment: (a) on disposal, or (b) when no future economic benefits are expected from its use or disposal.	The Council Directives do not include specific requirements regarding derecognition.	It is assessed that par. 17.27 is not incompatible with the Council Directives.	
17.28	An entity shall recognise the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The entity shall not classify such gains as revenue.	4. art. 28 The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction of sales rebates and of value added tax and other taxes directly linked to the turnover. The layout schemes presented in art. 23 – 26 includes 'other operating income'	It is assessed that par. 17.28 is not incompatible with the Council Directives. The gains and losses could be presented as other operating income according to the Council Directives.	
17.29	In determining the date of disposal of an item, an entity shall apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods. Section 20 applies to disposal by a sale and leaseback.	The Council Directives do not specify how to determine the date of disposal of an item.	It is assessed that par. 17.29 is not incompatible with the Council Directives.	
17.30	An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.	The Council Directives do not specify that gains and losses arising from derecognition should be determined as stated in par. 17.30	It is assessed that par. 17.30 is not incompatible with the Council Directives.	
17.31	An entity shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a): (a) the measurement bases used for determining the gross carrying amount. (b) the depreciation methods used. (c) the useful lives or the depreciation rates used.		The disclosures required by 17.31 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	

	(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period. (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately: (i) additions. (ii) disposals. (iii) acquisitions through business combinations. (iv) transfers to investment property if a reliable measure of fair value becomes available (see paragraph 16.8). (v) impairment losses recognised or reversed in profit or loss in accordance with Section 27. (vi) depreciation. (vii) other changes. This reconciliation need not be presented for prior periods.			
17.32	The entity shall also disclose the following: (a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities. (b) the amount of contractual commitments for the acquisition of property, plant and equipment.		The disclosures required by 14.14 could be provided in the notes. It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Intangible Assets other than Goodwill				
18.1	This section applies to accounting for all intangible assets other than goodwill (see Section 19 Business Combinations and Goodwill) and intangible assets held by an entity for sale in the ordinary course of business (see Section 13 Inventories and Section 23 Revenue).		Par.18.1 only explains the scope of section 8 and is accordingly not in itself incompatible with the Council Directives.	
18.2	An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when: (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or	4. art. 9 and 10 Fixed assets I. Intangible assets 1. Costs of research and development, in so far as national law permits their being shown as assets. 2. Concessions, patents, licences, trade	The Council Directives do not include a definition of intangible assets. Par. 18.2 does not seem to be incompatible with the examples of intangible assets listed in article 9 and 10 of the Fourth Council Directive.	

	(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	marks and similar rights and assets, if they were: (a) acquired for valuable consideration and need not be shown under C (I) (3); or (b) created by the undertaking itself, in so far as national law permits their being shown as assets. 3. Goodwill, to the extent that it was acquired for valuable consideration. 4. Payments on account.		
18.3	Intangible assets do not include: (a) financial assets, or (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.		The Council Directives do not include a definition of intangible assets. Par. 18.3 does not seem to be incompatible with the examples of intangible assets listed in article 9 and 10 of the Fourth Council Directive.	
18.4	An entity shall apply the recognition criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Therefore, the entity shall recognise an intangible asset as an asset if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; (b) the cost or value of the asset can be measured reliably; and (c) the asset does not result from expenditure incurred internally on an intangible item.	4. art. 9 and 10 2. Concessions, patents, licences, trade marks and similar rights and assets, if they were: (a) acquired for valuable consideration and need not be shown under C (I) (3); or (b) created by the undertaking itself, in so far as national law permits their being shown as assets.	The Council Directives do not include recognition criteria. Par. 18.4 (a) – (b) is assessed not to be incompatible with the Council Directives. In relation to par 18.4(c) it is noted that the Council Directives do not require intangibles to be recognised as assets – only if national law permits it. Accordingly, the requirement not to recognise internally generated intangible items is considered to be in accordance with the Council Directives.	
18.5	An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the useful life of the asset.	No requirements included in the Council Directives on how an entity shall assess the probability of expected future economic benefits	It is assessed that par. 18.5 is not incompatible with the Council Directives.	
18.6	An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external	No requirements included in the Council Directives on how an entity shall use judgement	It is assessed that par. 18.6 is not incompatible with the Council Directives.	

	evidence.			
18.7	The probability recognition criterion in paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired.	No requirements included in the Council Directives on how an entity shall assess the probability of expected future economic benefits	It is assessed that par. 18.7 is not incompatible with the Council Directives.	
18.8	An intangible asset acquired in a business combination is normally recognised as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either (a) is not separable from goodwill, or (b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.	The Council Directives do not include guidance on when the cost or value of an asset acquired in a business combination can be measured reliably.	It is assessed that par. 18.8 is not incompatible with the Council Directives.	
18.9	An entity shall measure an intangible asset initially at cost.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	It is assessed that par. 18.9 is in accordance with the Council Directives.	
18.10	The cost of a separately acquired intangible asset comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and (b) any directly attributable cost of preparing the asset for its intended use.	4. art. 35 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	It is assessed that par. 18.10 is in accordance with the Council Directives.	

18.11	If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.	The Council Directives do not explain how to determine the cost of an intangible asset acquired in a business combination.	It is assessed that par. 18.11 is not incompatible with the Council Directives.	
18.12	If an intangible asset is acquired by way of a government grant, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 Government Grants.	The Council Directives do not explain how to determine the cost of an intangible asset acquired by way of a government grant.	It is assessed that par. 18.12 is not incompatible with the Council Directives.	
18.13	An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.	The Council Directives do not explain how to determine the cost of an intangible asset acquired in exchange for a non-monetary asset or assets.	It is assessed that par. 18.13 is not incompatible with the Council Directives.	
18.14	An entity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this IFRS.	See par. 18.4	See par. 18.4	
18.15	As examples of applying the preceding paragraph, an entity shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets: (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance. (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs). (c) training activities.	See par. 18.4	See par. 18.4	

	(d) advertising and promotional activities. (e) relocating or reorganising part or all of an entity. (f) internally generated goodwill.			
18.16	Paragraph 18.15 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.	4. art. 9 and 10 Fixed assets I. Intangible assets … 4. Payments on account.	The Council Directives requires prepayments to be recognised as assets. It is therefore assessed that par. 18.16 is in accordance with the Council Directives.	
18.17	Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.	The Council Directives do not require an expenditure on an intangible item that was initially recognised as an expense should be recognised at a later date as part of the cost of an asset.	It is assessed that par. 18.17 is not incompatible with the Council Directives.	
18.18	An entity shall measure intangible assets at cost less any accumulated amortisation and any accumulated impairment losses. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 Impairment of Assets.	4. art. 35 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent.	It is assessed that par. 18.18 is in accordance with the Council Directives. However, see section 27 in relation to impairment.	
18.19	For the purpose of this IFRS, all intangible assets shall be considered to have a finite useful life. The	4. art. 34	The Council Directives do not state that some intangibles should be accounted for	

	useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.	1. (a) Where national law authorizes the inclusion of formation expenses under 'Assets', they must be written off within a maximum period of five years. (b) In so far as formation expenses have not been completely written off, no distribution of profits shall take place unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of the expenses not written off. 4. art. 37 1. Article 34 shall apply to costs of research and development. In exceptional cases, however, the Member States may permit derogations from Article 34 (1) (a). In that case, they may also provide for derogations from Article 34 (1) (b). Such derogations and the reasons for them must be disclosed in the notes on the accounts. 2. Article 34 (1) (a) shall apply to goodwill. The Member States may, however, permit companies to write goodwill off systematically over a limited period exceeding five years provided that this period does not exceed the useful economic life of the asset and is disclosed in the notes on the accounts together with the supporting reasons therefore.	as if they have an infinite useful life. Accordingly, it is assessed that art. 18.19 is not incompatible with the Council Directives.	
18.20	If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.	See above.	IFRS for SMEs would not allow formation expenses to be capitalised par. 34 of the Fourth Council Directives is therefore not relevant in this case. Also, IFRS for SMEs do not allow an entity to capitalise costs of research and development. Art. 37.1 of the Fourth Council Directive is therefore not relevant in this case either. Goodwill is dealt with in section 19. Also, the Council Directives do not prescribe	

			what an entity should do when it is unable to make a reliable estimate of the useful life of an intangible asset. Accordingly, it is assessed that par. 18.20 is not incompatible with the Council Directives. It should, however, be noted that amortization period of goodwill is assessed in section 19.	
18.21	An entity shall allocate the depreciable amount of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this IFRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.	4. art. 23 (layout of profit and loss account) 7. (a) Value adjustments in respect of formation expenses and of tangible and intangible fixed assets. 4. art. 35.1 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. 4. art. 35 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs to the extent that they relate to the period of production.	A line item in the profit and loss account of the Fourth Council Directive for value adjustments of intangible fixed assets shows that these cost should be recognised in the profit or loss. Also, art. 35 of the Fourth Council Directive allows or requires these cost to be capitalised if they constitute production costs. Accordingly, it is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives.	
18.22	Amortisation begins when the intangible asset is	4. art. 35.1	The Council Directives do not specify	

	available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The entity shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.	(b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives.	when the amortisation should start and end or what method to be used. It is assessed that par. 18.22 will result in a systematic amortisation over the useful economic lives of an intangible asset and the paragraph is thus in accordance with the Council Directives.	
18.23	An entity shall assume that the residual value of an intangible asset is zero unless: (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and: (i) residual value can be determined by reference to that market, and (ii) it is probable that such a market will exist at the end of the asset's useful life.	The Council Directives do not include any requirements regarding the residual value	It is assessed that par. 18.23 is not incompatible with the Council Directives.	
18.24	Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The entity shall account for the change in residual value, amortisation method or useful life as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.	The Council Directives do not require or prohibit changes in the residual value or useful life and how they should be accounted for.	It is assess that par. 18.24 is not incompatible with the Council Directives.	
18.25	To determine whether an intangible asset is impaired, an entity shall apply Section 27. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.	See section 27	See section 27.	
18.26	An entity shall derecognise an intangible asset, and shall recognise a gain or loss in profit or loss: (a) on disposal, or (b) when no future economic benefits are expected	The Council Directives do not include specific requirements regarding derecognition.	It is assessed that par. 17.27 is not incompatible with the Council Directives.	

	from its use or disposal.			
18.27 - 18.29	[par. 12.26 – 12.29 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Business combinations and Goodwill				
19.1	This section applies to accounting for business combinations. It provides guidance on identifying the acquirer, measuring the cost of the business combination, and allocating that cost to the assets acquired and liabilities and provisions for contingent liabilities assumed. It also addresses accounting for goodwill both at the time of a business combination and subsequently.		Par.19.1 only explains the scope of section 9 and is accordingly not on its own incompatible with the Council Directives	
19.2	This section specifies the accounting for all business combinations except: (a) combinations of entities or businesses under common control. Common control means that all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory. (b) the formation of a joint venture. (c) acquisition of a group of assets that do not constitute a business.		Par.19.2 only explains the scope of section 9 and is accordingly not on its own incompatible with the Council Directives	
19.3	A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.	No explanation of a business combination included in the Council Directives.	Par. 19.3 explains what IFRS for SMEs considers as a business combination and is on its own not incompatible with the Council Directives	
19.4	A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or	No explanation of a business combination included in the Council Directives.	The Council Directives do not explain what should be considered as a business combination and what should be considered as for example an ordinary purchase. Par. 19.4 is accordingly assessed not to be incompatible with the Council Directives.	

	more businesses.			
19.5	A business combination may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a mixture of these. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.	No explanation of a business combination included in the Council Directives.	Par. 19.5 is assessed not to be incompatible with the Council Directives.	
19.6	All business combinations shall be accounted for by applying the purchase method.	7. art. 19 1. The book values of shares in the capital of undertakings included in a consolidation shall be set off against the proportion which they represent of the capital and reserves of those undertakings: (a) That set-off shall be effected on the basis of book values as at the date as at which such undertakings are included in the consolidations for the first time. Differences arising from such set-offs shall as far as possible be entered directly against those items in the consolidated balance sheet which have values above or below their book values. (b) A Member State may require or permit set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary. (c) Any difference remaining after the application of (a) or resulting from the application of (b) shall be shown as a separate item in the consolidated balance sheet with an appropriate heading. That item, the methods used and any significant	Article 19 of the Seventh Council Directive reflects the purchase method. The Seventh Council Directive also allows Member States to require or permit the pooling of interest method in article 20 of the Seventh Council Directive. However, this is an option and not required. Accordingly par. 19.6 is assessed to be in accordance with the Council Directives. In response to EFRAG's draft analysis one constituent thought that it was not compatible with the Council Directives to require the use of the acquisition method when a business combination was a pooling of interests. It was thought it would not result in a 'true and fair view'. EFRAG noted that the use of the uniting of interests method was a Member State option in the Council Directives - and was thus not required. It therefore found it difficult to argue that the prohibition to use the uniting of interests method would not provide a 'true and fair view' according to the EU Accounting Directives. In all cases it was assessed that if a requirement did not provide a true and fair view, also IFRS for SMEs would require an entity to depart from the requirement (see also par. 29.24)	

		changes in relation to the preceding financial year must be explained in the notes on the accounts. Where the offsetting of positive and negative differences is authorized by a Member State, a breakdown of such differences must also be given in the notes on the accounts. 2. However, paragraph 1 above shall not apply to shares in the capital of the parent undertaking held either by that undertaking itself or by another undertaking included in the consolidation. In the consolidated accounts such shares shall be treated as own shares in accordance with Directive 78/660/EEC.		
19.7	Applying the purchase method involves the following steps: (a) identifying an acquirer. (b) measuring the cost of the business combination. (c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.	See above	It has been considered whether it would be in accordance with article 19.1 (b) of the Seventh Council Directive to allow set-offs on the basis of contingent liabilities. It has been assessed that the Council Directives do not include recognition criteria. Accordingly, it would not be in conflict with the Council Directives to consider contingent liabilities as identifiable liabilities that could be recognised in accordance with the recognition criteria of IFRS for SMEs – that is when they are acquired in a business combination.	
19.8	An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts.	The substance over form option included in article 4.6 of the Fourth Council Directive seems to allow that the acquirer considered for accounting purposes is not necessarily the legal acquirer.	

19.9	Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described in Section 9 Consolidated and Separate Financial Statements.	Although article 1 of the Seventh Council Directive states what undertakings are considered to be parent entities, it does not define control	The definition of control in art. 19.9 is in itself not incompatible with the Council Directives.	
19.10	Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example: (a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer. (b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer. (c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.	The Council Directives do not include indicators that an acquirer exists.	The indicators included in par. 19.10 are not themselves incompatible with the Council Directives.	
19.11	The acquirer shall measure the cost of a business combination as the aggregate of: (a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus (b) any costs directly attributable to the business combination.	The Council Directives do not include requirements on what to include in the cost of a business combination.	The requirements of par. 19.11 seem to be in line with what should be included in cost for fixed and current assets according to the Fourth Council Directive. Par. 19.11 is assessed to be in accordance with the Council Directives.	
19.12	When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.	No specific requirements included in the Council Directives	The paragraph is assessed not to be incompatible with the Council Directives.	
19.13	However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the	No specific requirements included in the Council Directives	The paragraph is assessed not to be incompatible with the Council Directives.	

	cost of the combination.			
19.14	The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 19.20 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called 'negative goodwill').	4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 7. art. 19.1 The book values of shares in the capital of undertakings included in a consolidation shall be set off against the proportion which they represent of the capital and reserves of those undertakings: (a) That set-off shall be effected on the basis of book values as at the date as at which such undertakings are included in the consolidations for the first time. Differences arising from such set-offs shall as far as possible be entered directly against those items in the consolidated balance sheet which have values above or below their book values. (b) A Member State may require or permit set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary.	The requirement of par. 19.14 results in liabilities being recognised for which it is not probable (ie more likely than not) that the entity will be required to transfer economic benefits in settlement EFRAG notes that art. 20 (1) of the Fourth Council Directive is interpreted differently. Some interpret the article as: - allowing only liabilities where it was probable (ie more likely than not) that the entity would be required to transfer economic benefits in settlement to be recognised; or - requiring all liabilities – even those where the probability that the entity would be required to transfer economic benefits was very low – to be recognised. These persons note that art. 31 (1)(c)(bb) of the Fourth Council Directive leads to the conclusion that if items are to be considered and recognised as liabilities where the probability of outflow of economic resources is low, all such items should be recognised. They therefore think that either par. 19.14 or par. 21.4 is incompatible with the Council Directives Others do not think article 20 (1) deals with recognition or measurement, but rather to where types of items were to be presented in the prescribed formats. Also, they think that article 31.1 (c) (bb) does not deal with measurement. Accordingly, they think it would not be incompatible with the EU Accounting	

		(c) Any difference remaining after the application of (a) or resulting from the application of (b) shall be shown as a separate item in the consolidated balance sheet with an appropriate heading. That item, the methods used and any significant changes in relation to the preceding financial year must be explained in the notes on the accounts. Where the offsetting of positive and negative differences is authorized by a Member State, a breakdown of such differences must also be given in the notes on the accounts. 7. art. 30.1 1. A separate item as defined in Article 19 (1) (c) which corresponds to a positive consolidation difference shall be dealt with in accordance with the rules laid down in Directive 78/660/EEC for the item 'goodwill'. 7. art. 31 An amount shown as a separate item, as defined in Article 19 (1) (c), which corresponds to a negative consolidation difference may be transferred to the consolidated profit-and-loss account only: (a) where that difference corresponds to the expectation at the date of acquisition of unfavourable future results in that undertaking, or to the expectation of costs which that undertaking would incur, in so far as such an expectation materializes; or (b) in so far as such a difference corresponds to a realized gain.	Directives to measure liabilities where the probability of outflow of economic resources is low at nil in some cases and at another value in other cases (when they are acquired in a business combination). Because of the different interpretations of the Council Directives on this matter, EFRAG has decided that it could not state that par, 19.14 would be incompatible with the Council Directives.	
19.15	The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:	7. art. 19.1 The book values of shares in the capital of undertakings included in a consolidation	The Council Directives do not include recognition criteria for identifiable assets and liabilities. Accordingly, it is assessed that the criteria of IFRS for SMEs can be	

	(a) In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably. (b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably. (c) In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.	shall be set off against the proportion which they represent of the capital and reserves of those undertakings: (a) That set-off shall be effected on the basis of book values as at the date as at which such undertakings are included in the consolidations for the first time. Differences arising from such set-offs shall as far as possible be entered directly against those items in the consolidated balance sheet which have values above or below their book values. (b) A Member State may require or permit set-offs on the basis of the values of identifiable assets and liabilities as at the date of acquisition of the shares or, in the event of acquisition in two or more stages, as at the date on which the undertaking became a subsidiary.	applied (see also par. 19.7). It is assessed that the requirements of par. 19.15 are in accordance with the Council Directives.	
19.16	The acquirer's statement of comprehensive income shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's statement of comprehensive income that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.	No specific requirements included	It is assessed that the requirements of par. 19.16 are not incompatible with the Council Directives.	
19.17	Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the	It is assessed that the requirements of par. 19.17 are not incompatible with the Council Directives.	

	has obtained control.	Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts.		
19.18	In accordance with paragraph 19.14, the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 19.15. Therefore: (a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21 Provisions and Contingencies; and (b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.	No specific requirements included	It is assessed that the requirements of par. 19.18 are not incompatible with the Council Directives.	
19.19	If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an error in accordance with Section 10 Accounting Policies, Estimates and Errors.	No specific requirements included	It is assessed that the requirements of par. 19.19 are not incompatible with the Council Directives.	
19.20	Paragraph 19.14 specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably: (a) there is a resulting effect on the amount	No specific requirements included in the Council Directives.	Par. 19.20 explains what happens if contingent liabilities are not separated. This effect would also happen under the Council Directives. Also, the paragraph requires some disclosures. It is generally assessed that	

	recognised as goodwill or accounted for in accordance with paragraph 19.24; and (b) the acquirer shall disclose the information about that contingent liability as required by Section 21.		requirements included in IFRS for SMEs about note disclosures are not incompatible with the Council Directives.	
19.21	After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 19.14 at the higher of: (a) the amount that would be recognised in accordance with Section 21, and (b) the amount initially recognised less amounts previously recognised as revenue in accordance with Section 23 Revenue.	7. art. 31 An amount shown as a separate item, as defined in Article 19 (1) (c), which corresponds to a negative consolidation difference may be transferred to the consolidated profit-and-loss account only: (a) where that difference corresponds to the expectation at the date of acquisition of unfavourable future results in that undertaking, or to the expectation of costs which that undertaking would incur, in so far as such an expectation materializes; or (b) in so far as such a difference corresponds to a realized gain.	It is assessed that recognition of contingent liabilities are not incompatible with the Council Directives. The Council Directives do not specify how to measure contingent liabilities. It is assessed that par. 19.21 is not incompatible with the Council Directives.	
19.22	The acquirer shall, at the acquisition date: (a) recognise goodwill acquired in a business combination as an asset, and (b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 19.14.	7. art. 30 1. A separate item as defined in Article 19 (1) (c) which corresponds to a positive consolidation difference shall be dealt with in accordance with the rules laid down in Directive 78/660/EEC for the item 'goodwill'.	It is assessed that this paragraph of IFRS for SMEs is in accordance with the Council Directives.	
19.23	After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation and accumulated impairment losses: (a) An entity shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years. (b) An entity shall follow Section 27 Impairment of Assets for recognising and measuring the impairment	7. art. 30 1. A separate item as defined in Article 19 (1) (c) which corresponds to a positive consolidation difference shall be dealt with in accordance with the rules laid down in Directive 78/660/EEC for the item 'goodwill'. 2. A Member State may permit a positive consolidation difference to be immediately and clearly deducted from reserves.	It is assessed that par. 19.23 is not compatible with the Council Directives. The Council Directives do not allow a default amortization period of more than five years (if it cannot be explained why the amortisation period should be more than five years). Impairment of goodwill is assessed in relation to section 27.	

	of goodwill.	4. art. 34.1 (a) Where national law authorizes the inclusion of formation expenses under 'Assets', they must be written off within a maximum period of five years. 4. art. 37.2 Article 34 (1) (a) shall apply to goodwill. The Member States may, however, permit companies to write goodwill off systematically over a limited period exceeding five years provided that this period does not exceed the useful economic life of the asset and is disclosed in the notes on the accounts together with the supporting reasons therefore.		
19.24	If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall: (a) reassess the identification and measurement of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination, and (b) recognise immediately in profit or loss any excess remaining after that reassessment.	7. art. 31 An amount shown as a separate item, as defined in Article 19 (1) (c), which corresponds to a negative consolidation difference may be transferred to the consolidated profit-and-loss account only: (a) where that difference corresponds to the expectation at the date of acquisition of unfavourable future results in that undertaking, or to the expectation of costs which that undertaking would incur, in so far as such an expectation materializes; or (b) in so far as such a difference corresponds to a realized gain.	The Council Directives would not allow negative goodwill to be recognised immediately in profit or loss if the negative goodwill for example relates to expectation of unfavourable future results.	
19.25	For each business combination that was effected during the period, the acquirer shall disclose the following: (a) the names and descriptions of the combining entities or businesses. (b) the acquisition date.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures are not incompatible with the Council Directives.	

	(c) the percentage of voting equity instruments acquired. (d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments). (e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill. (f) the amount of any excess recognised in profit or loss in accordance with paragraph 19.24, and the line item in the statement of comprehensive income (and in the income statement, if presented) in which the excess is recognised.			
19.26	An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately: (a) changes arising from new business combinations. (b) impairment losses. (c) disposals of previously acquired businesses. (d) other changes. This reconciliation need not be presented for prior periods.		It is generally assessed that requirements included in IFRS for SMEs about note disclosures are not incompatible with the Council Directives.	
Leases				
20.1	This section covers accounting for all leases other than: (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 Specialised Activities). (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 Intangible Assets other than Goodwill). (c) measurement of property held by lessees that is accounted for as investment property and measurement of investment property provided by lessors under operating leases (see Section 16 Investment Property).		Par.20.1 explains the scope of section 20 and is accordingly in itself not incompatible with the Council Directives.	

	(d) measurement of biological assets held by lessees under finance leases and biological assets provided by lessors under operating leases (see Section 34). (e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, or a default by one of the counterparties (see paragraph 12.3(f). (f) operating leases that are onerous.			
20.2	This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.		Par.20.2 explains the scope of section 20 and is accordingly in itself not incompatible with the Council Directives.	
20.3	Some arrangements, such as outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.		Par.20.3 explains the scope of section 20 and is accordingly in itself not incompatible with the Council Directives.	
20.4	A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.	The Council Directives do not include requirements regarding the classification of lease agreements.	Par. 20.4 explains what is considered as finance lease and what is considered an operating lease. The paragraph is in itself not in conflict with the Council Directives.	
20.5	Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are: (a) the lease transfers ownership of the asset to the lessee by the end of the lease term. (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the	Par. 20.5 explains what is considered as finance lease and what is considered an operating lease. The paragraph is in itself not incompatible with the Council Directives.	

	the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised. (c) the lease term is for the major part of the economic life of the asset even if title is not transferred. (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.	Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts		
20.6	Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are: (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee. (b) gains or losses from the fluctuation in the residual value of the leased asset accrue to the lessee (eg in the form of a rent rebate equalling most of the sales proceeds at the end of the lease). (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.	See above	Par. 20.6 explains what is considered as finance lease and what is considered an operating lease. The paragraph is in itself not incompatible with the Council Directives.	
20.7	The examples and indicators in paragraphs 20.5 and 20.6 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all	See above	Par. 20.7 explains what is considered as finance lease and what is considered an operating lease. The paragraph is in itself not incompatible with the Council Directives.	

	risks and rewards incidental to ownership.			
20.8	Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.	No requirements in the Council Directives	It is assessed that par. 20.8 by itself is not incompatible with the Council Directives.	
20.9	At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.	See par 16.6	See par. 16.6.	
20.10	The present value of the minimum lease payments should be calculated using the interest rate implicit in the lease. If this cannot be determined, the lessee's incremental borrowing rate shall be used.	The Council Directives to not include requirements on how to account for deferred payments.	It is assessed that par. 20.10 is not incompatible with the Council Directives.	
20.11	A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the effective interest method (see paragraphs 11.15–11.20). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as expenses in the periods in which they are incurred.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts	Under IFRS for SMEs a finance lease is regarded as the purchase of a right by money from a loan. It seems in accordance with art. 4.6 of the Fourth Directive to allow such a presentation. Contingent rents are not considered as part of the loan, which cannot be said to be incompatible with the Council Directives.	
20.12	A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this IFRS for that type of asset, eg Section 17 Property, Plant and Equipment, Section 18 or Section 19 Business Combinations and Goodwill. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. A lessee shall also assess at	4. art. 35. 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments	It is assessed that par. 20.12 is not incompatible with the Council Directives. The Council Directives requires that fixed assets are depreciated or amortised. The requirement is in accordance with IAS 17 as of 1 May 2002, which previously has been assessed not to be incompatible with the Council Directives.	

	each reporting date whether an asset leased under a finance lease is impaired (see Section 27 Impairment of Assets).	calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent. (cc) The value adjustments referred to in (aa) and (bb) must be charget to the profit and loss account and disclosed separately in the notes on the accounts if they have not been shown separately in the profit and loss account. (dd)Valuation at the lower of the values provided for in (aa) and (bb) may not be continued if the reasons for which the value adjustments were made have ceased to apply.		
20.13 - 20.14	[par. 20.13 – 20.14 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures cannot create any conflicts with the Council Directives.	
20.15	A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless either (a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis, or (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate	4. art. 31.1 (c) (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	It is assessed that par. 20.15 are not incompatible with the Council Directives.	

	for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition (b) is not met. [Par. 20.15 includes an example. The example is not included in this document]			
20.16	[par. 20.16 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
20.17	A lessor shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease. The net investment in a lease is the lessor's gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease, and (b) any unguaranteed residual value accruing to the lessor.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	The requirement is similar to what was required by IAS 17 as of 1 May 2002, which has previously been assessed not to be incompatible with the Council Directives.	
20.18	For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.	4. art. 35.2 The purchase price shall be calculated by adding to the price paid the expenses incidental thereto.	It is assessed that par. 20.18 is not incompatible with the Council Directives.	
20.19	The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised	4. art. 31.1 (c) (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	It is assessed that par. 20.19 is in accordance with the Council Directives.	

	immediately in profit or loss.			
20.20	Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income: (a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts, and (b) finance income over the lease term.	The Council Directives do not include guidance on unbundling	It is assessed that par. 20.20 is not incompatible with the Council Directives.	
20.21	The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales.	See above	It is assessed that par. 20.21 is not incompatible with the Council Directives.	
20.22	If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.	See above	It is assessed that par. 20.22 is not incompatible with the Council Directives.	
20.23	[par. 20.23 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
20.24	A lessor shall present assets subject to operating leases in its statement of financial position according to the nature of the asset.	4. art. 4.1 1. In the balance sheet and in the profit and loss account the items prescribed in Articles 9, 10 and 23 to 26 must be shown separately in the order indicated.	When the asset is still recognised at the lessor, it should be presented in accordance with art. 9 or 10. It is assessed that par. 20.24 is not incompatible with this requirement.	
20.25	A lessor shall recognise lease income from operating leases (excluding amounts for services such as	4. art. 31.1 (c) (d)	Par. 20.25 is assessed not to be incompatible with the Council Directives.	

	insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless either (a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis, or (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.	account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;		
20.26	A lessor shall recognise as an expense costs, including depreciation, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.		Par. 20.26 is assessed not to be incompatible with the Council Directives.	
20.27	A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.	4. art. 35 2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto. 3. (a) The production cost shall be calculated by adding to the purchasing price of the raw materials and consumables the costs directly attributable to the product in question. (b) A reasonable proportion of the costs which are only indirectly attributable to the product in question may be added into the production costs.	It has been assessed whether it would be compatible with the Council Directives to include in the cost of the leased asset any initial direct costs in negotiating and arranging an operating lease. It is assessed as the Council Directives do not say anything specific about how to account for leases, par. 20.27 cannot be said to be incompatible with the Council Directives.	
20.28	To determine whether a leased asset has become impaired, a lessor shall apply Section 27.	See section 27	See section 27.	
20.29	A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.	The Council Directives do not include such an explanation.	Par. 20.29 is assessed not to be incompatible with the Council Directives.	
20.30 - 20.31	[par. 20.30 – 20.31 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the	

			Council Directives.	
20.32	A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.	The Council Directives do not include such an explanation.	It is assessed that the information provided in par. 20.32 is not incompatible with the Council Directives.	
20.33	If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts.	In the case included in par. 20.33, it may be argued that the transaction is a finance transaction and accordingly, the proceeds received should not be recognised immediately. Accordingly, it is assessed that par. 20.33 is not incompatible with the Council Directives.	
20.34	If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts.	It is assessed that par. 20.34 attempts to require a presentation that represents the substance of a transaction. Accordingly, it is assessed that par. 20.34 is not incompatible with the Council Directives.	
20.35	Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Provisions and Contingencies				
21.1	This section applies to all provisions (ie liabilities of uncertain timing or amount), contingent liabilities and		Par.21.1 explains the scope of section 21 and is accordingly in itself incompatible	

	contingent assets except those provisions covered by other sections of this IFRS. These include provisions relating to: (a) leases (Section 20 Leases). However, this section deals with operating leases that have become onerous. (b) construction contracts (Section 23 Revenue). (c) employee benefit obligations (Section 28 Employee Benefits). (d) income tax (Section 29 Income Tax).		with the Council Directives.	
21.2	The requirements in this section do not apply to executory contracts unless they are onerous contracts. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.	The Council Directives do not include specific requirements related to executor contracts and onerous contracts.	It is assessed that it is in accordance with the Council Directives not to recognise executor contracts unless they are onerous, and that onerous contracts could be dealt with as provisions.	
21.3	The word 'provision' is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities, and therefore are not covered by this section.	4. art. 20 3. Provisions may not be used to adjust the values of assets.	The use of the word 'provision' is similar in the Council Directives and par. 21.3	
21.4	An entity shall recognise a provision only when: (a) the entity has an obligation at the reporting date as a result of a past event; (b) it is probable (ie more likely than not) that the entity will be required to transfer economic benefits in settlement; and (c) the amount of the obligation can be estimated reliably.	4. art. 20 1. Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 2. The Member States may also authorize the creation of provisions intended to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or	The requirements of par. 19.14 and par. 29.24 result in liabilities being recognised for which it is not probable (ie more likely than not) that the entity will be required to transfer economic benefits in settlement EFRAG notes that art. 20 (1) of the Fourth Council Directive is interpreted differently by different persons. Some interpret the article as: - allowing only liabilities where it was probable (ie more likely than not) that the entity would be required to transfer economic benefits in settlement to be	

		certain to be incurred but uncertain as to amount or as to the date on which they will arise. 3. Provisions may not be used to adjust the values of assets.	recognised; or - requiring all liabilities – even those where the probability that the entity would be required to transfer economic benefits was very low – to be recognised. These persons note that art. 31 (1)(c)(bb) of the Fourth Council Directive leads to the conclusion that if items are to be considered and recognised as liabilities where the probability of outflow of economic resources is low, all such items should be recognised. They therefore think that either par. 19.14 and par. 29.14 or par. 21.4 are incompatible with the Council Directives Others do not think article 20 (1) deals with recognition or measurement, but rather to where types of items were to be presented in the prescribed formats. Also, they think that article 31.1 (c) (bb) does not deal with measurement. Accordingly, they think it would not be incompatible with the EU Accounting Directives to measure liabilities where the probability of outflow of economic resources is low at nil in some cases and at another value in other cases (when they are acquired in a business combination or are deferred tax liabilities). Because of the different interpretations of the Council Directives on this matter, EFRAG has decided that it could not state that par, 21.4 would be incompatible with the Council Directives.	
21.5	The entity shall recognise the provision as a liability in the statement of financial position and shall recognise the amount of the provision as an expense, unless	4. art. 9 B.	Provisions are placed as a separate item between Capital and reserves and Creditors in the Council Directives.	

	another section of this IFRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.	1. Provisions for pensions and similar obligations. 2. Provisions for taxation. 3. Other provisions.	However, as capital and reserves, provisions and creditors collectively is termed 'Liabilities', par 21.5 is not in formal conflict with the Council Directives. In relation to recognition of the cost as part of the cost of an asset see par. 17.10	
21.6	The condition in paragraph 21.4(a) (obligation at the reporting date as a result of a past event) means that the entity has no realistic alternative to settling the obligation. This can happen when the entity has a legal obligation that can be enforced by law or when the entity has a constructive obligation because the past event (which may be an action of the entity) has created valid expectations in other parties that the entity will discharge the obligation. Obligations that will arise from the entity's future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 21.4(a), no matter how likely they are to occur and even if they are contractual. To illustrate, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.	4. art. 20 1. Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 2. The Member States may also authorize the creation of provisions intended to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise.	It is assessed that par. 21.6 is in accordance with art. 20.1 of the Fourth Council Directive. The paragraph is not in accordance with art. 20.2 of that directive. However, as art. 20.2 is only an option, this does not result in par. 21.6 being incompatible with the Council Directives.	
21.7	An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. (a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost 4. art. 42 Provisions may not exceed in amount the sums which are necessary.	See par 2.51 and 11.35 In response to EFRAG's draft analysis, one constituent thought it would be incompatible with the Council Directives that when contingent liabilities were assumed against a price, the company would not measure the contingent liability at its "real value" but at 100% or nil. The constituent noted that a lottery company would not make a provision for the prices that could be expected.	

	cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used. (b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability should be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.		However, EFRAG thought that when a liability was recognised (for example when a contingent liability was recognised in a business combination and accordingly should be recognised as a provision) the price an entity rationally would pay to transfer the obligation to a third party would seem to reflect what the constituent termed "the real value". EFRAG acknowledged that if IFRS for SMEs could be read as stating that an entity assuming a contingent liability against a contribution outside a business combination should measure this contingent liability at nil, then IAS 37 at 1 May 2002 would have been read similarly and it is outside the scope of EFRAG's study to assess requirements of IFRS for SMEs that are identical to those of IAS at 1 May 2002. It the constituent thought that the requirements regarding contingent liabilities of IFRS for SMEs did not result in a true and fair view, the same argument as stated in relation to par. 29.24 applies. Another constituent noted that par. 21.7 requires provisions to be discounted. The constituent thought that the combined effect of art. 32 and 42 was that discounting of liabilities is not explicitly authorised. The constituent therefore thought that whether or not discounting would be allowed would require further analysis. EFRAG notes that IAS 37 at 1 May 2002 required provisions to be discounted when the time value of money was material. Accordingly, it did not assess this requirement.	
21.8	An entity shall exclude gains from the expected	The Council Directives do not specify	It is assessed that par. 21.8 is not	

	disposal of assets from the measurement of a provision.	whether or not gains expected on disposal of an asset should be included in the measurement of provisions.	incompatible with the Council Directives.	
21.9	When some or all of the amount required to settle a provision may be reimbursed by another party (eg through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the statement of comprehensive income, the entity may offset any reimbursement from another party against the expense relating to the provision.	The Council Directives do not include requirements regarding contingent assets 4. art. 31.1 (e) the components of asset and liability items must be valued separately;	It is assessed that par. 21.9 is not incompatible with the Council Directives.	
21.10	An entity shall charge against a provision only those expenditures for which the provision was originally recognised.	4. art. 42 Provisions may not exceed in amount the sums which are necessary.	Although art. 42 of the Fourth Council Directive could be interpreted as if, the Council Directives do not prohibit an overall assessment of provisions, it is assessed that par. 21.10 is not incompatible with the Council Directives.	
21.11	An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset (see paragraph 21.5). When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in profit or loss in the period it arises.	The Council Directives do not include requirements on whether or not to review provisions (except that provisions may not exceed in amount the sums which are necessary) and how to account for changes in estimates.	It is assessed that par. 21.11 is not incompatible with the Council Directives.	
21.12	A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4. An entity shall not recognise a contingent liability as a liability, except for provisions for contingent liabilities of an acquire in a business combination (see paragraphs	See par. 19.14	See par. 19.14	

	19.20 and 19.21). Disclosure of a contingent liability is required by paragraph 21.15 unless the possibility of an outflow of resources is remote. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.			
21.13	An entity shall not recognise a contingent asset as an asset. Disclosure of a contingent asset is required by paragraph 21.16 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.	The Council Directives do not include specific recognition guidance regarding contingent assets. 4. art. 31 (c) valuation must be made on a prudent basis,	The Council Directives do not include specific recognition guidance regarding contingent assets. The approach of par. 21.13 seems prudent and is not assess to be incompatible with the Council Directives.	
21.14 - 21.16	[par. 21.14 – 21.16 include disclosure requirements. All the requirements can be met by note disclosures.]	4. art. 42 The provisions shown in the balance sheet under ‘Other provisions’ must be disclosed in the notes on the accounts if they are material.	It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures cannot create any conflicts with the Council Directives.	
21.17	In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.		Where the Council Directives would require information to be disclosed, par. 21.17 cannot be used in relation to this information. This could potentially result in a difference (the Council Directives would require more information than IFRS for SMEs). However, it will not result in par. 21.17 being incompatible with the Council Directives. Also, as the Council Directives do not prescribe as detail information as is required by par. 21.14 – 21.16, it is not assumed that the option of par. 21.17 will result in a difference in practice. In response to EFRAG’s draft analysis, one constituent thought par. 21.17 would be incompatible with the Council Directives. As stated above, EFRAG noted that as 21.17 was only an option, it would not be incompatible with the Council Directives.	
	[Section 21 includes an appendix: Guidance on			

	recognising and measuring provisions. The appendix is not reproduced in this document]			
Liabilities and Equity				
22.1	This section establishes principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as owners). Section 26 Share-based Payment addresses accounting for a transaction in which the entity receives goods or services (including employee services) as consideration for its equity instruments (including shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.		Par.22.1 explains the scope of section 22 and is accordingly in itself not incompatible with the Council Directives.	
22.2	This section shall be applied when classifying all types of financial instruments except: (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with Section 9 Consolidated and Separate Financial Statements, Section 14 Investments in Associates or Section 15 Interests in Joint Ventures. (b) employers' rights and obligations under employee benefit plans, to which Section 28 Employee Benefits applies. (c) contracts for contingent consideration in a business combination (see Section 19 Business Combinations and Goodwill). This exemption applies only to the acquirer. (d) financial instruments, contracts and obligations under share-based payment transactions to which Section 26 applies, except that paragraphs 22.3–22.6 shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.		Par.22.2 explains the scope of section 22 and is accordingly in itself not incompatible with the Council Directives.	
22.3	Equity is the residual interest in the assets of an entity	4. art. 9	The definition of equity included in par.	

	after deducting all its liabilities. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.	A. **Capital and reserves** I. *Subscribed capital* (unless national law provides for called-up capital to be shown under this item. In that case, the amounts of subscribed capital and paid-up capital must be shown separately). II. *Share premium account* III. *Revaluation reserve* IV. *Reserves* 1. Legal reserve, in so far as national law requires such a reserve. 2. Reserve for own shares, in so far as national law requires such a reserve, without prejudice to Article 22 (1) (b) of Directive 77/91/EEC. 3. Reserves provided for by the articles of association. 4. Other reserves. V. *Profit or loss brought forward* VI. *Profit or loss for the financial year* (unless national law requires that this item be shown under F under 'Assets' or under E under 'Liabilities').	22.3 seems to correspond to what is regarded as 'A Capital and reserves' in the Fourth Council Directive.	
22.4	Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity: (a) A puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity instrument: (i) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those	The Council Directives does not define what is equity and what is a liability. 4. art. 4 6. Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts	It is assessed that par. 22.4 is not incompatible with the Council Directives. The Council Directives do not require that these instruments are classified as equity, however, they do not prohibit it either.	

	assets that remain after deducting all other claims on its assets. (ii) The instrument is in the class of instruments that is subordinate to all other classes of instruments. (iii) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. (iv) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments. (v) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument). (b) Instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.			
22.5	[Par. 22.5 includes examples of instruments that are classified as liabilities rather than equity. The examples are not reproduced in this document]			
22.6	Members' shares in co-operative entities and similar instruments are equity if: (a) the entity has an unconditional right to refuse redemption of the members' shares, or (b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.		Co-operatives are not included in the scope of the Fourth and Seventh Council Directives.	
22.7	An entity shall recognise the issue of shares or other	4. art. 9	In response to EFRAG's draft analysis,	

	equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments. (a) If the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset. (b) If the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received. (c) To the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity.	A. Subscribed capital unpaid of which there has been called (unless national law provides that called-up capital be shown under 'Liabilities'. In that case, the part of the capital called but not yet paid must appear as an asset either under A or under D (II) (5)).	one constituent thought that it would be incompatible with the Council Directives to present un-paid called-up capital as an offset to equity. EFRAG agreed with the constituent.	
22.8	An entity shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis.	No requirements included in the Council Directives.	Par. 22.8 is assessed not to be incompatible with the Council Directives.	
22.9	An entity shall account for the transaction costs of an equity transaction as a deduction from equity, net of any related income tax benefit.	No requirements included in the Council Directives.	Par. 22.9 is assessed not to be incompatible with the Council Directives.	
22.10	How the increase in equity arising on the issue of shares or other equity instruments is presented in the statement of financial position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be presented separately.	4. art. 4 6. Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13	If the laws referred to in par. 22.10 are in accordance with the Council Directives, par. would not be incompatible with the Council Directives.	

		June 1983 on consolidated accounts		
22.11	An entity shall apply the principles in paragraphs 22.7–22.10 to equity issued by means of sales of options, rights, warrants and similar equity instruments.	The issue is not addressed in the Council Directives	It is assessed that par. 22.11 is not incompatible with the Council Directives.	
22.12	A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an entity may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an entity's existing shares into multiple shares. For example, in a share split, each shareholder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity. An entity shall reclassify amounts within equity as required by applicable laws.	The issue is not addressed specifically in the Council Directives	It is assessed that par. 22.11 is not incompatible with the Council Directives.	
22.13	On issuing convertible debt or similar compound financial instruments that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The entity shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.	4. art. 4 6. Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts	The Council Directives do not seem to require an entity to separate the equity component of a compound financial instrument. However, by reference to the substance, they do not seem to prohibit this either.	
22.14	The entity shall not revise the allocation in a subsequent period.	The Council Directives do not address this issue.	It is assessed that par. 22.14 is not incompatible with the Council Directives.	
22.15	In periods after the instruments were issued, the entity shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest expense using the effective interest method (see paragraphs 11.15–11.20). The appendix to this section illustrates the issuer's accounting for	The Council Directives do not address this issue.	As par. 22.13 is assessed not to be incompatible with the Council Directives and measurement of financial liabilities at amoritsed cost is assessed not to be incompatible with the Council Directives, then par. 22.15 does not seem to be incompatible with the Council Directives.	

	convertible debt.			
22.16	Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. An entity shall deduct from equity the fair value of the consideration given for the treasury shares. The entity shall not recognise a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.	4. art. 9.C.III.7 Own shares (with an indication of their nominal value or, in the absence of a nominal value, their accounting par value) to the extent that national law permits their being shown in the balance sheet.	As national law could prohibit own shares to be shown in the balance sheet, it is assessed that par. 22.16 is not incompatible with the Council Directives.	
22.17	An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments), net of any related income tax benefits. Paragraph 29.26 provides guidance on accounting for a withholding tax on dividends.	4. art. 9.A V. Profit or loss brought forward VI. Profit or loss for the financial year (unless national law requires that this item be shown under F under 'Assets' or under E under 'Liabilities').	As a result of dividend, profit or loss brought forward or profit or loss for the financial year will decrease and accordingly, reduce equity. Tax on dividend is assessed in relation to par 29.26.	
22.18	Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42 Provisions may not exceed in amount the sums which are necessary. 4. art. 21 Income receivable before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year, must be shown under 'Accruals and deferred income'. The Member States may, however, provide that such charges shall be included in 'Creditors'. Where such charges are material, they must be disclosed in the notes on the accounts. 4. art. 42a	The issue is not considered in the Council Directives. Accordingly, par. 22.18 could be assessed not to be in conflict with the Council Directives. Also, the liability measured at fair value can in some cases be considered to be a provision (in other cases it is a financial liability). Provisions could be measured at fair value as that would be the value an entity should pay to settle the obligation by transferring it. Accordingly, par. 22.18 is not incompatible with the Council Directives.	

		1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. … 3. Paragraph 1 shall apply only to liabilities that are: (a) held as part of a trading portfolio; or (b) derivative financial instruments. … 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
22.19	In consolidated financial statements, a non-controlling interest in the net assets of a subsidiary is included in equity. An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with equity holders in	The Council Directives do not address this issue.	Par.22.19 is assessed not to be incompatible with the Council Directives.	

	their capacity as equity holders. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent. An entity shall not recognise gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.			
	[Section 22 includes an appendix – example of the issuer's accounting for convertible debt. The appendix is not included in this document.]			
Revenue				
23.1	This section shall be applied in accounting for revenue arising from the following transactions and events: (a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale). (b) the rendering of services. (c) construction contracts in which the entity is the contractor. (d) the use by others of entity assets yielding interest, royalties or dividends.		Par.23.1 explains the scope of section 23 and is accordingly in itself not incompatible with the Council Directives.	
23.2	Revenue or other income arising from some transactions and events is dealt with in other sections of this IFRS: (a) lease agreements (see Section 20 Leases). (b) dividends and other income arising from investments that are accounted for using the equity method (see Section 14 Investments in Associates and Section 15 Investments in Joint Ventures).	See the various sections mentioned in par. 23.2	See the various sections mentioned in par. 23.2.	

	(c) changes in the fair value of financial assets and financial liabilities or their disposal (see Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues). (d) changes in the fair value of investment property (see Section 16 Investment Property). (e) initial recognition and changes in the fair value of biological assets related to agricultural activity (see Section 34 Specialised Activities). (f) initial recognition of agricultural produce (see Section 34).			
23.3	An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.	4. art. 28 The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction of sales rebates and of value added tax and other taxes directly linked to the turnover. 4. Art. 32. The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	It is assessed that calculating the purchase price (in this case the sales price and revenue) in accordance with par. 23.3 is not incompatible with the Council Directives.	
23.4	An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.	4. art. 28 The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction of sales rebates and of value added tax and other taxes directly linked to the turnover.	It is assessed that 'derived' does not mean that it is impossible only to recognise commissions received by an agent from a sale (and not the total turnover related to the sale). Furthermore it is noted that IAS 12 at 1 May 2002 also required excise duty etc. to be excluded from revenue. It is therefore not assessed whether this requirement would be incompatible with the Council Directives.	

			Accordingly, it is assessed that par. 23.4 is not in conflict with the Council Directives. In response to EFRAG's draft analysis, one constituent thought it would be incompatible with the Council Directives to deduct excise duties etc. from revenue. As mentioned above, EFRAG has not assessed this requirement as it was also required by IAS 12 at 1 May 2002.	
23.5	When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest. A financing transaction arises when, for example, an entity provides interest-free credit to the buyer or accepts a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. The imputed rate of interest is the more clearly determinable of either: (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating, or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services. An entity shall recognise the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue in accordance with paragraphs 23.28 and 23.29 and Section 11.	The Council Directives do not specify how to account for deferred payments.	It is assessed that par. 23.5 is not incompatible with the Council Directives.	
23.6	An entity shall not recognise revenue: (a) when goods or services are exchanged for goods or services that are of a similar nature and value, or (b) when goods or services are exchanged for dissimilar goods or services but the transaction lacks	The Council Directives do not specify how to account for barter transactions.	It is assessed that par. 23.6 is not incompatible with the Council Directives.	

	commercial substance.			
23.7	An entity shall recognise revenue when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance. In that case, the entity shall measure the transaction at: (a) the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred; (b) if the amount under (a) cannot be measured reliably, then at the fair value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred; or (c) if the fair value of neither the asset received nor the asset given up can be measured reliably, then at the carrying amount of the asset given up adjusted by the amount of any cash or cash equivalents transferred.	The Council Directives do not specify how to account for barter transactions.	It is assessed that par. 23.7 is not incompatible with the Council Directives.	
23.8	An entity usually applies the revenue recognition criteria in this section separately to each transaction. However, an entity applies the recognition criteria to the separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an entity applies the recognition criteria to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity applies the recognition criteria to two or more transactions together when it sells goods and, at the same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts	The Council Directives do not include specific requirements about unbundling. It is assessed, that par. 23.8 is not incompatible with the Council Directives.	
23.9	[Par. 23.9 includes an example when an entity grants			

	its customer a loyalty award. The example is not included in this document.]			
23.10	An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. (c) the amount of revenue can be measured reliably. (d) it is probable that the economic benefits associated with the transaction will flow to the entity. (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included, The Council Directives do not specify when an entity can recognise the sale of goods.	It is assessed that par. 23.10 is not incompatible with the Council Directives.	
23.11	The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a time different from the transfer of legal title or the passing of possession.	The Council Directives do not specify when an entity can recognise the sale of goods.	It is assessed that par. 23.11 is not incompatible with the Council Directives.	
23.12	An entity does not recognise revenue if it retains significant risks of ownership. Examples of situations in which the entity may retain the significant risks and rewards of ownership are: (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranties. (b) when the receipt of the revenue from a particular sale is contingent on the buyer selling the goods.	The Council Directives do not specify when an entity can recognise the sale of goods.	It is assessed that par. 23.12 is not incompatible with the Council Directives.	

	(c) when the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed. (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract, or at the buyer's sole discretion without any reason, and the entity is uncertain about the probability of return.			
23.13	If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity recognises the revenue. For example, a seller recognizes revenue when it retains the legal title to the goods solely to protect the collectibility of the amount due. Similarly an entity recognises revenue when it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons, and the entity can estimate the returns reliably. In such cases, the entity recognises a provision for returns in accordance with Section 21 Provisions and Contingencies.	The Council Directives do not specify when an entity can recognise the sale of goods.	It is assessed that par. 23.13 is not incompatible with the Council Directives.	
23.14	When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: (a) the amount of revenue can be measured reliably. (b) it is probable that the economic benefits associated with the transaction will flow to the entity. (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably. (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Paragraphs 23.21–23.27 provide guidance for	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	It is assessed that when the conditions of par 23.14 are met, the profit relating to the rendering of services are made at the balance sheet date. Accordingly, par. 23.14 is not in conflict with the Council Directives.	

	applying the percentage of completion method.			
23.15	When services are performed by an indeterminate number of acts over a specified period of time, an entity recognises revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, the entity postpones recognition of revenue until the significant act is executed.	The Council Directives do not specify what to do when services are performed by an indeterminate number of acts over a specified period of time.	Par. 23.15 is in accordance with the requirements of IAS 12 as of 1 May 2002, which previously has been assessed not to be incompatible with the Council Directives.	
23.16	When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are recoverable.	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	It is assessed that par. 23.16 is not incompatible with the Council Directives.	
23.17	When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectibility of billings. Paragraphs 23.21–23.27 provide guidance for applying the percentage of completion method.		It is assessed that when the conditions of par 23.17 (see also par. 23.21 – 23.27) are met, the profit relating to the construction contracts are made at the balance sheet date. Accordingly, par. 23.17 is not incompatible with the Council Directives.	
23.18	The requirements of this section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts The Council Directives do not specify when construction contracts should be combined.	Par. 23.18 corresponds to the requirements of IAS 11 as of 1 May 2002. It has previously been assessed that the requirements of this standard were not incompatible with the Council Directives.	
23.19	When a contract covers a number of assets, the	4. art. 31.1(e)	It is assessed that par. 23.19 is not in	

	construction of each asset shall be treated as a separate construction contract when: (a) separate proposals have been submitted for each asset; (b) each asset has been subject to separate negotiation, and the contractor and customer are able to accept or reject that part of the contract relating to each asset; and (c) the costs and revenues of each asset can be identified.	the components of asset and liability items must be valued separately; The Council Directives do not specify when construction contracts should be separated.	conflict with the Council Directives.	
23.20	A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when: (a) the group of contracts is negotiated as a single package; (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and (c) the contracts are performed concurrently or in a continuous sequence.	4. art. 4.6 Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts The Council Directives do not specify when construction contracts should be combined.	Par. 23.20 corresponds to the requirements of IAS 11 as of 1 May 2002. It has previously been assessed that the requirements of this standard were not incompatible with the Council Directives.	
23.21	This method is used to recognise revenue from rendering services (see paragraphs 23.14–23.16) and from construction contracts (see paragraphs 23.17–23.20). An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.	The Council Directives do not provide guidance for applying the percentage of completion method.	Par. 23.21 is not in itself incompatible with the Council Directives.	
23.22	An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include: (a) the proportion that costs incurred for work performed to date bear to the estimated total costs.	The Council Directives do not provide guidance for applying the percentage of completion method.	Par. 23.21 is not in itself incompatible with the Council Directives.	

	Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments. (b) surveys of work performed. (c) completion of a physical proportion of the service transaction or contract work. Progress payments and advances received from customers often do not reflect the work performed.			
23.23	An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.	The Council Directives do not provide guidance for applying the percentage of completion method.	Par. 23.21 is not in itself incompatible with the Council Directives.	
23.24	An entity shall recognise as an expense immediately any costs whose recovery is not probable.	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	It is assessed that par. 23.24 is in accordance with the Council Directives.	
23.25	When the outcome of a construction contract cannot be estimated reliably: (a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable, and (b) the entity shall recognise contract costs as an expense in the period in which they are incurred.		See par. 23.17	
23.26	When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an onerous contract (see Section 21).	4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise.	It is assessed that par. 23.26 is in accordance with the Council Directives.	
23.27	If the collectibility of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.	4. art. 28. The net turnover shall comprise the amounts derived from the sale of products and the provision of services falling within the company's ordinary activities, after deduction	Par. 23.27 is assessed not to be incompatible with the Council Directives.	

		of sales rebates and of value added tax and other taxes directly linked to the turnover.		
23.28	An entity shall recognise revenue arising from the use by others of entity assets yielding interest, royalties and dividends on the bases set out in paragraph 23.29 when: (a) it is probable that the economic benefits associated with the transaction will flow to the entity, and (b) the amount of the revenue can be measured reliably.	The Council Directives do not include specific requirements regarding revenue recognition related to the use by others of the entity's assets. 4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	Par 23.28 corresponds to the requirements of IAS 18 as of 1 May 2002, which has previously been assessed not to be incompatible with the Council Directives.	
23.29	An entity shall recognise revenue on the following bases: (a) interest shall be recognised using the effective interest method as described in paragraphs 11.15–11.20. (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement. (c) dividends shall be recognised when the shareholder's right to receive payment is established.	The Council Directives do not include specific requirements regarding revenue recognition related to interest, royalties and dividends. 4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	Par 23.29 is assessed not to be incompatible with the Council Directives.	
23.30 - 23.31	[par. 23.30 – 23.31 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
23.32	An entity shall present: (a) the gross amount due from customers for contract work, as an asset. (b) the gross amount due to customers for contract work, as a liability.	4. art. 7. Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited. 4. art. 31.1 (e) the components of asset and liability items must be valued separately; 4. art. 21	In IAS 11.43 it is specified that the gross amount due from customers for contract work is the net amount of: (a) cost incurred plus recognised profits less (b)the sum of recognised losses and progress billings For all contracts in progress for which costs incurred plus recognised profits	

		Income receivable before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year, must be shown under 'Accruals and deferred income'. The Member States may, however, provide that such charges shall be included in 'Creditors'. Where such charges are material, they must be disclosed in the notes on the accounts.	(less recognised losses) exceeds progress billings. And similar for the gross amount due to customers. Accordingly, as contracts representing an asset is not off-set by contracts representing a liability, it is assessed that par. 23.32 is not incompatible with the Council Directives.
	[Section 23 includes an appendix – Examples of revenue recognition under the principles in section 23. The appendix is not included in this document.]		
Government Grants			
24.1	This section specifies the accounting for all government grants. A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.		Par.24.1 explains the scope of section 24 and is accordingly in itself not incompatible with the Council Directives.
24.2	Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.		Par.24. 2 explains what a government grant is in relation to IFRS for SMEs, accordingly par. 24.2 is in itself not incompatible with the Council Directives.
24.3	This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates. Section 29 Income Tax covers accounting for taxes based on income.		Par.24.3 explains the scope of section 24 and is accordingly in itself not incompatible with the Council Directives.
24.4	An entity shall recognise government grants as follows: (a) A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.	4. art. 31.1 (c) (aa) only profits made at the balance sheet date may be included,	Par. 24.4 is assessed not to be incompatible with the Council Directives.

	(b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met. (c) Grants received before the revenue recognition criteria are satisfied are recognised as a liability.	4. art. 21. Income receivable before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year, must be shown under 'Accruals and deferred income'. The Member States may, however, provide that such charges shall be included in 'Creditors'. Where such charges are material, they must be disclosed in the notes on the accounts.		
24.5	An entity shall measure grants at the fair value of the asset received or receivable.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	The grants are received in exchange for something or nothing. The fair value of the asset received or the receivable at the recognition date can therefore be considered as cost of that asset. Accordingly, it is assessed that par. 24.5 is not incompatible with the Council Directives.	
24.6 - 24.7	[par. 23.30 – 23.31 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Borrowing Costs				
25.1	This section specifies the accounting for borrowing costs. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs include: (a) interest expense calculated using the effective interest method as described in Section 11 Basic Financial Instruments. (b) finance charges in respect of finance leases recognised in accordance with Section 20 Leases. (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.	See below	The Council Directives do not specify what interest on capital borrowed to finance the production of fixed assets should be regarded as borrowing costs. It is assessed that the specification included in par. 25.1 is not incompatible with the Council Directives.	
25.2	An entity shall recognise all borrowing costs as an	4. art. 35.4	The Council Directives provides an option	

	expense in profit or loss in the period in which they are incurred.	Interest on capital borrowed to finance the production of fixed assets may be included in the production costs to the extent that it relates to the period of production. In that event, the inclusion of such interest under 'Assets' must be disclosed in the notes on the accounts.	to include interest in the cost of fixed assets. IFRS for SMEs do not allow this. However, as art. 35.4 of the Fourth Council Directive represents an option, par. 25.2 it is assessed that par. 25.2 is not incompatible with the Council Directives.	
25.3	[Par 25.3 states that section 25 would not require any addition disclosure]			
Share-based Payment				
26.1	This section specifies the accounting for all share-based payment transactions including: (a) equity-settled share-based payment transactions, in which the entity acquires goods or services as consideration for equity instruments of the entity (including shares or share options); (b) cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity; and (c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.		Par.26.1 explains the scope of section 26 and is accordingly in itself not incompatible with the Council Directives.	

26.2	Cash-settled share-based payment transactions include share appreciation rights. For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (eg upon cessation of employment) or at the employee's option.	The Council Directives do not include any explanation of what cash-settled share-based payments are.	The explanation by itself is assessed not to be incompatible with the Council Directives.	
26.3	An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.	The Council Directives do not include any requirements in relation assets acquired by share-based payment.	It is assessed that par. 26.3 is not incompatible with the Council Directives.	
26.4	When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the entity shall recognise them as expenses.		When a costs do not qualify for recognition as assets, it is assessed that the costs should be recognised as an expense in accordance with par. 26.4	
26.5	If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity or liabilities.	The Council Directives do not specify when share-based payments granted to employees vest. 4. art. 31.1 (c) valuation must be made on a prudent basis, … (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;	It is assessed that par. 26.5 is not incompatible with the Council Directives.	
26.6	If the share-based payments do not vest until the employee completes a specified period of service, the	The Council Directives do not specify when share-based payments granted to	It is assessed that par. 26.6 is not incompatible with the Council Directives.	

	entity shall presume that the services to be rendered by the counterparty as consideration for those share-based payments will be received in the future, during the vesting period. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.	employees vest. 4. art. 31.1 (c) valuation must be made on a prudent basis, … (d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges;		
26.7	For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.	The Council Directives do not include any requirements specifying how to measure assets acquired by share-based payment and the increase in equity.	It is assessed that par. 26.7 is not incompatible with the Council Directives.	
26.8	For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at grant date. For transactions with parties other than employees, the measurement date is the date when the entity obtains the goods or the counterparty renders service.	The Council Directives do not include any requirements specifying how to measure assets or services acquired by share-based payment and the increase in equity.	It is assessed that par. 26.8 is not incompatible with the Council Directives.	
26.9	A grant of equity instruments might be conditional on employees satisfying specified vesting conditions related to service or performance. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit (a non-market vesting condition) or a	The Council Directives do not include any requirements specifying how to measure assets or services acquired by share-based payment and the increase in equity.	It is assessed that par. 26.9 is not incompatible with the Council Directives.	

	specified increase in the entity's share price (a market vesting condition). All vesting conditions related to solely employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate, if necessary, if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. All market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares or share options at the measurement date, with no subsequent adjustment irrespective of the outcome.			
26.10	An entity shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy: (a) If an observable market price is available for the equity instruments granted, use that price. (b) If an observable market price is not available, measure the fair value of equity instruments granted using entity-specific observable market data such as (i) a recent transaction in the entity's shares, or (ii) a recent independent fair valuation of the entity or its principal assets. (c) If an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of the shares or share appreciation rights using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The entity's directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used should be consistent with	4. art. 42b 1. The fair value referred to in Article 42a shall be determined by reference to: (a) a market value, for those financial instruments for which a reliable market can readily be identified. Where a market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, the market value may be derived from that of its components or of the similar instrument; or (b) a value resulting from generally accepted valuation models and techniques, for those instruments for which a reliable market cannot be readily identified. Such valuation models and techniques shall ensure a reasonable approximation of the market value. 2. Those financial instruments that cannot be measured reliably by any of the methods described in paragraph 1, shall be measured in accordance with Articles 34 to 42.	Article 42b may not specify how an entity should measure the value of its own shares. However, par. 26.10 seems to be in accordance with the article 42b and it is assessed that par. 26.10 is not incompatible with the Council Directives.	

	generally accepted valuation methodologies for valuing equity instruments.			
26.11	An entity shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy: (a) If an observable market price is available for the equity instruments granted, use that price. (b) If an observable market price is not available, measure the fair value of share options and share appreciation rights granted using entity-specific observable market data such as for a recent transaction in the share options. (c) If an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends, and the risk-free interest rate) should use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The entity should derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.	4. art. 42b 1. The fair value referred to in Article 42a shall be determined by reference to: (a) a market value, for those financial instruments for which a reliable market can readily be identified. Where a market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, the market value may be derived from that of its components or of the similar instrument; or (b) a value resulting from generally accepted valuation models and techniques, for those instruments for which a reliable market cannot be readily identified. Such valuation models and techniques shall ensure a reasonable approximation of the market value. 2. Those financial instruments that cannot be measured reliably by any of the methods described in paragraph 1, shall be measured in accordance with Articles 34 to 42.	Article 42b may not specify how an entity should measure the value of its own shares. However, par. 26.11 seems to be in accordance with the article and it is assessed that par. 26.11 is not incompatible with the Council Directives.	
26.12	If an entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition, the entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows: (a) If the modification increases the fair value of the equity instruments granted (or increases the number	4. art. 31.1 (c) valuation must be made on a prudent basis. (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,	The method suggested in par. 26.12 could be seen as (very) prudent. However, the Council Directives do not specify how to account for such modifications and accordingly, it is assessed that par. 26.12 is not incompatible with the Council Directives.	

	of equity instruments granted) measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. (b) If the modification reduces the total fair value of the share-based payment arrangement, or apparently is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.			
26.13	An entity shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.	See above.	It is assessed that par. 26.13 is not incompatible with the Council Directives.	
26.14	For cash-settled share-based payment transactions, an entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be	As liabilities related to cash-settled share-based payment transactions are not specifically dealt with in the Council Directives, these liabilities could be accounted for as derivatives – and accordingly measured at fair value through profit and loss.	

		restricted to consolidated accounts as defined in Directive 83/349/EEC. 3. Paragraph 1 shall apply only to liabilities that are: (a) held as part of a trading portfolio; or (b) derivative financial instruments. 4. art. 42c 1. Notwithstanding Article 31(1)(c), where a financial instrument is valued in accordance with Article 42b, a change in the value shall be included in the profit and loss account. However, such a change shall be included directly in equity, in a fair value reserve, where: (a) the instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit and loss account; or (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity.		
26.15	Some share-based payment transactions give either the entity or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the entity shall account for the transaction as a cash-settled share-based payment transaction unless either (a) the entity has a past practice of settling by issuing equity instruments, or (b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument.	The Council Directives do not provide any guidance on this issue.	Par. 26.15 is assessed not to be incompatible with the Council Directives.	

	In circumstances (a) and (b), the entity shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs 26.7–26.13.			
26.16	If a share-based payment award is granted by a parent entity to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either the IFRS for SMEs or full IFRSs, such subsidiaries are permitted to recognise and measure share-based payment expense (and the related capital contribution by the parent) on the basis of a reasonable allocation of the expense recognised for the group.	The Council Directives do not provide any guidance on this issue.	Par. 26.16 is assessed not to be incompatible with the Council Directives.	
26.17	Some jurisdictions have programmes established under law by which equity investors (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received (such as past or future employee services). These are equity-settled share-based payment transactions within the scope of this section. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date.	The Council Directives do not provide any guidance on this issue.	Par. 26.17 is assessed not to be incompatible with the Council Directives.	
26.18 - 26.23	[par. 26.18 – 26.23 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Impairment of Assets				
27.1	An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this IFRS establish impairment requirements:	The Council Directives do not define 'an impairment loss'.	Par. 27.1 defines an impairment loss. Such a definition is not included in the Council Directives, however, it is assessed that the definition on its own is not incompatible with the Council Directives. Also the explanation of the scope of section 27 is not incompatible	

	(a) deferred tax assets (see Section 29 Income Tax). (b) assets arising from employee benefits (see Section 28 Employee Benefits). (c) financial assets within the scope of Section 11 Basic Financial Instruments or Section 12 Other Financial Instruments Issues. (d) investment property measured at fair value (see Section 16 Investment Property). (e) biological assets related to agricultural activity measured at fair value less estimated costs to sell (see Section 34 Specialised Activities).		with the Council Directives.	
27.2	An entity shall assess at each reporting date whether any inventories are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items—see paragraph 27.3) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the entity shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. That reduction is an impairment loss and it is recognised immediately in profit or loss.	4. art. 39.1 (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) Value adjustments shall be made in respect of current assets with a view to showing them at the lower market value or, in particular circumstances, another lower value to be attributed to them at the balance sheet date.	It could be assessed whether market value equals to selling price less costs to complete and sell or par. 27.2 could only be used if it is considered to be a particular circumstance (and then another lower value can be attributed). However, as (at least) one of the arguments seems applicable, it is assessed that par. 27.2 is not incompatible with the Council Directives.	
27.3	If it is impracticable to determine the selling price less costs to complete and sell for inventories item by item, the entity may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.		The Council Directives do not seem to prohibit use of the specified method when it is impracticable to determine the impairment amount item by item.	
27.4	An entity shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the entity shall reverse the amount of the impairment	(d) Valuation at the lower value provided for in (b) and (c) may not be continued if the reasons for which the value adjustments were made have ceased to apply.	Paragraph 27.4 is assessed to be in accordance with article 39.1 (d) of the Fourth Council Directive.	

	(ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.			
27.5	If, and only if, the recoverable amount of an asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs 27.11–27.20 provide guidance on measuring recoverable amount.	4. art. 35 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent. (cc) The value adjustments referred to in (aa) and (bb) must be charged to the profit and loss account and disclosed separately in the notes on the accounts if they have not been shown separately in the profit and loss account. (dd)Valuation at the lower of the values provided for in (aa) and (bb) may not be continued if the reasons for which the value adjustments were made have ceased to apply. 4. art. 19	It has been assessed whether par. 27.5 would be incompatible with the Council Directives, as art. 35 (c) (bb) of the Fourth Council Directive requires that a lower figure should be expected to be permanent if a value adjustment should be carried out. However, it is also noted that art. 19 of the Fourth Council Directives requires that all value adjustments should be reflected, whether or not the reduction is final or not. Accordingly, it has been assessed that the method required by IFRS for SMEs is not incompatible with the Council Directives.	

		Value adjustments shall comprise all adjustments intended to take account of reductions in the values of individual assets established at the balance sheet date whether that reduction is final or not.		
27.6	An entity shall recognise an impairment loss immediately in profit or loss.	See above	Par. 27.6 is assessed not to be incompatible with the Council Directives.	
27.7	An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.	See above	It has been considered whether the fact that the Council Directives require that an impairment loss should be recognised also when there would not be an indication of an impairment loss. However, it has been assessed that the requirements of Section 27 could be regarded as an application guidance of the requirements of the Directives. It does not seem realistic that an asset should be impaired if there are no indications of this impairment. Accordingly, it is assessed that par. 27.7 is not incompatible with the Council Directives.	
27.8	If it is not possible to estimate the recoverable amount of the individual asset, an entity shall estimate the recoverable amount of the cash-generating unit to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows, and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.	No specific requirements included in the Council Directives	It is assessed that par. 27.8 is not incompatible with the Council Directives.	
27.9	In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: *External sources of information* (a) During the period, an asset's market value has declined significantly more than would be expected as	No specific requirements included in the Council Directives	It is assessed that a list of impairment indicators are not incompatible with the Council Directives.	

	a result of the passage of time or normal use. (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated. (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell. (d) The carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity). *Internal sources of information* (e) Evidence is available of obsolescence or physical damage of an asset. (f) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and			

	cash flows.			
27.10	If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful life, the depreciation (amortisation) method or the residual value for the asset and adjust it in accordance with the section of this IFRS applicable to the asset (eg Section 17 Property, Plant and Equipment and Section 18 Intangible Assets other than Goodwill), even if no impairment loss is recognised for the asset.	No specific requirements included in the Council Directives	In relation to section 17 and 18 it is assessed that the requirements relating to changes in estimates of useful life, depreciation method and residual value is not incompatible with the Council Directives. Nor will it be in conflict with the Council Directives to reassess those issues in case of an indication of an impairment loss.	
27.11	The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs 27.12–27.20 to an asset should be read as references also to an asset's cash-generating unit.	4. art. 35 (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent	It is assessed that 'the lower figure to be attributed to them' (4. Art. 35.1 (c) (bb)) could be the recoverable amount as explained in par. 27.11. It is therefore assessed that par. 27.11 is in accordance with the Council Directives.	
27.12	It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.	No guidance included in the Council Directives	Par. 27.12 states what follows from par. 27.11. Accordingly, it is assessed that par. 27.12 is not in conflict with the Council Directives.	
27.13	If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.	No guidance included in the Council Directives	Par. 27.13 could be regarded as a helpful information in applying the criteria of par. 27.11. Accordingly, it is assessed that par. 27.13 is not in conflict with the Council Directives.	
27.14	Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after	No requirements included in the Council Directives.	It is assessed that par. 27.14 is not incompatible with the Council Directives.	

	deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry.			
27.15	Value in use is the present value of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps: (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal, and (b) applying the appropriate discount rate to those future cash flows.	No requirements included in the Council Directives.	It is assessed that par. 27.15 is not in itself incompatible with the Council Directives.	
27.16	The following elements shall be reflected in the calculation of an asset's value in use: (a) an estimate of the future cash flows the entity expects to derive from the asset. (b) expectations about possible variations in the amount or timing of those future cash flows. (c) the time value of money, represented by the current market risk-free rate of interest. (d) the price for bearing the uncertainty inherent in the asset. (e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.	No requirements included in the Council Directives.	It is assessed that par. 27.16 is not in itself incompatible with the Council Directives.	
27.17	In measuring value in use, estimates of future cash flows shall include: (a) projections of cash inflows from the continuing use of the asset. (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or	No requirements included in the Council Directives.	It is assessed that par. 27.17 is not in itself incompatible with the Council Directives.	

	allocated on a reasonable and consistent basis, to the asset. (c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties. The entity may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an entity may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.			
27.18	Estimates of future cash flows shall not include: (a) cash inflows or outflows from financing activities, or (b) income tax receipts or payments.	No requirements included in the Council Directives.	It is assessed that par. 27.16 is not in itself incompatible with the Council Directives.	
27.19	Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from: (a) a future restructuring to which an entity is not yet committed, or (b) improving or enhancing the asset's performance.	No requirements included in the Council Directives.	It is assessed that par. 27.19 is not incompatible with the Council Directives.	
27.20	The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of: (a) the time value of money, and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted. The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future	No requirements included in the Council Directives.	It is assessed that par. 27.20 is not incompatible with the Council Directives.	

	cash flow estimates have been adjusted, to avoid double-counting.			
27.21	An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and (b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.	No requirements included in the Council Directives.	It is assessed that par. 27.21 is not incompatible with the Council Directives	
27.22	However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of: (a) its fair value less costs to sell (if determinable); (b) its value in use (if determinable); and (c) zero.	4. art. 35 (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent	It seems to be in accordance with the Council Directives not to reduce the value of asses below 'the lower figure to be attributed to them'.	
27.23	Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.	No requirements included in the Council Directives.	It is assessed that par. 27.23 is not incompatible with the Council Directives	
27.24	Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Therefore, the fair value of goodwill must be derived from measurement of the fair value of the cash-generating unit(s) of which the goodwill is a part.	No explanation included in the Council Directives	Par. 27.24 is assessed not to be incompatible with the Council Directives.	
27.25	For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree	No requirements included in the Council Directives	Par. 27.25 is assessed not to be incompatible with the Council Directives.	

	are assigned to those units.			
27.26	Part of the recoverable amount of a cash-generating unit is attributable to the non-controlling interest in goodwill. For the purpose of impairment testing a non-wholly-owned cash-generating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.	No guidance included in the Council Directives	Par. 27.26 is assessed not to be incompatible with the Council Directives.	
27.27	If goodwill cannot be allocated to individual cash-generating units (or groups of cash-generating units) on a non-arbitrary basis, then for the purposes of testing goodwill the entity shall test the impairment of goodwill by determining the recoverable amount of either (a) or (b): (a) the acquired entity in its entirety, if the goodwill relates to an acquired entity that has not been integrated. Integrated means the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries. (b) the entire group of entities, excluding any entities that have not been integrated, if the goodwill relates to an entity that has been integrated. In applying this paragraph, an entity will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also the entity shall follow the requirements for cash-generating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or group of entities.	No requirements included in the Council Directives	Par. 27.27 is assessed not to be incompatible with the Council Directives.	
27.28	An impairment loss recognised for goodwill shall not be reversed in a subsequent period.	4. art. 35.1 (c) (dd)Valuation at the lower of the values	It has been assessed that that the requirement of paragraph 27.28 of IFRS for SMEs is incompatible with the Council	

		provided for in (aa) and (bb) may not be continued if the reasons for which the value adjustments were made have ceased to apply	Directives. The reason is that IFRS for SMEs specifically prohibits reversal of goodwill impairment; and the Fourth Council Directive specifically requires goodwill impairment losses (valuation at the lower of the values provided for in article 35 (c) (aa) and (bb)) to be reversed if the reasons for which they have been recognised have ceased to apply.	
27.29	For all assets other than goodwill, an entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 27.9. If any such indication exists, the entity shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on: (a) the recoverable amount of that individual asset (see paragraph 27.30), or (b) the recoverable amount of the cash-generating unit to which the asset belongs (see paragraph 27.31).	See above	See par. 27.7 for the use of impairment indicators.	
27.30	When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply: (a) The entity shall estimate the recoverable amount of the asset at the current reporting date. (b) If the estimated recoverable amount of the asset exceeds its carrying amount, the entity shall increase the carrying amount to recoverable amount, subject to the limitation described in (c) below. That increase is a reversal of an impairment loss. The entity shall recognise the reversal immediately in profit or loss.	See above	Par. 27.30 is assessed not to be incompatible with the Council Directives.	

	(c) The reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. (d) After a reversal of an impairment loss is recognised, the entity shall adjust the depreciation (amortisation) charge for the asset in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.			
27.31	When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the following requirements apply: (a) The entity shall estimate the recoverable amount of that cash-generating unit at the current reporting date. (b) If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The entity shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c) below. Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised immediately in profit or loss. (c) In allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of (i) its recoverable amount, and (ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.	See above.	The requirement is assessed – apart, perhaps, from the fact that impairment losses related to goodwill are not reversed (see above) – not to be incompatible with the Council Directives.	
27.32	[par. 27.32 – 27.33 include disclosure requirements.		It is generally assessed that requirements	

- 27.33	All the requirements can be met by note disclosures.]		included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Employee Benefits				
28.1	Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. This section applies to all employee benefits, except for share-based payment transactions, which are covered by Section 26 Share-based Payment. Employee benefits covered by this section will be one of the following four types: (a) short-term employee benefits, which are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service. (b) post-employment benefits, which are employee benefits (other than termination benefits) that are payable after the completion of employment. (c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service. (d) termination benefits, which are employee benefits payable as a result of either: (i) an entity's decision to terminate an employee's employment before the normal retirement date, or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.	4. art. 9. B 1. Provisions for pensions and similar obligations. 2. Provisions for taxation. 3. Other provisions. 4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 4. art. 23.6 (b) social security costs, with a separate indication of those relating to pensions. 4. art. 31 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 4. art. 42 Provisions may not exceed in amount the sums which are necessary. 4. art. 43.1 (7) the total amount of any financial	Par. 28.1 explains the scope of section 28 and is accordingly not incompatible with the Council Directives.	

		commitments that are not included in the balance sheet, in so far as this information is of assistance in assessing the financial position. Any commitments concerning pensions and affiliated undertakings must be disclosed separately; 4. art. 43.1 (12) the amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pensions for former members of those bodies, with an indication of the total for each category;		
28.2	Employee benefits also include share-based payment transactions by which employees receive equity instruments (such as shares or share options) or cash or other assets of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.		The reference to section 26 is not in itself incompatible with the Council Directives. The requirements of section 26 are assessed in section 26.	
28.3	An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period: (a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund. (b) as an expense, unless another section of this IFRS requires the cost to be recognised as part of the	See above 4. art. 7 Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited.	It is assessed that it is not incompatible with the Council Directives to require to be recognised as a cost, the cost of all employee benefits to which the employees have become entitled as a result of service rendered to the entity during the reporting period, unless another section of IFRS for SMEs requires it to be capitalised. It could be questioned whether it would be incompatible with the Council Directives to set-off liabilities and contributions made to a fund. It is, however, noted that IAS 19 as of 1 May 2002 included a similar requirement as	

	cost of an asset such as inventories or property, plant and equipment.		par. 28.3 and has previously been assessed not to be incompatible with the Council Directives.	
28.4	Short-term employee benefits include items such as: (a) wages, salaries and social security contributions; (b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service; (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.		Par. 28.4 explains what is considered in section 28 to be short-term employee benefits and is accordingly not incompatible with the Council Directives.	
28.5	When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognised in accordance with paragraph 28.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.	The Council Directives do include any requirements about discounting short-term employee benefits.	It is assessed that par. 28.5 is not incompatible with the Council Directives.	
28.6	An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An entity shall recognise the expected cost of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount	The Council Directives do not specify the accounting treatment for accumulated compensated absence.	It is assessed that par. 28.6 is not incompatible with the Council Directives.	

	as a current liability at the reporting date.			
28.7	An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.	4. art. 31.1a 1a. In addition to those amounts recorded pursuant to paragraph (1) (c)(bb), Member States may permit or require account to be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up.	It is optional for Member States to require provisions in excess of those requires by art. 31.1 (c) (bb). Accordingly, it is assessed to be in accordance with the Council Directives only to recognise present obligation arising from accumulating compensated absence.	
28.8	An entity shall recognise the expected cost of profit-sharing and bonus payments only when: (a) the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments), and (b) a reliable estimate of the obligation can be made.	See above	See above. In relation to 'a reliable estimate' see par. 2.39. It is assessed that par. 28.8 is not incompatible with the Council Directives.	
28.9	Post-employment benefits include, for example: (a) retirement benefits, such as pensions, and (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care. Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law rather than by action of the entity. In some cases, these arrangements arise from actions of the entity even in the absence of a formal, documented plan.	The Council Directives do not specify what is considered to be post-employment benefits	Par. 28.9 explains what is considered in section 28 to be post-employment benefits and is accordingly not incompatible with the Council Directives.	
28.10	Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans,	The Council Directives do not specify what is considered to be defined benefit plans and	Par. 28.10 explains what is considered in section 28 to be defined contribution	

	depending on their principal terms and conditions. (a) Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions. (b) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.	defined contribution plans	plans and defined benefit plans and is accordingly not in conflict with the Council Directives.	
28.11	Multi-employer plans and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.	The Council Directives do not specify how to classify multi-employer plans and state plans.	Whether or not it should be possible to account for defined benefit plans when sufficient information is not available is similar to the issue discussed in par. 2.39. Apart, perhaps, from that issue it is assessed that par. 28.11 is not in conflict with the Council Directives.	
28.12	An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a	The Council Directives do not specify what is considered to be defined benefit plans and	Par. 28.12 explains what is considered in section 28 to be defined contribution	

	plan as a defined contribution plan unless the entity has a legal or constructive obligation either: (a) to pay the employee benefits directly when they become due, or (b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods. A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer. If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.	defined contribution plans	plans and defined benefit plans and is accordingly not incompatible with the Council Directives.	
28.13	An entity shall recognise the contribution payable for a period: (a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognise that excess as an asset. (b) as an expense, unless another section of this IFRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment	4. art. 42 Provisions may not exceed in amount the sums which are necessary. 4. art. 21 Income receivable before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year, must be shown under 'Accruals and deferred income'. The Member States may, however, provide that such charges shall be included in 'Creditors'. Where such charges are material, they must be disclosed in the notes on the accounts.	It seems in accordance with the Council Directives not to recognise an obligation for the future pension expenses to the employees as an entity does not have any obligation to settle this under a defined contribution plan as defined in section 28. Accordingly, it is assessed that par. 28.13 is not incompatible with the Council Directives.	
28.14	In applying the general recognition principle in paragraph 28.3 to defined benefit plans, an entity shall recognise: (a) a liability for its obligations under defined benefit plans net of plan assets— its defined benefit liability		Par. 28.14 presents an overview of the following paragraphs and is therefore in itself not incompatible with the Council Directives.	

	(see paragraphs 28.15–28.23). (b) the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 28.24–28.27).			
28.15	An entity shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts: (a) the present value of its obligations under defined benefit plans (its defined benefit obligation) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation), minus (b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Paragraphs 11.27–11.32 establish requirements for determining the fair values of those plan assets that are financial assets.	See par. 28.3	See par. 28.3 In response to EFRAG's draft analysis one constituent thought it could be incompatible with the Council Directives to set-off plan assets and the present value of obligations under defined benefit plans in some jurisdictions. EFRAG notes that it is outside the scope of the analysis to assess this issue as the requirement to off-set plan assets and obligations under defined benefit plans was also included in IAS 19 at 1 May 2002.	
28.16	The present value of an entity's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet vested (see paragraph 28.26) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the entity to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible, and selected to lead to the best estimate of the future cash flows that will arise under the plan.	The Council Directives do not include specific requirements on how to measure an entity's obligation under a defined benefit plan. 4. art. 31 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 4. art. 42 Provisions may not exceed in amount the sums which are necessary.	It is assessed that the method prescribed in par. 28.16 cannot be said to be incompatible with either par. 31 or par. 42 of the Council Directives – or other parts of the Council Directives.	
28.17	An entity shall measure its defined benefit obligation on a discounted present value basis. The entity shall determine the rate used to discount the future	The Council Directives do not specify whether obligations should be measured on a discounted present value basis and how to	It is assessed that par. 28.17 is not incompatible with the Council Directives.	

	payments by reference to market yields at the reporting date on high quality corporate bonds. In countries with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.	determine the discount rate.		
28.18	If an entity is able, without undue cost or effort, to use the projected unit credit method to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an entity to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.	The Council Directives do not specify any requirements in relation to the use of the projected unit credit method. 4. art. 31 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 4. art. 42 Provisions may not exceed in amount the sums which are necessary.	It is assessed that par. 28.18 is not incompatible with the Council Directives. The projected unit credit method is generally regarded as taking into account the necessary information for calculating an obligation that would not be too high or too low.	
28.19	If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees: (a) ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits); (b) ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees); and (c) ignore possible in-service mortality of current	The Council Directives do not include requirements on how to calculate the pension obligation.	In response to EFRAG's draft analysis one constituent thought that this simplified method would be incompatible with the Council Directives. EFRAG noted that the simplified method is only an option. Accordingly, an entity could choose not to apply the option. Par. 28.19 was therefore assessed not to be incompatible with the Council Directives.	

	employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered. An entity that takes advantage of the foregoing measurement simplifications must nonetheless include both vested and unvested benefits in measuring its defined benefit obligation.			
28.20	This IFRS does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.	No requirements included in the Council Directives about the use of an independent actuary or that comprehensive actuarial valuation is done annually (if just the obligation is stated at the correct amount)	Par. 28.20 is assessed not to be incompatible with the Council Directives.	
28.21	If a defined benefit plan has been introduced or changed in the current period, the entity shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (income) in measuring profit or loss in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated, and the entity shall recognise the resulting gain or loss in profit or loss in the current period.	4. art. 31 (c) valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included, (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 4. art. 42 Provisions may not exceed in amount the sums which are necessary.	It is assessed that recognising the profit resulting from the change when the change is made is not incompatible with the Council Directives. Nor is it in conflict with the Council Directives to decrease or decrease the obligation in order to reflect the change.	
28.22	If the present value of the defined benefit obligation at	4. art. 31	It is assessed that par. 28.22 is not	

	the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.	(c) valuation must be made on a prudent basis	incompatible with the Council Directives.	
28.23	An entity shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in profit or loss as an expense or partly in profit or loss and partly as an item of other comprehensive income (see paragraph 28.24) unless another section of this IFRS requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.	No requirements in the Council Directives related to other comprehensive income.	See par 5.4	
28.24	An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall: (a) recognise all actuarial gains and losses in profit or loss, or (b) recognise all actuarial gains and losses in other comprehensive income as an accounting policy election. The entity shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. Actuarial gains and losses recognised in other comprehensive income shall be presented in the statement of comprehensive income.		See par. 5.4	
28.25	The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes: (a) the change in the defined benefit liability arising from employee service rendered during the reporting period. (b) interest on the defined benefit obligation during	4.art. 42a.1 By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives.	It is assessed that the critical issue of par. 28.25 in relation to its compatibility with the Council Directives is (c). From par. 28.22 it appears that plan assets are measured at fair value and the changes in the fair value is then recognised in the profit or loss. This is also the case for changes in the fair value	

	the reporting period. (c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period. (d) actuarial gains and losses arising in the reporting period. (e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 28.21). (f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 28.21).	Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. Valuation according to paragraph 1 shall not apply to: (a) to non-derivative financial instruments held to maturity; (b) to loans and receivables originated by the company and not held for trading purposes; and (c) to interests in subsidiaries, associated undertakings and joint ventures, equity instruments issued by the company, contracts for contingent consideration in a business combination as well as other financial instruments with such special characteristics that the instruments, according to what is generally accepted, should be accounted for differently from other financial instruments. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (1), as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of	of recognised reimbursement rights. It is assessed that this is not incompatible with the Council Directives, as the Council Directives would allow measurement at fair value of specified categories of assets other than financial instruments and all financial instruments that can also be measured at fair value according to (full) IFRS (as endorsed in 2006). As plan assets and reimbursement rights should also be measured at fair value according to IAS 19, it is assessed that in case these assets are financial assets, they can also be measured at fair value according to the Council Directives. Also, it is assessed that the other requirements of par. 28.25 are not incompatible with the Council Directives.	

		19 July 2002 on the application of international accounting standards 4. art. 42e By way of derogation from Article 32, Member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.		
28.26	Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not yet vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.	4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up, 4. art. 31.1a In addition to those amounts recorded pursuant to paragraph (1) (c)(bb), Member States may permit or require account to be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up.	It is assessed that par. 28.26 is not incompatible with the Council Directives. It could be discussed whether benefits conditional on future employment give rise to a liability in accordance with art. 31.1 (c) (bb). However, if that should be the case, the liability could be recognised in accordance with art. 31.1a. In response to EFRAG's draft analysis one constituent thought it would be incompatible with the Council Directives to require that salary increases, that are at the discretion of the company, are taken into account when measuring a defined benefit liability. EFRAG noted that also IAS 19 at 1 May 2002 required an entity to measure post-employment benefit obligations on a basis that reflected estimated future salary increases. Accordingly, this requirement was not included in EFRAG's assessment.	
28.27	If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an entity shall measure its defined benefit	The Council Directives do not include specific requirements in relation to amount that will be paid to employees under	It is assessed that par. 28.27 is not incompatible with the Council Directives. See also in relation to par. 28.3 where off-	

	obligations on a basis that reflects the benefits payable under the government plans, but only if: (a) those plans were enacted before the reporting date, or (b) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.	government-sponsored plans. 4. art. 31.1 (c) valuation must be made on a prudent basis,	setting is discussed.	
28.28	If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the statement of comprehensive income (or in the income statement, if presented), the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.	The Council Directives do not include specific requirements in relation to amounts that will be reimbursed.	In relation to recognition of the asset the Council Directives do not include any criteria. The criteria of par. 28.28 are assessed not to be in conflict with the Council Directives. In response to EFRAG's draft analysis one constituent thought that, depending on the jurisdiction, it could be in compatible with the Council Directives to present the expense relating to a defined benefit plan net of the amount recognised for a reimbursement. However, EFRAG notes that par. 28.28 only provides an option for entities to In relation to netting the expense relating to a defined benefit plan and reimbursement, it seems as an option in par. 28.28. Accordingly, if this option does not meet the presentation criteria of the Council Directives, it is only a difference and does not result in par. 28.28 being incompatible with the Council Directives.	
28.29	Other long-term employee benefits include, for example: (a) long-term compensated absences such as long-service or sabbatical leave.	The Council Directives do not include examples of other long-term employee benefits.	Par. 28.29 list examples of what should be considered as long-term employee benefits in IFRS for SMEs. Accordingly, the paragraph is not in itself incompatible with the Council Directives.	

	(b) long-service benefits. (c) long-term disability benefits. (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service. (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.			
28.30	An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts: (a) the present value of the benefit obligation at the reporting date, minus (b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. An entity shall recognise the change in the liability in accordance with paragraph 28.23.	4. art. 42 Provisions may not exceed in amount the sums which are necessary. 4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost. 4.art. 42a. 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (1), as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of	It is assessed that the benefit obligation could be either a provision or a financial liability. It is assessed that in both cases the obligation could be measured at its present value at the reporting date according to the Council Directives. In relation to plan assets see par. 28.25.	

		international accounting standards.		
28.31	An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.	The Council Directives do not include any definition of termination benefits.	Par. 28.31 explains what should be considered as termination benefits in relation to IFRS for SMEs. Accordingly, the paragraph itself is not incompatible with the Council Directives.	
28.32	Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.	The Council Directives do not include requirements on when to recognise termination benefits.	It is assessed that per. 28.31 is not incompatible with the Council Directives.	
28.33	When an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.	The Council Directives do not include this 'reminder'	Par. 28.33 is assessed to be a 'reminder' to the entities. Accordingly it is not in itself incompatible with the Council Directives.	
28.34	An entity shall recognise termination benefits as a liability and an expense only when the entity is demonstrably committed either: (a) to terminate the employment of an employee or group of employees before the normal retirement date, or (b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.	4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 4. art. 33.1 (c) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,	It is noted that par. 28.34 is similar to the requirements of IAS 19 as of 1 May 2002, which previously has been assessed not to be incompatible with the Council Directives.	
28.35	An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.	The Council Directives do not explain when an entity is demonstrably committed to a termination.	Par. 28.35 explains what is meant by 'demonstrably committed' in IFRS for SMEs. The explanation is not in itself in incompatible with the Council Directives. The implications of the explanation are dealt with in par. 28.34.	
28.36	An entity shall measure termination benefits at the best estimate of the expenditure that would be	4. art. 42	It is assessed that measuring termination benefits at the best estimate of the	

	required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.	Provisions may not exceed in amount the sums which are necessary.	expenditure that would be required to settle the obligation at the reporting date is not incompatible with the Council Directives.	
28.37	When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their discounted present value.	The Council Directives do not include requirements regarding discounting.	It is assessed that par. 28.37 is not incompatible with the Council Directives.	
28.38	If a parent entity provides benefits to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either the IFRS for SMEs or full IFRSs, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.	Provisions may not exceed in amount the sums which are necessary.	In relation to par. 28.19 it is noted that the Council Directives do not prescribe what method to be used when calculating pension obligations. Accordingly, it is assessed that par. 28.38 is not incompatible with the Council Directives.	
28.39 - 28.44	[par. 27.32 – 27.33 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Income Tax				
29.1	For the purpose of this IFRS, income tax includes all domestic and foreign taxes that are based on taxable profit. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.	4. art. 23 14. Tax on profit or loss on ordinary activities. 19. Tax on extraordinary profit or loss. 20. Other taxes not shown under the above items.	It is assessed that tax on profit or loss would correspond to income tax under IFRS for SMEs. The council directives do not specify how withholding taxes should be accounted for. However, as par. 29.1 only specifies what is regarded as income tax in IFRS for SMEs that paragraph is not in itself in conflict with the Council Directives.	
29.2	This section covers accounting for income tax. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. These recognised tax amounts comprise current tax and deferred tax. Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its assets and liabilities for their current carrying amount, and the tax effect of the carryforward of currently	4. art. 43.1 (11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;	It is assessed that the Council Directives require current tax to be included in tax on profit and loss and allows changes in deferred tax to be included as well. Accordingly, it is assessed that par. 29.2 is in accordance with the Council Directives.	

	unused tax losses and tax credits.			
29.3	An entity shall account for income tax by following the steps (a)–(i) below: (a) recognise current tax, measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities (paragraphs 29.4–29.8). (b) identify which assets and liabilities would be expected to affect taxable profit if they were recovered or settled for their present carrying amounts (paragraphs 29.9 and 29.10). (c) determine the tax basis of the following at the end of the reporting period: (i) the assets and liabilities in (b). The tax basis of assets and liabilities is determined by the consequences of the sale of the assets or settlement of liabilities for their present carrying amounts (paragraphs 29.11 and 29.12). (ii) other items that have a tax basis although they are not recognised as assets or liabilities, ie items recognised as income or expense that will become taxable or tax-deductible in future periods (paragraph 29.13). (d) compute any temporary differences, unused tax losses and unused tax credits (paragraph 29.14). (e) recognise deferred tax assets and deferred tax liabilities arising from the temporary differences, unused tax losses and unused tax credits (paragraphs 29.15–29.17). (f) measure deferred tax assets and liabilities at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting period, are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled (paragraphs 29.18– 29.25).	The Council Directives do not prescribe a method how to account for income tax.	See the paragraph 29.24.	

	(g) recognise a valuation allowance against deferred tax assets so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit (paragraphs 29.21 and 29.22). (h) allocate current and deferred tax to the related components of profit or loss, other comprehensive income and equity (paragraph 29.27). (i) present and disclose the required information (paragraphs 29.28–29.32).			
29.4	An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.	4. art. 23 14. Tax on profit or loss on ordinary activities. 19. Tax on extraordinary profit or loss. 20. Other taxes not shown under the above items. 4. art. 9. B 2. Provisions for taxation. 4. art. 9. C 8. Other creditors including tax and social security.	Although the Layout schemes do not prescribe specifically where to present a current tax asset, it is considered to be in accordance with the Council Directives to recognise such an asset provided that it has a value.	
29.5	An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.	No specific requirements included in the Council Directives	See above.	
29.6	An entity shall measure a current tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. Paragraphs 29.23–29.25 provide additional measurement	4. art. 20 8. Other creditors including tax and social security. 4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned	Although the Council Directives would probably also allow an entity to take new tax laws into consideration at an earlier stage than prescribed in par. 29.6 it is assessed that par. 29.6 is not incompatible with the Council Directives. In response to EFRAG's draft analysis one constituent thought that it could be	

	guidance.	or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,	incompatible with the Council Directives not to take into account tax rates enacted after the balance sheet date but before the accounts were drawn up. EFRAG did not think article 31 (1) (c) (bb) requires entities to consider changes in tax rates made after the balance sheet date. It thought that the article only required entities to recognise liabilities that existed on the balance sheet date and measure recognised liabilities to reflect the situation as of the balance sheet date. Accordingly, EFRAG did not think it was incompatible with the EU Accounting Directives not to consider tax rates enacted after the balance sheet date but before the accounts would be drawn up.	
29.7	An entity shall recognise changes in a current tax liability or current tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognised under this IFRS as other comprehensive income shall also be recognised in other comprehensive income.	4. art. 22 By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles.	The Council Directives allow an entity to present a statement of comprehensive income, and do not specify how to account/present tax in these statements. Accordingly, it is assessed that par. 29.7 is not incompatible with the Council Directives.	
29.8	An entity shall include in the amounts recognised in accordance with paragraphs 29.4 and 29.5 the effect of the possible outcomes of a review by the tax authorities, measured in accordance with paragraph 29.24.	No requirements	It is assessed that it is not incompatible with the Council Directives to require the amounts recognsied in accordance with par. 29.4 and 29.5 to reflect the effect of a possible outcomes of a review by the tax authorities. The measurement required by par. 29.24 is assessed in relation to par 29.24.	
29.9	An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts	4. art. 9. B 2. Provisions for taxation.	See par 29.2. The council directives do not specify how to calculate deferred tax (except that is should reflect the difference between the tax charged for	

	recognised for the entity's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and the carryforward of currently unused tax losses and tax credits.	4. art. 43 11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;	the financial year and for earlier financial years and the amount of tax payable in respect of those years). It is assessed that par. 29.9 is not incompatible with the Council Directives.	
29.10	If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability. Therefore, paragraphs 29.11–29.17 apply only to assets and liabilities for which the entity expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis.	See above.	See above.	
29.11	An entity shall determine the tax basis of an asset, liability or other item in accordance with enacted or substantively enacted law. If the entity files a consolidated tax return, the tax basis is determined by the tax law governing the consolidated tax return. If the entity files separate tax returns for different operations, the tax basis is determined by the tax laws governing each tax return.	See above.	Although the Council Directives would probably also allow an entity to take new tax laws into consideration at an earlier stage than prescribed in par. 29.11 it is assessed that par. 29.11 is not incompatible with the Council Directives.	
29.12	The tax basis determines the amounts that will be included in taxable profit on recovery or settlement of the carrying amount of an asset or liability. Specifically: (a) the tax basis of an asset equals the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount. (b) the tax basis of a liability equals its carrying amount less any amounts deductible in determining	The Council Directives do not include any requirements on how to determine the tax bases of assets and liabilities.	It is assessed that par. 29.12 is not in itself incompatible with the Council Directives.	

	taxable profit (or plus any amounts included in taxable profit) that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period. In the case of deferred revenue, the tax base of the resulting liability is its carrying amount, less any amount of revenue that will not be taxable in future periods.			
29.13	Some items have a tax basis but are not recognised as assets and liabilities. For example, research costs are recognised as an expense when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and the tax basis is the amount that will be deducted in future periods. An equity instrument issued by the entity may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.	The Council Directives do not include any requirements on how to determine the tax bases of assets and liabilities.	It is assessed that par. 29.13 is not in itself incompatible with the Council Directives.	
29.14	Temporary differences arise: (a) when there is a difference between the carrying amounts and tax bases on the initial recognition of assets and liabilities, or at the time a tax basis is created for those items that have a tax basis but are not recognised as assets and liabilities. (b) when a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognised in comprehensive income or equity in one reporting period but is recognised in taxable profit in a different period. (c) when the tax basis of an asset or liability changes and the change will not be recognised in the asset or liability's carrying amount in any period.	The Council Directives do not include explanations about temporary differences.	It is assessed that par. 29.14 is not in itself incompatible with the Council Directives.	
29.15	Except as required by paragraph 29.16, an entity shall recognise: (a) a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future.	4. art. 43 11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this	It is assessed that par. 29.15 is not incompatible with the Council Directives.	

	(b) a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future. (c) a deferred tax asset for the carryforward of unused tax losses and unused tax credits.	difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;		
29.16	The following are exceptions to the requirements of paragraph 29.15: (a) An entity shall not recognise a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future. (b) An entity shall not recognise a deferred tax liability for a temporary difference associated with the initial recognition of goodwill.	4. art. 43 11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;	(a) may represent something than could be said not to reverse in the future and 4. Art. 43 may be interpreted as only requiring differences that will be reversed to be recognised. Accordingly, it is assessed that (a) is not incompatible with the Council Directives. b) it would result in more goodwill being recognised if deferred tax liabilities were recognised at the initial recognition of goodwill. As deferred tax should be calculated based on differences following the initial recognition of goodwill, it is assessed that the requirement of art. 43 11) is met. Accordingly, it is assessed that par. 29.16 is not incompatible with the Council Directives.	
29.17	An entity shall recognise changes in a deferred tax liability or deferred tax asset as tax expense in profit or loss, except that a change attributable to an item of income or expense recognised under this IFRS as other comprehensive income shall also be recognised in other comprehensive income.	See par. 29.7	See par. 29.7	
29.18	An entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.	4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,	Although the Council Directives would probably also allow an entity to take new tax laws into consideration at an earlier stage than prescribed in par. 29.18 it is assessed that par. 29.18 is not incompatible with the Council Directives. (see also par. 29.6)	
29.19	When different tax rates apply to different levels of	4. art. 43	It is assessed that par. 29.19 is not	

	taxable profit, an entity shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled.	11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;	incompatible with the Council Directives.	
29.20	The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.	4. art. 43 11) the difference between the tax charged for the financial year and for earlier financial years and the amount of tax payable in respect of those years, provided that this difference is material for purposes of future taxation. This amount may also be disclosed in the balance sheet as a cumulative amount under a separate item with an appropriate heading;	It is assessed that par. 29.20 is not incompatible with the Council Directives.	
29.21	An entity shall recognise a valuation allowance against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.	The Council Directives do not include explicit recognition criteria.	It is assessed that par. 29.21 is not incompatible with the Council Directives.	
29.22	An entity shall review the net carrying amount of a deferred tax asset at each reporting date and shall adjust the valuation allowance to reflect the current assessment of future taxable profits. Such adjustment shall be recognised in profit or loss, except that an adjustment attributable to an item of income or expense recognised in accordance with this IFRS as other comprehensive income shall also be recognised in other comprehensive income.	The Council Directives do not include requirements on how to account for changes in estimates related to the tax valuation allowance.	It is assessed that par. 29.22 is not incompatible with the Council Directives. See also par. 29.7	
29.23	An entity shall not discount current or deferred tax assets and liabilities.	The Council Directives do not include requirements regarding discounting.	In response to EFRAG's draft assessment one constituent thought that the prohibition to discount tax provisions would not provide a true and fair view. EFRAG noted that also IAS 12 at May 2002 prohibited entities to discount	

			current and deferred tax assets and liabilities. On this basis EFRAG did not assess the requirement.	
29.24	Uncertainty about whether the tax authorities will accept the amounts reported to them by the entity affects the amount of current tax and deferred tax. An entity shall measure current and deferred tax assets and liabilities using the probability-weighted average amount of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information. Changes in the probability-weighted average amount of all possible outcomes shall be based on new information, not a new interpretation by the entity of previously available information.	The Council Directives do not include requirements on how to deal with the uncertainty related to possible outcomes of the tax authorities' review. 4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise. 4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up,	The requirement of par. 29.24 could result in deferred tax liabilities being recognised for which the outflow of economic benefits is not probable. EFRAG notes that art. 20 (1) of the Fourth Council Directive is interpreted differently. Some interpret the article as: - allowing only liabilities where it was probable (ie more likely than not) that the entity would be required to transfer economic benefits in settlement to be recognised; or - requiring all liabilities – even those where the probability that the entity would be required to transfer economic benefits was very low – to be recognised. These persons note that art. 31 (1)(c)(bb) leads to the conclusion that if items are to be considered and recognised as liabilities where the probability of outflow of economic resources is low, all such items should be recognised. They therefore think that either par. 29.24 or par. 21.4 is incompatible with the Council Directives Others do not think article 20 (1) deals with recognition or measurement, but rather to where types of items were to be presented in the prescribed formats. Also, they think that article 31.1 (c) (bb) does not deal with measurement. Accordingly, they think it would not be	

			incompatible with the EU Accounting Directives to measure liabilities where the probability of outflow of economic resources is low at nil in some cases and at another value in other cases (when they are deferred tax liabilities). Because of the different interpretations of the Council Directives on this matter, EFRAG has decided that it could not state that par, 29.24 would be incompatible with the Council Directives. In response to EFRAG's draft compatibility analysis it was noted by one constituent that the requirements of IFRS for SMEs first to measure tax assets brought forward at "the real value paid" and afterwards to account for 100% or nil, when the tax asset was acquired in a business combination, did not result in a true and fair view. The constituent therefore thought this requirement could be incompatible with art. 16 (3) of the Seventh Council Directive. However, EFRAG thought that (a) as the IFRS for SMEs required departure from the IFRS for SMEs when compliance with the standard would be so misleading that it would conflict with the objectives of financial statements as stated in the IFRS for SMEs; (b) as it was assessed that the requirement mentioned above in (a) was not incompatible with the Council Directives (see 3.4 above); and (c) as it was assessed that if the requirements would not result in a true and fair view, they would also conflict with the objectives of	

			financial statements as stated in the IFRS for SMEs. EFRAG did not think the requirement would be incompatible with the EU Accounting Directives.	
29.25	In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an entity shall measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset), and the related tax expense (income).	No explicit requirements included in the Council Directives.	It is assessed that par. 29.25 is not incompatible with the Council Directives.	
29.26	When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.	No requirements included in the Council Directives.	It is assessed that par. 29.26 is not incompatible with the Council Directives.	
29.27	An entity shall recognise tax expense in the same component of total comprehensive income (ie continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.	See par. 29.7	See par. 29.7	
29.28	When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).	4. art. 20.1 Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise.	The Council Directives do not define what non-current or current assets are. Accordingly, it is assessed that par. 29.28 is not incompatible with the Council Directives.	
29.29	An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and	4. art. 7	It is assessed that when the criteria of par. 29.29 are met the net amount	

	deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.	Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited.	represent the asset or liability. Accordingly, there is no set-off between an asset and a liability. Accordingly, it is assessed that par. 29.29 is not incompatible with the Council Directives.	
29.30 - 29.32	[par. 29.30 – 29.32 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Foreign Currency Translation				
30.1	An entity can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. Accounting for financial instruments denominated in a foreign currency and hedge accounting of foreign currency items are dealt with in Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues.	The Council Directives do not describe how an entity can conduct foreign activities.	Par. 30.1 describe how an entity can conduct foreign activities and is accordingly not incompatible with the Council Directives.	
30.2	Each entity shall identify its functional currency. An entity's functional currency is the currency of the primary economic environment in which the entity operates.	4. art. 50a Annual accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the balance sheet date. That rate shall be disclosed in the notes on the accounts. 7. art. 38a Consolidated accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the consolidated balance sheet date. That rate shall be disclosed in the notes on the accounts.	The Council Directives do not define a functional currency. In some cases the functional currency and the currency in which annual accounts are drawn up may be identical, but in other cases it may not be – for example if legal requirements require the financial statements to be drawn up in a specific currency. In this analysis it has, however, been assumed that an entity could choose to draw up its annual accounts in its functional currency. If this is not possible in all jurisdictions or in all circumstances, this is considered to be a conflict with another legislation not considered in this analysis. The fact that IFRS for SMEs requires the identification of a functional currency	

			where the Council Directives considers the currency in which the annual accounts are drawn up is considered as a difference and not as something that will result in par. 30.2 to be incompatible with the Council Directives.	
30.3	The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Therefore, the following are the most important factors an entity considers in determining its functional currency: (a) the currency: (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled), and (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).	See above.	See above.	
30.4	The following factors may also provide evidence of an entity's functional currency: (a) the currency in which funds from financing activities (issuing debt and equity instruments) are generated. (b) the currency in which receipts from operating activities are usually retained.	See par. 30.2	See par. 30.2	
30.5	The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):	See par. 30.2	See par. 30.2	

	(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency. (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities. (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it. (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.			
30.6	A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity: (a) buys or sells goods or services whose price is denominated in a foreign currency; (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.	The Council Directives do not include any definition of a foreign currency transaction.	It is assessed that par. 30.6 is not incompatible with the Council Directives.	
30.7	An entity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot	The Council Directives do not include requirements on how to record a foreign currency transaction.	Par. 30.7 is assessed not to be incompatible with the Council Directives.	

	exchange rate between the functional currency and the foreign currency at the date of the transaction.			
30.8	The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this IFRS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.	The date of transaction is not defined in the Council Directives.	Par. 30.8 is assessed not to be incompatible with the Council Directives.	
30.9	At the end of each reporting period, an entity shall: (a) translate foreign currency monetary items using the closing rate; (b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and (c) translate non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.	The Council Directives do not include requirements on how to translate foreign currency items.	Par. 30.9 is assessed not to be incompatible with the Council Directives.	
30.10	An entity shall recognise, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in paragraph 30.13.	4. art. 31.1 (c) valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included,	It is noted that the requirement of par. 30.10 is similar to that required by IAS 21 as of 1 May 2002. Accordingly, the requirement has not been assessed.	
30.11	When another section of this IFRS requires a gain or loss on a non-monetary item to be recognised in other comprehensive income, an entity shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss.	See above and par. 29.7	See above regarding hedging and par. 29.7	
30.12	An entity may have a monetary item that is receivable		Par. 30.12 explains the scope of par.	

	from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraph 30.13. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.		30.13 and is in itself not incompatible with the Council Directives.	
30.13	Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reported as a component of equity. They shall not again be recognised in profit or loss on disposal of the net investment.	4. art. 42c 1. Notwithstanding Article 31(1)(c), where a financial instrument is valued in accordance with Article 42b, a change in the value shall be included in the profit and loss account. However, such a change shall be included directly in equity, in a fair value reserve, where: (a) the instrument accounted for is a hedging instrument under a system of hedge accounting that allows some or all of the change in value not to be shown in the profit .and loss account; or (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity.	See par. 5.4	
30.14	When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.	4. art. 50a Annual accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the balance sheet date. That rate shall be disclosed in the notes on the accounts. 7. art. 38a Consolidated accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate	The Council Directives do not specify how to account for a change in the functional currency or in the currency in which the annual accounts are drawn up. Assuming the functional currency is the currency in which the annual accounts are drawn up (see par. 30.2), it is assessed that par. 30.14 is not incompatible with the Council Directives.	

		prevailing on the consolidated balance sheet date. That rate shall be disclosed in the notes on the accounts.		
30.15	As noted in paragraphs 30.2–30.5, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.	See par. 30.2	See par. 30.2	
30.16	The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.	The Council Directives do not specify how to account for a change in the functional currency/the currency in which the annual accounts are drawn up.	It is assessed that par. 30.16 is not incompatible with the Council Directives.	
30.17	An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its items of income and expense and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.	4. art. 50a Annual accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the balance sheet date. That rate shall be disclosed in the notes on the accounts. 7. art. 38a Consolidated accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the consolidated balance sheet date. That rate shall be disclosed in the notes on the accounts.	Par. 30.17 explains that the financial statements may be presented in another currency. The Council Directives specifies that the financial statements can only be published in the currency in which they are drawn up or in Euros. This is a difference – but not a conflict. The Council Directives only considers the currency in which the annual accounts are published and not presentation in other currencies that are needed for consolidation purposes.	
30.18	An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:	4. art. 50a Annual accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the balance sheet date. That	For the reason presented in par. 30.17, entities can apply par. 30.18 when translating financial statements used for the preparation of the consolidated financial statements only.	

	(a) Assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position. (b) Income and expenses for each statement of comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions. (c) All resulting exchange differences shall be recognised in other comprehensive income.	rate shall be disclosed in the notes on the accounts. 7. art. 38a Consolidated accounts may be published in the currency in which they were drawn up and in ecus, translated at the exchange rate prevailing on the consolidated balance sheet date. That rate shall be disclosed in the notes on the accounts.	If an entity wants to publish its financial statements in another currency than the currency in which it is drawn up, a difference exists as IFRS for SMEs do not require an entity to publish its financial statements in another currency than the functional currency / the currency in which it is drawn up – and accordingly, this option would be prohibited to use according to the Council Directives.	
30.19	For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.	Not relevant / no specification	It is assessed that par. 30.19 would not be incompatible with the Council Directives when an entity translate financial statements in order to prepare consolidated financial statements.	
30.20	The exchange differences referred to in paragraph 30.18(c) result from: (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate, and (b) translating the opening net assets at a closing rate that differs from the previous closing rate. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to the non-controlling interest are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.	See above.	See above.	
30.21	An entity whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 Hyperinflation.	See section 31	The reference to section 31 is not in itself incompatible with the Council Directives.	
30.22	In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the	4. art. 31.1	It has been assessed whether it would be incompatible with the Council Directives	

	reporting entity, the entity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section 9 Consolidated and Separate Financial Statements). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting entity continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the entity shall classify it as equity.	(c) valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included,	to recognise differences arising on eliminations in profit or loss. It was noted that he Council Directives do not regulate how to account for these differences. Accordingly, par. 30.22 was assessed not to be incompatible with the Council Directives.	
30.23	Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 30.18.	The Council Directives do not prescribe to what entity goodwill 'belongs'	Par. 30.23 is assessed not to be incompatible with the Council Directives.	
30.24 - 30.27	[par. 30.24 – 30.27 includes disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Hyperinflation				
31.1	This section applies to an entity whose functional currency is the currency of a hyperinflationary economy. It requires such an entity to prepare financial statements that have been adjusted for the effects of hyperinflation.		Par. 31.1 explains the scope of section 31 and that some kind of adjustment has to be carried out. It is assed that the paragraph in itself is not incompatible with the Council Directives.	
31.2	This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An entity shall make that judgement by considering all available information including, but not limited to, the following possible indicators of hyperinflation:	4. art. 33 1. The Member States may declare to the Commission that they reserve the power, by way of derogation from Article 32 and	It is assessed that par. 31.2 define the limits as required by art. 33 for the use of the application of the regulation. The content is explained in other paragraphs of section 31. Accordingly, it is assessed	

	(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power. (b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency. (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short. (d) Interest rates, wages and prices are linked to a price index. (e) The cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.	pending subsequent coordination, to permit or require in respect of all companies or any classes of companies: (a) valuation by the replacement value method for tangible fixed assets with limited useful economic lives and for stocks; (b) valuation by methods other than that provided for in (a) which are designed to take account of inflation for the items shown in annual accounts, including capital and reserves; (c) revaluation of fixed assets. Where national law provides for valuation methods as indicated in (a), (b) and (c), it must define their content and limits and the rules for their application.	that par. 31.2 is in accordance with the Council Directives.	
31.3	All amounts in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period. The comparative information for the previous period required by paragraph 3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the reporting date.	See above. 4. art. 4.4 In respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted. In any case, non-comparability and any adjustment of the figures must be disclosed in the notes on the accounts, with relevant comments.	It is assessed that par. 31.3 is not incompatible with the Council Directives. Art. 4.4 of the Fourth Council Directive seems to allow that comparative figures are adjusted in case of hyperinflation provided that some disclosures are provided. Also, as the Council Directives are not specific about how to account for inflation, that part of the method described in par. 31.3 does not seem to be incompatible with the Council Directives.	
31.4	The restatement of financial statements in accordance with this section requires the use of a general price index that reflects changes in general purchasing power. In most economies there is a recognised general price index, normally produced by the government, that entities will follow.	See above.	The Council Directives do not specify how to account for hyperinflation. That part of the method required by IFRS for SMEs as described in par. 31.4 does not seem to be incompatible with the Council Directives.	

31.5	Statement of financial position amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.	See above.	The Council Directives do not specify how to account for hyperinflation. That part of the method required by IFRS for SMEs as described in par. 31.5 does not seem to be incompatible with the Council Directives.	
31.6	Monetary items are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.	See above.	The Council Directives do not specify how to account for hyperinflation. That part of the method required by IFRS for SMEs as described in par. 31.6 does not seem to be incompatible with the Council Directives.	
31.7	Assets and liabilities linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated statement of financial position.	See above.	The Council Directives do not specify how to account for hyperinflation. That part of the method required by IFRS for SMEs as described in par. 31.7 does not seem to be incompatible with the Council Directives.	
31.8	All other assets and liabilities are non-monetary: (a) Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated. (b) Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. (c) The restated amount of a non-monetary item is reduced, in accordance with Section 27 Impairment of Assets, when it exceeds its recoverable amount.	See above.	The Council Directives do not specify how to account for hyperinflation. That part of the method required by IFRS for SMEs as described in par. 31.8 does not seem to be incompatible with the Council Directives.	
31.9	At the beginning of the first period of application of this section, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were	4. art. 33. 1. The Member States may declare to the Commission that they reserve the power, by	It has been assessed whether or not it would be compatible with the Council Directives to include all the effects of the restatements in retained earnings without	

	contributed or otherwise arose. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.	way of derogation from Article 32 and pending subsequent coordination, to permit or require in respect of all companies or any classes of companies: (a) valuation by the replacement value method for tangible fixed assets with limited useful economic lives and for stocks; (b) valuation by methods other than that provided for in (a) which are designed to take account of inflation for the items shown in annual accounts, including capital and reserves; (c) revaluation of fixed assets. Where national law provides for valuation methods as indicated in (a), (b) and (c), it must define their content and limits and the rules for their application. Where national law provides for valuation methods as indicated in (a), (b) and (c), it must define their content and limits and the rules for their application. The application of any such method, the balance sheet and profit and loss account items concerned and the method by which the values shown are calculated shall be disclosed in the notes on the accounts. 2. (a) Where paragraph 1 is applied, the amount of the difference between valuation by the method used and valuation in accordance with the general rule laid down in Article 32 must be entered in the revaluation reserve under 'Liabilities'. The treatment of this item for taxation purposes must be explained either in the	for example isolating the effects required by art. 33 to be included in a revaluation reserve. It has been noted that the Council Directives allow Member States to lay down rules governing the application of the revaluation reserve, provided that transfers to the profit and loss account from the revaluation reserve may be made only to the extent that the amounts transferred have been entered as changes in the profit and loss account. As the revaluation reserve is included in retained earnings, it is not transferred to the profit and loss account, and member states could then determine that the revaluation reserve should be transferred continuously to retained earnings. Accordingly, it has been assessed that par. 31.9 is not incompatible with the Council Directives.	

		balance sheet or in the notes on the accounts. (b) The revaluation reserve may be capitalized in whole or in part at any time. (c) The revaluation reserve must be reduced to the extent that the amounts transferred thereto are no longer necessary for the implementation of the valuation method used and the achievement of its purpose. The Member States may lay down rules governing the application of the revaluation reserve, provided that transfers to the profit and loss account from the revaluation reserve may be made only to the extent that the amounts transferred have been entered as charges in the profit and loss account or reflect increases in value which have been actually realized. These amounts must be disclosed separately in the profit and loss account. No part of the revaluation reserve may be distributed, either directly or indirectly, unless it represents gains actually realized. (d) Save as provided under (b) and (c) the revaluation reserve may not be reduced.		
31.10	At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in owners' equity are disclosed in accordance with Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings.	See above.	The Council Directives do not specify how to account for hyperinflation, that part of the method required by IFRS for SMEs as described in par. 31.10 does not seem to be incompatible with the Council Directives.	
31.11	All items in the statement of comprehensive income (and in the income statement, if presented) shall be expressed in terms of the measuring unit current at the end of the reporting period. Therefore, all amounts need to be restated by applying the change in the general price index from the dates when the items of	4. art. 33 3. Value adjustments shall be calculated each year on the basis of the value adopted for the financial year in question, save that by way of derogation from Articles 4 and 22,	It is assessed that par. 31.11 is not incompatible with the Council Directives. Par. 31.11 will require that value adjustments in the profit and loss account is calculated each year on the basis of the value adopted for the financial year in	

	income and expenses were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.	the Member States may permit or require that only the amount of the value adjustments arising as a result of the application of the general rule laid down in Article 32 be shown under the relevant items in the layouts prescribed in Articles 23 to 26 and that the difference arising as a result of the valuation method adopted under this Article be shown separately in the layouts. Furthermore, Articles 34 to 42 shall apply mutatis mutandis	question.	
31.12	An entity shall express all items in the statement of cash flows in terms of the measuring unit current at the end of the reporting period.	No requirements regarding cash flow statements are included in the Council Directives.	It is assessed that par. 31.12 is not incompatible with the Council Directives.	
31.13	In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets gains purchasing power, to the extent the assets and liabilities are not linked to a price level. An entity shall include in profit or loss the gain or loss on the net monetary position. An entity shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 31.7 against the gain or loss on net monetary position.	4. art. 31 valuation must be made on a prudent basis, and in particular: (aa) only profits made at the balance sheet date may be included, 4. art. 33.2 (c) … No part of the revaluation reserve may be distributed, either directly or indirectly, unless it represents gains actually realized.	It is noted that the requirements of par. 31.13 are similar to those of IAS 29 as of 1 May 2002, which previously has been assessed not to be incompatible with the Council Directives.	
31.14	When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this section, it shall treat the amounts expressed in the presentation currency at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.	The Council Directives do not specify what to do when inflation correction is ceased.	It is assessed that par. 31.14 is not incompatible with the Council Directives.	
31.15	[par. 31.15 includes disclosure requirements. All the requirements can be met by note disclosures.]	4. art. 33 4. Where paragraph 1 is applied, the following must be disclosed, either in the balance sheet or in the notes on the accounts, separately for each balance sheet item as provided for in the layouts prescribed	It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	

		in Articles 9 and 10, except for stocks, either: (a) the amount at the balance sheet date of the valuation made in accordance with the general rule laid down in Article 32 and the amount of the cumulative value adjustments; or (b) the amount at the balance sheet date of the difference between the valuation made in accordance with this Article and that resulting from the application of Article 32 and, where appropriate, the cumulative amount of the additional value adjustments.		
Events after the End of the Reporting Period				
32.1	This section defines events after the end of the reporting period and sets out principles for recognising, measuring and disclosing those events.		Par. 32.1 presents the scope of section 32 and is accordingly not incompatible with the Council Directives.	
32.2	Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types of events: (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period), and (b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).	No definition of 'events after the end of the reporting period' is included in the Council Directives.	Par. 32.2 includes an explanation of events after the end of the reporting period and is in itself not incompatible with the Council Directives.	
32.3	Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or loss of other selected financial information.	See above.	See above.	
32.4	An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.	4. art. 31.1 (c) (bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the	It is assessed that par. 32.4 is not incompatible with the Council Directives.	

		date of the balance sheet and the date on which it is drawn up,		
32.5	[Par. 32.5 includes examples of adjusting events after the end of the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised. The examples are not included in this document.]	See above.	See above.	
32.6	An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.	The Council Directives do not explicitly prescribe how to account for non-adjusting events.	Par. 32.6 is assessed not to be incompatible with the Council Directives.	
32.7	[Par. 32.7 includes examples of non-adjusting events after the end of the reporting period. The examples are not included in this document.]	See above.	See above.	
32.8	If an entity declares dividends to holders of its equity instruments after the end of the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.	No requirements included in the Council Directives. 4. art. 6 The Member States may authorize or require adaptation of the layout of the balance sheet and profit and loss account in order to include the appropriation of profit or the treatment of loss.	Par. 32.8 is assessed not to be incompatible with the Council Directives.	
32.9 - 32.11	[par. 32.9 – 32.11 include disclosure requirements. All the requirements can be met by note disclosures.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Related Party Disclosures				
33	[Section 33 requires an entity to provide certain disclosures in relation to related parties. All the disclosure requirements can be met by disclosures in the notes.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
Specialised Activities				
34.1	This section provides guidance on financial reporting by SMEs involved in three types of specialised activities—agriculture, extractive activities, and service concessions.		Par. 34.1 explains the scope of section 34 and is accordingly not incompatible with the Council Directives.	
34.2	An entity using this IFRS that is engaged in agricultural activity shall determine its accounting policy for each class of its biological assets as follows:	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles	Par. 34.2 is assessed not to be incompatible with the Council Directives.	

	(a) The entity shall use the fair value model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort. (b) The entity shall use the cost model in paragraphs 34.8–34.10 for all other biological assets.	34 to 42, which are based on the principle of purchase price or production cost. 4. art. 42e By way of derogation from Article 32, Member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. art. 42f Notwithstanding Article 31(1)(c), Member States may permit or require in respect of all companies or any classes of company that, where an asset is valued in accordance with Article 42e, a change in the value is included in the profit and loss account.		
34.3	An entity shall recognise a biological asset or agricultural produce when, and only when: (a) the entity controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the entity; and (c) the fair value or cost of the asset can be measured reliably without undue cost or effort.	The Council Directives do not include any explicit recognition criteria.	Par. 34.3 is assessed not to be incompatible with the Council Directives.	
34.4	An entity shall measure a biological asset on initial recognition and at each reporting date at its fair value less costs to sell. Changes in fair value less costs to sell shall be recognised in profit or loss.	See par. 34.2	Par. 34.4 is assessed not to be incompatible with the Council Directives. As art. 42e uses the wording 'reference to fair value' and for example not 'at fair value' it is assessed that measurement at fair value less cost to sell is allowed	

			under the Council Directives.	
34.5	Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 Inventories or another applicable section of this IFRS.	4. art. 39.1 (a) Current assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below.	The requirements of par. 34.5 are similar to those of IAS 41 as of 1 May 2002, which previously has been assessed not to be incompatible with the Council Directives.	
34.6	In determining fair value, an entity shall consider the following: (a) If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use. (b) If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value: (i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; (ii) market prices for similar assets with adjustment to reflect differences; and (iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat. (c) In some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates. (d) In some circumstances, fair value may be readily determinable without undue cost or effort even though	The Council Directives do not include requirements on how to determine the fair value of biological assets.	Par. 34.6 is assessed not to be incompatible with the Council Directives.	

	market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the present value of expected net cash flows from the asset discounted at a current market determined rate results in a reliable measure of fair value.			
34.7	[Par. 34.7 includes some disclosure requirements. All the requirements can be met by disclosures in the notes.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the Council Directives.	
34.8	The entity shall measure at cost less any accumulated depreciation and any accumulated impairment losses those biological assets whose fair value is not readily determinable without undue cost or effort.	4. art. 35 1. (a) Fixed assets must be valued at purchase price or production cost, without prejudice to (b) and (c) below. (b) The purchase price or production cost of fixed assets with limited useful economic lives must be reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives. (c) (aa) Value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. (bb)Value adjustments must be made in respect of fixed assets, whether their useful economic lives are limited or not, so that they are valued at the lower figure to be attributed to them at the balance sheet date if it is expected that the reduction in their value will be permanent.	See par. 27.5 in relation to the Council Directives requirement that the decrease in value should be permanent.	
34.9	The entity shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this IFRS.	See par. 34.5	See par. 34.5	
34.10	[Par. 34.10 includes some disclosure requirements. All the requirements can be met by disclosures in the notes.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the	

			Council Directives.	
34.11	An entity using this IFRS that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall account for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities by applying Section 17 Property, Plant and Equipment and Section 18 Intangible Assets other than Goodwill, respectively. When an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 Provisions and Contingencies.	The Council Directives do not include special requirements for extractive activities.	It is assessed that the requirements relating to tangible, fixed assets and intangible assets would also apply to extractive activities. See the relevant sections.	
34.12	A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.	The Council Directives do not define service concession arrangements	It is assessed that the explanation of a service concession arrangement by itself is not incompatible with the Council Directives.	
34.13	There are two principal categories of service concession arrangements: (a) In one, the operator receives a financial asset—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts. (b) In the other, the operator receives an intangible asset—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to	The Council Directives do not categories service concession arrangements.	It is assessed that par. 34.13 by itself is not incompatible with the Council Directives.	

	charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.			
34.14	The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues in accounting for the financial asset.	4. art. 42a 1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC. 4. Valuation according to paragraph 1 shall not apply to: … (b) to loans and receivables originated by the company and not held for trading purposes; … 5a. By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (1), as amended until 5 September 2006, permit or require	It has been assessed whether or not the Council Directives would allow the financial asset mentioned in par. 34.14 to be measured at fair value. It is noted that this would be allowed, if it would be allowed according to IFRS as endorsed until 5 September 2006. Par. 34.14 follows the requirements of IFRIC 12. Although IFRIC 12 was not endorsed in 2006, it was an interpretation of existing standards. Accordingly, the standards as endorsed by 5 September 2006, would also allow the financial asset to be measured at fair value and par. 34.14 would not be incompatible with the Council Directives.	

		valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.		
34.15	The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.	4. art. 32 The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of purchase price or production cost.	It is assessed that the fair value of the asset could be regarded as the purchase price or production cost according to the Council Directives.	
34.16	The operator of a service concession arrangement shall recognise, measure and disclose revenue in accordance with Section 23 *Revenue* for the services it performs.		It is assessed that it would not be incompatible with the Council Directives to measure revenue in accordance with section 23.	
Transition to the IFRS for SMEs				
			IFRS for SMEs includes some requirements regarding the transition to IFRS for SMEs. Whether or not the financial statements of an entity adopting IFRS for SMEs will meet the requirements of the Council Directives depends upon the previous accounting practice of this entity. When assessing the requirements it is assumed that the entity has previously prepared financial statements in accordance with the Council Directives.	
35.7	Except as provided in paragraphs 35.9–35.11, an entity shall, in its opening statement of financial position as of its date of transition to the IFRS for SMEs (ie the beginning of the earliest period presented): (a) recognise all assets and liabilities whose recognition is required by the IFRS for SMEs;		Par. 35.7 is assessed not to result in any incompatibility with the Council Directives.	

	(b) not recognise items as assets or liabilities if this IFRS does not permit such recognition; (c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under this IFRS; and (d) apply this IFRS in measuring all recognised assets and liabilities.			
35.8	The accounting policies that an entity uses in its opening statement of financial position under this IFRS may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this IFRS. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this IFRS.		Par. 35.8 is assessed not to result in any incompatibility with the Council Directives.	
35.9	On first-time adoption of this IFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions: (a) derecognition of financial assets and financial liabilities. Financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition should not be recognised upon adoption of the IFRS for SMEs. Conversely, for financial assets and liabilities that would have been derecognised under the IFRS for SMEs in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose (a) to derecognise them on adoption of the IFRS for SMEs or (b) to continue to recognise them until disposed of or settled. (b) hedge accounting. An entity shall not change its hedge accounting before the date of transition to the IFRS for SMEs for the hedging relationships that no longer exist at the date of transition. For hedging		It is assessed that par. 35.9 will not result in additional IFRS for SME's paragraphs being incompatible with the Council Directives than those identified previously in this document.	

	relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section 12 Other Financial Instruments Issues, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 12. (c) accounting estimates. (d) discontinued operations. (e) measuring non-controlling interests. The requirements of paragraph 5.6 to allocate profit or loss and total comprehensive income between non-controlling interest and owners of the parent shall be applied prospectively from the date of transition to the *IFRS for SMEs* (or from such earlier date as this IFRS is applied to restate business combinations—see paragraph 35.10).			
35.10	[Par. 35.10 includes some exemptions from IFRS for SMEs the entity can choose to follow in preparing its first financial statements that conforms to IFRS for SMEs.]		As the exemptions are options – and an entity could choose not to make use of the exemptions, it is assessed that par. 35.10 can only result in differences and not be incompatible with the Council Directives.	
35.11	If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph 35.7, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to this IFRS. If it is impracticable for an entity to provide any disclosures required by this IFRS for any period before the period in which it prepares its first financial statements that conform to this IFRS, the omission shall be disclosed.		It is assessed that par. 35.11 will not result in any incompatibility with the Council Directives.	
35.12 - 35.15	[Par. 35.12 – 35.15 include some disclosure requirements. All the requirements can be met by disclosures in the notes.]		It is generally assessed that requirements included in IFRS for SMEs regarding note disclosures are not incompatible with the	

			Council Directives.	