INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

MICRO ACCOUNTING MODEL

The Accounting Framework Applicable to Micro Market Participants Operating In ASEAN Countries

Global Mindset, Asian Insights

2017

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore CA Qualification and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is an Associate of Chartered Accountants Worldwide (CAW). CAW brings together 11 chartered accountancy bodies connecting and representing the interests of over 1.6 million members and students globally.

For more information, visit www.isca.org.sg.

About ISCA Financial Reporting Standards and Corporate Reporting Department

The Financial Reporting Standards and Corporate Reporting (FRS & CR) department is part of the Technical Advisory and Professional Standards division of ISCA.

As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. The FRS & CR department provides technical support on accounting matters and communicates timely insights and views on accounting issues to our members and the wider accounting community. Through our Financial Reporting Committee that comprises representatives from various stakeholders in the financial reporting eco-system, we are able to hear issues from the ground and take on initiatives to help address accounting matters in Singapore. The work includes initiating and facilitating discussions on emerging accounting issues and practical issues raised by ISCA members; the study of exposure drafts issued by the International Accounting Standards Board and submission of comment letters featuring Singapore's perspective; the issuance of guidance on emerging local accounting issues, and reaching out to ISCA members via working groups, focus groups and roundtable discussions.

Foreword

The *Micro Accounting Model (MAM)*, developed by the Institute of Singapore Chartered Accountants (ISCA), is designed to facilitate micro, small and medium businesses (MSMEs) operating in ASEAN to adopt accrual accounting.

Majority of the local businesses in emerging and developing countries use some form of traditional cash accounting method to record business transactions and to keep track of its financials. The objective of this self-contained framework is to assist these businesses in taking the first but important step in preparing reliable financial information using accrual accounting principles, consistent with the International Financial Reporting Standards (IFRS).

The model contains significant simplifications to a number of areas, including accounting for financial instruments. But at the same time, it keeps within the confines of pervasive principles derived from the International Accounting Standards Board (IASB)'s conceptual framework and full IFRSs. It also lays out principles that encourage the use of judgment in the particular circumstances of a transaction or event. In addition, it includes a set of illustrative financial statements and reconciliations to IFRS and IFRS for SMEs.

I strongly encourage emerging and developing countries, in particular, the standard setters and national professional accountancy bodies, to use this guide as a starting point towards eventually adopting international accounting standards. I envisage that the government of these countries will find *MAM* a useful tool in helping to raise the overall standards of the profession, thereby, contributing towards stronger investor confidence towards the country. Furthermore, as more businesses are encouraged to use *MAM* to produce quality, reliable financial information, governments would also have greater assurance over tax collections.

This project would not have been possible without the inputs from ASEAN Federation of Accountants' (AFA) Accounting Standards Group (AASG) members. Also, I would like to express my sincere appreciation to the author of *MAM*, Ms. Lim Ju May, ISCA's Deputy Director, Financial Reporting Standards & Corporate Reporting, for devoting her time and effort towards ensuring that the *MAM* is intuitive and easy to understand.

I hope you will find this document useful.

Gerard Ee
President, Institute of Singapore Chartered Accountants (ISCA)
Chairperson, AFA Accounting Standards Group (AASG)

Contents

About Micro Accounting Model ("MAM" or the "*Framework*")

I. Introduction

Micro Accounting Model ("MAM" or the "*Framework*") is a self-contained financial reporting framework for use by micro market participants operating in ASEAN countries ("micro-entities"). It addresses transactions that are typically encountered by micro-entities. If the *Framework* does not specifically address a transaction, other event, or condition, management should use its judgment and apply the general principles, concepts and criteria contained in the *Framework* when developing accounting policies. The development and application of those accounting policies should result in financial information that is intended to be consistent with the financial statement concepts described in Section 2.

MAM is a principles based financial reporting framework and abstains from prescriptive, detailed standard and voluminous disclosure requirements. It presents a suitable degree of optionality within the *Framework's* concepts and principles when choosing accounting policies to better meet the needs of end users of the financial statements. A micro-entity that prepares its financial statements in accordance this *Framework* must do so in its entirety, and state this basis of preparation prominently in the notes to its financial statements. Please see paragraph 3.14.

MAM endeavours to be an intuitive and understandable framework for micro-entities and the users of their financial statements. It lays out principles that encourage the use of judgment in the particular circumstances of a transaction or event.

MAM can also be used to provide national accounting standard setters with an illustrative framework in developing their accounting standard for micro-entities in their jurisdictions.

II. Guidance/Reference Materials

The following materials have been used as guidance or reference material in the drafting of this accounting model for micro entities.

(i) United Kingdom's Financial Reporting Council (FRC) – FRS 105: The Financial Reporting Standard applicable to the Micro-entities Regime

(ii) American Institute of Certified Public Accountants (AICPA) – Financial Reporting Framework for Small and Medium-Sized entities

(iii) IASB's IFRS for SMEs

(iv) United Nation's SMEGA – Accounting and Financial reporting Guidelines for Small and Medium sized Enterprises

(v) IASB's Exposure Draft (May 2015) – Conceptual Framework for Financial Reporting

III. Overarching Principles and Financial Statement Concepts

The following overarching principles have been applied in the drafting of MAM, whilst keeping within the confines of the pervasive principles derived from IASB's *Conceptual Framework for Financial Reporting* and from full IFRSs.

(i) The cost or burden of applying an accounting treatment must not outweigh the benefits to micro-entities.

(ii) Complexities in the recognition of an item into the statement of financial position or income statement are to be minimised where possible.

(iii) The degree of estimations and judgments in the measurements of assets, liabilities, income and expenses is to be minimised where possible.

The financial statement concepts underlying the development and use of accounting principles in financial statements of micro-entities within the scope of MAM are described in Section 2.

The over-riding and basic financial statement concepts described in Section 2 are as follows:

Over-riding financial statement concepts

(i) Materiality – to be applied in all recognition, measurement, presentation and disclosure considerations in the preparation of financial statements, a matter of judgment and immaterial items to the financial statements are not required to be separately presented or disclosed

(ii) Six qualitative characteristics of useful financial statements – Understandability, relevance, reliability, comparability, verifiability and timeliness.

Basic financial statement concepts

(iii) Accrual Accounting:

Items recognised in financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognises the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

(iv) Elements of financial statements – assets, liabilities, equity, income, expenses and losses. Paragraphs 2.18 to 2.31 provide the definitions of these elements.

(v) Recognition Criteria:

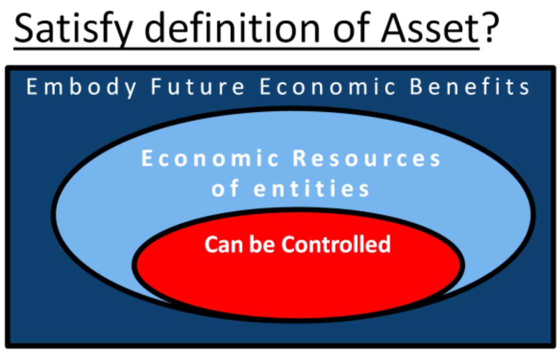
(a) For items that involve obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up;

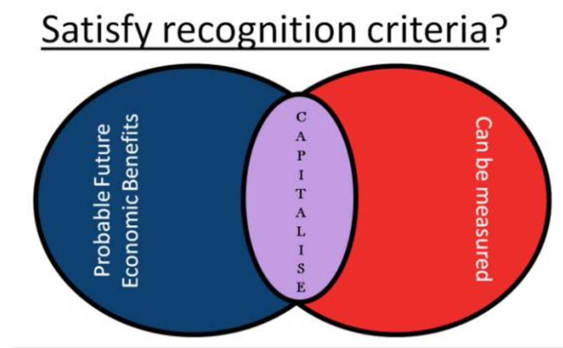
(b) The item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(c) The information derived from the recognition of an item results in benefits exceeding the cost of providing that information.

IV. Expenditures: To Be Capitalised As Asset or To Be Expensed to Income Statement?

For an expenditure to be capitalised as an asset (long-lived assets, inventory, intangible asset, deferred expenses, etc), it must satisfy the definition of an asset and satisfy the recognition criteria.





To satisfy the definition of an asset, a key consideration is whether the micro-entity can control access to the future economic benefits embodied in the expenditure.

The two key recognition criteria (the third is on benefits exceeding cost) that need to be satisfied are:

(a) Probable future economic benefits

(i) Would the expenditure benefit future periods?

- If "No", it is a sunk cost and is to be expensed to profit and loss
- If "Yes", consider the measurement recognition criteria below

(b) Measurement

(i) Can the periods to be benefited be gauged with reasonable accuracy?

(ii) Is there a practical method to measure the consumption of the benefits?

- If "No" to either, expense to profit and loss
- If "Yes" to both, proceed with the following:
  - Capitalise and, as with all long lived assets (or deferred expense), reassess remaining life at each balance sheet date
  - Estimate amounts to be amortised/expensed in future.

V. Complete set of financial statements

A complete set of financial statements under this *Framework* includes a statement of financial position as at the end of the period and an income statement for the period. The cash flow statement and the statement of changes in equity have been excluded.

VI. A Comparison With IFRS for SMEs and IFRS

Appendix I summarizes the key differences between MAM, IFRS for SMEs and full IFRS, mainly in the areas of scope, recognition and measurement. These differences highlight the key features and simplifications in MAM, and can be the yardstick for the measurement of the level of simplification or complexity.

VII. Illustrative Financial Statements

Appendix II provides a set of illustrative financial statements prepared under the MAM framework.

Section 1

Micro-sized Entities

Intended Scope of Micro Accounting Model ("MAM")

1.1 Micro Accounting Model ("MAM" or the "Framework") is intended for micro market participants operating in ASEAN countries ("micro-entities") to transit from cash accounting to the most basic form of accrual accounting.

1.2 Such micro market participants are typically sole proprietorship businesses that have no public accountability, are exempted from audit and are not required to comply with any stipulated accounting standard framework.

1.3 The envisaged benefits of MAM to micro-entities and their countries' economies are:

(a) Provides a simple accounting framework that enables micro-entities to transition from cash accounting to accrual accounting. This facilitates business owners to prepare financial statements that provide consistent and reliable financial information about the financial position and performance of their businesses, useful in facilitating decision making and in obtaining funds from banks.

(b) Provides jurisdictional tax collectors with more complete and accurate business accounting records to facilitate accurate and fair tax assessments. This facilitates fairness to both tax collector and tax payer.

(c) The framework for MAM provides the building blocks to enable businesses to progress towards more comprehensive accounting frameworks (such as IFRS for SME or IFRS) as businesses grow.

Effective date

1.4 MAM is applicable for accounting periods beginning on or after 1 January 2017.

Section 2

Overarching Principles and Financial Statement Concepts

Scope of this section

2.1 This section describes the objective of MAM. It also sets out the concepts underlying the development and use of accounting principles in financial statements of micro-entities within the scope of MAM.

Objective of MAM or the *Framework*

2.2 The objective of a simple accounting framework or MAM is to facilitate the transitioning by micro businesses operating in ASEAN from cash accounting to the most basic form of accrual accounting; and the preparation of consistent and reliable financial information about the financial position and performance of the business, appropriate to/for the size and complexity of micro-entities and users' information needs.

Overarching Principles

2.3 The following overarching principles have been applied in the drafting of MAM, whilst keeping within the confines of the pervasive principles derived from IASB's *Conceptual Framework for Financial Reporting* and from full IFRSs.

(i) The cost or burden of applying an accounting treatment must not outweigh the benefits to micro-entities.

(ii) Complexities in the recognition of an item into the statement of financial position or income statement are to be minimised where possible.

(iii) The degree of estimations and judgments in the measurements of assets, liabilities, income and expenses is to be minimised where possible.

Over-Riding Concepts

Materiality

2.4 Materiality describes the significance of financial statement information to users.

The concept of materiality is to be applied in all recognition, measurement, presentation and disclosure considerations in the preparation of financial statements. This ensures that financial statements are an effective and understandable summary of the information contained in a micro-entity's internal accounting records.

Materiality is a matter of judgment in the particular circumstances. Materiality is considered when applying the principles of MAM and meeting the objectives of financial statements. Items that are immaterial to the financial statements are not required to be separately presented or disclosed. The accounting policies in MAM need not be applied when the effect of applying them is immaterial.

Qualitative characteristics of useful financial information

2.5 Qualitative characteristics define and describe the attributes of information provided in financial statements that make that information useful to users. The six principal qualitative characteristics are understandability, relevance, reliability, comparability, verifiability and timeliness.

(a) **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.

(b) **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.

(c) **Reliability**: Information is considered to be reliable when it is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form.

(d) **Comparability**: Users must be able to compare the financial statements of an enterprise over time in order to identify trends in the enterprise's financial position and performance. Users must also be able to compare the financial statements of different entities to evaluate their relative financial position and performance.

Comparability in the financial statements of a micro-entity is enhanced when the same accounting policies are used consistently from period to period. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods.

When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change may be necessary to maintain comparability.

(e) **Verifiability**: The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(f) **Timeliness**: For information to be useful for decision making, it must be received by users before it loses its capacity to influence decisions. The usefulness of information for decision making declines as time elapses.

2.6 In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. The relative importance of the characteristics in different cases is a matter of judgment.

The cost constraint on useful financial reporting

2.7 The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and cost is, however, substantially judgmental.

Basic Financial Statement Concepts

Accrual Accounting

2.8 Items recognised in financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognises the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

2.9 Revenues are generally recognised when performance is achieved or partially achieved in the context of contracts in process, and there also is reasonable assurance regarding measurement and collectability of the consideration.

2.10 Gains are generally recognised when realised.

2.11 Expenses and losses are generally recognised when an expenditure or previously recognised asset does not have future economic benefit. Expenses are related to a period on the basis of transactions or events occurring in that period or by allocation.

Matching of costs with revenues

2.12 Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. For example, the various components of expense making up the cost of goods sold are recognised at the same time as the income derived from the sale of the goods. The concepts in MAM lead to such matching when it arises from the recognition of changes in assets and liabilities. However, these concepts do not allow the recognition in the statement of financial position of items that do not meet the definition of assets or liabilities.

2.13 When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised in the statement of operations on the basis of systematic and rational allocation procedures. This is often necessary when recognising the expenses associated with the using up of assets such as property, plant, and equipment; patents; and trademarks. In such cases, the expense is referred to as depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

2.14 An expense is recognised immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Elements of Financial Statements – Definitions

2.15 In financial statements, the financial effects of transactions and other events are classified into the following elements: assets, liabilities, equity, income, expenses and losses.

2.16 There are two types of elements. Those that describes the economic resources, obligations and equity of a micro-entity at a point in time; and those that describe changes in economic resources, obligations, and equity over a period of time.

Notes to financial statements, which are useful for the purpose of clarification or further explanation of the items in financial statements, although an integral part of financial statements, are not considered to be an element.

2.17 *Net income* is the residual amount after expenses and losses are deducted from revenues and gains. Net income generally includes all transactions and events increasing or decreasing the equity of the micro-entity, except those that result from equity contributions and distributions.

Assets

2.18 Assets are economic resources controlled by a micro-entity as a result of past transactions or events and from which future economic benefits may be obtained.

2.19 Assets have three essential characteristics:

(a) They embody a future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash flows.

(b) The micro-entity can control access to the benefit.

(c) The transaction or event giving rise to the micro-entity's right to, or control of, the benefit has already occurred.

2.20 It is not essential for control of access to the benefit to be legally enforceable for a resource to be an asset, provided that the micro-entity can control its use by other means.

Incurring expenditures and generating/acquiring assets

2.21 A close association exists between incurring expenditures and generating/acquiring assets, but the two do not necessarily coincide.

Therefore, when a micro-entity incurs an expenditure, this may provide evidence that future economic benefits were sought but this is not conclusive proof that an item satisfying the definition of an asset has been obtained and that the recognition criteria has been met.

Not recognising an expenditure as an asset likewise does not imply that the intention of management when incurring the expenditure was other than to generate future economic benefits.

Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and, thus, becoming a candidate for recognition in the statement of financial position. For example, items that have been donated to the micro-entity may satisfy the definition of assets.

2.22 An expenditure may satisfy the definition of an asset in the form of a deferred cost if the future economic benefits relating to the expenditure have not been consumed. A deferred cost is a cost that has been incurred but is not expensed until a later date. A deferred cost is recognised as an asset in the statement of financial position if it satisfies the recognition criteria in paragraph 2.33. A key consideration would often be the degree of certainty that economic benefits will flow to the micro-entity beyond the current accounting period.

Liabilities

2.23 Liabilities are obligations of a micro-entity arising from past transactions or events, the settlement of which may result from the transfer or use of assets, provision of services, or other yielding of economic benefits in the future.

2.24 Liabilities have three essential characteristics:

(a) They embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services, or other yielding of economic benefits, at a specified or determinable date, upon the occurrence of a specified event, or on demand.

(b) The duty or responsibility obligates the micro-entity, leaving it little or no discretion to avoid it.

(c) The transaction or event obligating the micro-entity has already occurred.

2.25 Liabilities do not have to be legally enforceable, provided that they otherwise meet the definition of liabilities; they can be based on a constructive obligation. A constructive obligation is one that can be inferred from the facts of a particular situation, as opposed to a contractually-based obligation.

Equity

2.26 Equity is the residual interest in the assets of a micro-entity after deducting all its liabilities. It may be sub-classified in the statement of financial position. Sub-classifications may include retained earnings and gains or losses recognised directly in equity.

Income

2.27 Income is increases in economic resources 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 resulting from contributions from equity investors.

2.28 Revenue is income that arises in the course of the ordinary activities of a micro-entity, and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent.

2.29 Gains are other items that meet the definition of income but are not revenue.

Expenses

2.30 Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrence of liabilities, resulting from a micro-entity’s ordinary revenue-generating or service delivery activities.

Losses

2.31 Losses are decreases in equity from peripheral or incidental transactions and events affecting a micro-entity and from all other transactions, events, and circumstances affecting the micro-entity, except those that result from expenses or distributions of equity.

Recognition Criteria

2.32 Recognition is the process of including an item in the financial statements of a micro-entity. It involves depicting the item (either alone or as part of a line item) in words and by a monetary amount, and including that amount in totals in the relevant statement.

2.33 Only items that meet the definition of an asset or a liability are considered for recognition in the statement of financial position;

Accordingly only those assets or liabilities that meet the definition of an asset or a liability and satisfy the following recognition criteria are recognised:

(a) For items that involve obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up;

(b) The item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and

(c) The information derived from the recognition of an item results in benefits exceeding the cost of providing that information.

2.34 Whether any particular item is recognised will require the application of judgment when considering whether the specific circumstances meet the recognition criteria.

The probability of future economic benefit

2.35 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 micro-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.

Reliability of measurement

2.36 The second criterion for the recognition of an item is that it possesses a cost or value that can be reliably measured. 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.

Cost

2.37 The third criterion for the recognition of an item is that the cost or burden of applying an accounting treatment must not outweigh the benefits to micro-entities.

Cost constrains recognition decisions. There is a cost to recognising an asset or a liability. Preparers of financial statements incur costs in obtaining a relevant measure. Users of financial statements also incur costs in analysing and interpreting information.

2.38 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.

Measurement

2.39 Measurement is the process of determining the monetary amounts at which a micro-entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This *Framework* specifies which measurement bases a micro-entity may use for many types of assets, liabilities, income and expenses.

2.40 Two common measurement bases are historical cost and fair value:

(a) For assets, historical cost is the amount of cash and 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 in 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 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.

2.41 Financial statements are prepared on the assumption that the micro-entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realise assets and discharge liabilities in the normal course of operations. Different bases of measurement may be appropriate when the micro-entity is not expected to continue in operation for the foreseeable future. The Framework should be used only by a micro-entity that is a going concern.

Pervasive recognition and measurement principles

2.42 The requirements for recognition and measuring assets, liabilities, income and expenditure in MAM are based on pervasive principles derived from IASB's *Conceptual Framework for Financial Reporting* and from full IFRSs.

In the absence of a requirement in MAM that applies specifically to a transaction or other event or condition, paragraph 6.5 provides guidance for making a judgment and requires a micro-entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and to the pervasive principles set out in this section.

Section 3
Financial Statement Presentation

Scope of this section

3.1 This section explains fair presentation of financial statements, what compliance with the *Framework* requires and what makes up a complete set of financial statements for a micro-entity.

Fair presentation

3.2 Financial statements should present fairly in accordance with the MAM accounting framework, the financial position and results of operations of a micro-entity (i.e., that represent faithfully the substance of transactions and other events in accordance with the elements of financial statements and the recognition and measurement criteria set out in Section 2, “Overarching Principles and Financial Statement Concepts”).

3.3 A fair presentation in accordance with the MAM accounting framework is achieved by:

(a) Applying the *Framework*;

(b) Providing sufficient information about transactions or events having an effect on the micro-entity’s financial position and results of operations for the periods presented that are of such size, nature, and incidence that their disclosure is necessary to understand that effect; and

(c) Providing information in a manner that is clear and understandable.

Going concern

3.4 When preparing financial statements, the management of a micro-entity using the *Framework* shall make an assessment of the micro-entity’s ability to continue as a going concern. A micro-entity is a going concern unless management either intends to liquidate the micro-entity or to cease trading, 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 end of the reporting period.

Comparative information

3.5 Except when this *Framework* permits or requires otherwise, a micro-entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements. A micro-entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.

3.6 The classification of an item in the financial statements of the current period may be different from its classification in the financial statements of prior periods as a result of a change in the allocation or grouping of items within or among relevant categories. Such a change in classification is a matter of presentation and is not, in itself, a change in an accounting policy. However, to enhance comparability with the financial statements of the current period, the item should be reclassified in the financial statements of the prior period to conform to the new presentation.

Complete set of financial statements

3.7 A complete set of financial statements of a micro-entity shall include the following:

(a) a statement of financial position as at the end of the period;

(b) an income statement for the period; and

(c) notes to the financial statements.

3.8 Nothing in the *Framework* precludes management from using it to prepare a single financial statement, rather than a complete set of financial statements.

3.9 Notes to financial statements to which the financial statements are cross-referenced, are often essential to clarify or further explain the items in the financial statements. They have the same significance as if the information or explanations were set out in the body of the statements themselves. However, they are not to be used as a substitute for proper accounting treatment. Accounting treatments that are not in accordance with the *Framework* are not rectified either by disclosure of the accounting policies used or by information provided in notes or supporting schedules.

3.10 Management should select only one set of accounting policies for purposes of preparing financial statements for general use in accordance with the *Framework*.

3.11 A micro-entity may use titles for the financial statements other than those used in this *Framework* as long as they are not misleading.

Disclosure

Accounting policies

3.12 *Accounting policies* are the specific principles, bases, conventions, rules, and practices applied by a micro-entity when preparing and presenting financial statements. The accounting policies adopted by a micro-entity affect the financial position and results of operations presented in its financial statements.

3.13 At a minimum, disclosure of information on accounting policies should be provided for policies subject to choice, those that had changed in the period or those for which the micro-entity would need to apply judgments or make assumptions and accounting estimates.

Basis of preparation

3.14 A micro-entity that prepares its financial statements in accordance with this Framework must do so in its entirety, and state this basis of presentation prominently in the notes to its financial statements.

Reclassifications

3.15 Details about reclassifications of financial statement items to conform to the present year's presentation, as described in paragraph 3.6, should be disclosed.

Other notes to the financial statements

3.16 Other explanatory notes should be provided when their disclosure provides relevant information to users of the financial statements.

Section 4
Statement of Financial Position

Scope of this section

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 presents a micro-entity's assets, liabilities and equity as of a specific date – the end of the reporting period.

Presentation

4.2 The statement of financial position should present fairly, in accordance with the *Framework*, the financial position at the period end.

4.3 If a classified statement of financial position is presented, management should distinguish the following:

(a) Current assets

(b) Long-term assets

(c) Total assets

(d) Current liabilities

(e) Long-term liabilities

(f) Total liabilities

(g) Equity

(h) Total liabilities and equity

4.4 Ordinarily, the following assets are separately presented:

(a) Cash and bank balances

(b) Trade and other receivables

(c) Prepaid expenses

(d) Other financial assets

(e) Inventories

(f) All other investments showing separately:

-investments measured using the cost method

-investments measured at fair value

(g) Property, plant, and equipment

(h) Intangible assets

4.5 Ordinarily, the following liabilities should be separately presented:

(a) Main classes of current liabilities such as bank loans, trade creditors and accrued liabilities, loans payable, billings in excess of costs and estimated earnings on uncompleted contracts, taxes payable, dividends payable, deferred revenues, and current payments on long-term debt.

(b) Long-term debt

(c) Other financial liabilities

Current/non-current distinction

4.6 A micro-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 4.7 to 4.10.

Current assets

4.7 A micro-entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the micro-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.

4.8 A micro-entity shall classify all other assets as non-current. When the micro-entity's normal operating cycle is not clearly identified, the duration is assumed to be twelve months.

Current liabilities

4.9 A micro-entity shall classify a liability as current when:

(a) it expects to settle the liability in the micro-entity's normal operating cycle;

(b) it holds the liability primarily for purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the micro-entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

4.10 A micro-entity shall classify all other liabilities as non-current.

Section 5
Income Statement

Scope of this section

5.1 This section requires a micro-entity to present its profit or loss for a period, i.e. its financial performance for the period. It sets out the information that is to be presented in the income statement and how to present it.

5.1A A micro-entity shall recognise all items of income and expense in a period in the income statement.

Presentation

5.2 The income statement should present fairly, in accordance with the *Framework*, the results of operations for the period.

5.3 Typical items that are distinguished in the income statement are:

(a) Revenue

(b) Finance costs

(c) Operating expenses

(d) Income from investments

(e) The amount charged for depreciation of property, plant and equipment

(f) The amount charged for amortisation of intangible assets

(g) The amount of exchange gain or loss included in net income

(h) Income taxes

5.4 A micro-entity shall present additional line items, headings and subtotals in the income statement when such presentation is relevant to an understanding of the micro-entity's financial performance.

5.5 A micro-entity shall not present or describe any items of income or expense as 'extraordinary items' in the income statement.

Section 6
Accounting Policies, Estimates and Errors

Scope of this section

6.1 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.

Selection and application of accounting policies

6..2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by a micro-entity in preparing and presenting financial statements.

6.3 If this *Framework* specifically addresses a transaction, other event or condition, a micro-entity shall apply this *Framework*. However, the micro-entity need not follow a requirement in this *Framework* if the effect of not doing so would not be material.

6.4 If this Framework does not specifically address a transaction, other event or condition, a micro-entity's management shall use its judgment in developing and applying an accounting policy that results in information that is:

(a) relevant to the decision-making needs of users; and

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position and operating performance of the micro entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; and

(iii) are free from material error and bias;

6.5 In making the judgment described in paragraph 6.4, management shall refer to and consider the applicability of the following sources in descending order:

(a) the requirement and guidance in MAM dealing with similar and related issues, and

(b) definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Overarching Principles and Financial Statement Concepts*.

Consistency of accounting policies

6.6 A micro-entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

Changes in accounting policies

6.7 A micro-entity shall change an accounting policy only if the change:

(a) is required by this *Framework*; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the micro-entity's financial position and financial performance.

6.8 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; and

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material.

Applying changes in accounting policies

6.9 A micro-entity shall account for changes in accounting policy as follows:

(a) a micro-entity shall account for a change in accounting policy resulting from a change in the requirements of MAM in accordance with the transitional provisions, if any, specified in that amendment; and

(b) a micro-entity shall account for all other changes in accounting policy retrospectively (see paragraph 6.10).

Retrospective application

6.10 When a change in accounting policy is applied retrospectively in accordance with paragraph 6.9, the micro-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 micro-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.

Changes in accounting estimates

6.11 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 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.

6.12 A micro-entity shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 6.13 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.

6.13 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 micro-entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Corrections of prior period errors

6.14 Prior period errors are omissions from, and misstatements in, a micro-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 authorised 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.

6.15 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

6.16 To the extent practicable, a micro-entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its 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.

6.17 When it is impracticable to determine the period-specific effects of a material error on comparative information for one or more prior periods presented, the micro-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).

Section 7
Financial Assets and Liabilities

Introduction

7.1 For the purposes of micro-entities, the definitions of financial asset and financial liability have been narrowed and are a subset of their definitions under IFRS. MAM excludes from the definitions of financial asset and financial liability, contracts that will be settled in the micro-entity's own equity instruments. As long as a contract results in the receipt or delivery of the micro-entity's own equity instruments, such contracts will be deemed an equity instrument of the micro-entity.

7.2 A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right to receive cash or another financial asset from another entity; or

(d) a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the micro-entity.

The definition of financial asset excludes contracts that will be settled in the micro-entity's own equity instruments even if the micro-entity is obliged to receive a variable number of its own equity instruments.

7.2A If a micro-entity issues equity instruments before receiving cash or other resources, the micro-entity shall present the amount receivable as an offset to equity in the statement of financial position, not as a financial asset.

7.2B If a micro-entity purchases a right to reacquire its own equity instruments from another party, the cost incurred by the micro-entity to purchase the right is not a financial asset but a deduction from its equity.

7.3 A financial liability is any liability that is:

(a) a contractual obligation to deliver cash or another financial asset to another entity; or

(b) a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the micro-entity.

The definition of financial liability excludes contracts that will be settled in the micro-entity's own equity instruments even if the micro-entity is obliged to deliver a variable number of its own equity instruments.

7.3A When a micro-entity is required to settle a contract (a present obligation) by issuing to the party owed its own equity instruments in the future, such obligations shall be classified as equity.

7.4 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. Derivatives such as options, rights, warrants, futures contracts, forward contracts and interest rate swaps are financial instruments.

7.5 An equity instrument is any contract that evidences a residual interest in the asset of an entity after deducting all of its liabilities.

7.5A A micro-entity recognises the issue of shares or other equity instruments as equity (including sale of options, rights and warrants) when the other party is obliged to provide cash or other resources in exchange for the instruments.

Scope of this section

7.6 This section establishes principles for

(a) recognising and measuring financial a*ssets* and financial liabilities;

(b) the presentation of liabilities and equity;

(c) the circumstances in which financial assets and financial liabilities are offset;

(d) the derecognition of certain financial assets and liabilities; and

(e) disclosures about financial assets and financial liabilities.

Recognition

7.7 A micro-entity shall recognise a financial asset, a financial liability or an equity instrument when the micro-entity becomes a party to the contract.

Measurement

7.8 A financial asset or financial liability is recognised initially at its cost. The cost is measured at the transaction price. Time value of money is not considered and any deferred payments or deferred settlements beyond normal credit terms are not present valued. Any interest income or interest expense is recognised as it accrues (i.e. as it becomes receivable or payable) and not on a present value accretion/amortised cost basis.

7.9 The transaction price of a financial asset is as follows:

(a) For a financial asset that is an equity instrument of another entity, the transaction price is the consideration given to acquire the investment.

(b) For a financial asset that is a contractual right to receive cash or another financial asset from another entity, the transaction price is the amount loaned (e.g., for investment in bonds) or is the invoice price (e.g., for trade debtors).

7.10 The transaction price of a financial liability is as follows:

(a) For a financial liability that is a contractual obligation to deliver cash or another financial asset to another entity, the transaction price is the amount borrowed (e.g., for a bank loan) or is the invoice price (e.g., for trade creditors).

7.11 A financial asset is recognised subsequently at its transaction price net of payments or settlements received and net of bad debts, provisions for bad debts, impairment or provision for impairment. A financial liability is recognised subsequently at its transaction price net of payments or settlements paid.

The amortised cost model is not used and any interest income or interest expense is recognised as it accrues (i.e. as it becomes receivable or payable) and not on a present value accretion/amortised cost basis.

7.12 Provisions for bad debts may be required when sales are on a credit basis and there is a risk that customers may not pay for the goods sold to them on credit. Provisions for bad debts need to be estimated for any debts whereby their recovery is doubtful, and are to be charged to the income statement. Bad debts are debts that are known to be irrecoverable and are to be written off to the income statement.

The estimates for provisions for bad debts is arrived at on the basis of experience, a knowledge of the customers and of the state of the country's economy at that point in time which is likely to effect on customer's debt paying capacity.

7.12A Micro-entities that have investments in debt or equity securities face the risk that there is a permanent diminution in the values of such investments, below their cost price. Accordingly, provisions for impairment need to be estimated for such investments and are to be charged to the income statement.

Presentation

Liabilities and Equity

7.13 The issuer of a financial instrument should classify the instrument, or its component parts, as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition and the definitions of a financial liability and an equity instrument.

Offsetting of a Financial Asset and a Financial Liability

7.14 A financial asset and a financial liability should be offset, and the net amount should be reported in the statement of financial position, only when a micro-entity

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Derecognition

Financial Assets

7.15 A micro-entity should derecognise financial assets transferred to another entity only when control has been surrendered.

7.16 A micro-entity shall derecognise a financial asset (or a part of the financial asset) only when:

(a) the contractual rights to the cash flows from the financial asset expire or are settled; or

(b) when no future economic benefits are expected from holding it or its disposal.

7.17 Any gain or loss on the derecognition of a financial asset (or of a part of the financial asset) is recognised in profit or loss.

Financial Liabilities

7.18 A micro-entity shall derecognise a financial liability (or a part of the financial liability) only when it is extinguished (that is, when the obligation is discharged or cancelled or expires).

7.19 Any gain or loss on the derecognition of a financial liability (or part of a financial liability) is recognised in profit or loss.

Gains and Losses on Sales of Investments

7.20 For the purposes of calculating a gain or loss on the sale of an investment, the cost of the investment sold should be calculated on the basis of the average carrying amount.

Presentation and Disclosure

7.21 Accounts and notes receivable should be segregated to show separately trade accounts and other unusual items of significant amount. The amounts, and, when practicable, maturity dates of accounts maturing beyond one year should be disclosed separately.

7.22 The following should be presented separately in the statement of financial position or in the notes to the financial statements:

(a) Provisions for doubtful debts

(b) Provision for impairment for investments in debt or equity securities

7.23 Income from investments should be presented separately in the income statement or in the notes to the financial statements.

7.24 A significant factor when evaluating the investment income is the relationship of the income reported to the investments from which such income is derived. For this reason, investments reported on the statement of financial position and investment income reported in the income statement are grouped in the same way.

7.25 A micro-entity should disclose the carrying amount of any financial liabilities that are secured. A micro-entity should also disclose

(a) the carrying amount of assets it has pledged as collateral for liabilities; and

(b) the terms and conditions relating to its pledge.

7.26 For financial liabilities recognised at the statement of financial position date, a micro-entity should disclose

(a) whether any financial liabilities were in default or in breach of any term or covenant during the period that would permit a lender to demand accelerated repayment; and

(b) whether the default was remedied or the terms of the liability were renegotiated before the financial statements were available to be issued.

Section 8
Inventories

Introduction

8.1 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.

Scope of this section

8.2 This section prescribes the accounting treatment for inventories.

Measurement of Inventories

8.3 Inventories should be measured at the lower of cost and net realisable value.

Cost of Inventories

8.4 The cost of inventories includes:

(a) costs of purchase;

(b) costs of conversion; and

(c) other costs incurred when bringing the inventories to their present location and condition.

Costs of Purchase

8.5 The costs of purchase of inventories include:

(a) the purchase price, net of trade discounts, rebates and other similar items;

(b) import duties, and other taxes (other than those subsequently recoverable by the micro-entity from the taxing authorities); and

(c) transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.

Costs of Conversion

8.6 The costs of conversion of inventories include:

(a) costs directly related to the units of production (for example, direct labour costs); and

(b) indirect costs of production (fixed and variable production overheads) incurred when converting materials to finished products.

8.7 Fixed production overheads (costs that remain relatively constant regardless of volume of production; for example, depreciation) are allocated on a systematic and consistent basis in respect of usual output levels.

Where the output is below the usual output level, the amount of fixed overheads allocated to each unit of production must not be increased. The resulting excess fixed overheads are recognised as an expense in the period in which they are incurred. Conversely, where the output is above the usual output level, the amount of fixed overheads allocated to each unit of production must be decreased so as not to overvalue the inventories.

8.8 Variable production overheads (costs that vary with the volume of production, for example indirect materials and indirect labour) are allocated to each unit of production on the basis of the actual use of the production facilities.

Other Costs Included in Inventories

8.9 Other costs are included in the cost of inventories only to the extent that they are incurred when bringing the inventories to their present location and condition, and may include non-production overheads.

8.10 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 production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

Techniques for Measuring Cost

8.11 A micro-entity may use techniques for measuring cost such as the standard cost method or the retail method if the results approximate actual cost. Standard cost takes into account normal level of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and revised in the light of current conditions. The retail method measures cost by reducing the sale value of the inventories by the appropriate gross profit margin.

Cost Formulas

8.12 Inventories that are either not ordinarily interchangeable or are earmarked for specific projects, are to be valued by their specific individual costs.

8.13 Inventories other than those dealt with in Paragraph 8.12 are to be measured using one of the following cost formulas:

(a) First-in, First-out (FIFO), which assumes that goods are sold in the same sequence as when they were acquired or produced. At period end, the remaining inventories would be valued at most recent prices.

(b) Weighted average method, which recognises that it is impractical to identify the sequence of sale of the inventories. The inventories are valued based on average cost of the goods, weighted according to the quantity.

Net Realisable Value

8.14 Net realisable value is the estimated selling price less costs of completion and the estimated costs necessary to make the sale.

8.15 The following scenarios are examples that may cause the net realisable value of inventories to fall below their cost:

(a) damaged goods;

(b) goods becoming obsolete;

(c) drop in selling prices; or

(d) increased estimated costs of completion or of the estimated costs to be incurred to make the sale.

When the net realisable value of the inventories fall below the cost, the loss is recognised as an expense in the period in which the fall in value occurs. Material and unusual losses should be disclosed separately.

8.16 Items which are held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

Recognition as an Expense

8.17 When inventories are sold, the micro-entity shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

Presentation and Disclosure

8.18 The financial statements should disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the micro-entity;

(c) the amount of inventories recognised as an expense during the period; and

(d) the total carrying amount of inventories pledged as security for liabilities.

Section 9
Investment Property

Scope of this section

9.1 This section prescribes the accounting treatment for investment properties (which are land or buildings held by a micro-entity to earn rentals or for capital appreciation or both).

Measurement at initial recognition

9.2 A micro-entity shall measure investment property at its cost at initial recognition.

9.3 The cost of a purchased investment property includes:

(a) the purchase price;

(b) any directly attributable expenditure (for example, legal and brokerage fees, property transfer taxes and other transaction costs).

9.4 When the payment of the purchase price is deferred beyond normal credit terms, the cost of investment property is the sum of all deferred payment amounts at the recognition date.

Measurement after initial recognition

9.5 A micro-entity shall subsequently account for all investment properties at a revalued amount in accordance with the revaluation model below or at cost in accordance with Section 10 *Property, Plant and Equipment*.

Revaluation model

9.6 After initial recognition, investment properties shall be carried at a revalued amount (being its fair value at the date of revaluation) less any accumulated depreciation.

9.6A For the purpose of fair value under MAM, 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. An appropriate basis of valuation would normally be market value. When market value is not available and another basis of valuation is used (e.g., value in use), this should be disclosed in the financial statements.

9.7 Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

9.8 If an asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised and accumulated in equity under the heading of “revaluation surplus”.

9.9 If an asset's carrying amount is decreased as a result of revaluation, the decrease shall be recognised in "revaluation surplus" in equity to the extent of any credit balance existing in the "revaluation surplus" in respect of that asset. Any decreases exceeding the credit balance in the "revaluation surplus" shall be recognised in the income statement.

Presentation and Disclosure

9.10 The financial statements should disclose:

(a) the accounting policy adopted in measuring investment property (that is, cost model or revaluation model);

(b) relevant information (for example, the effective date of revaluation, basis of valuation and whether an independent valuer was involved) related to the revaluation of investment properties; and

(c) the nature and form of any investment properties that are pledged as security.

Section 10
Property, Plant and Equipment

Scope of this section

10.1 This section prescribes the accounting treatment for property, plant and equipment. Scoped in property, plant and equipment are goods bought under a hire purchase agreement which qualifies for recognition.

10.1A Under a hire purchase agreement, the legal title to the asset does not pass to the micro-entity (or the purchaser) until every instalment has been paid and a small amount, usually included in the last payment, is paid which legally exercises an option to buy the asset. In legal form, a micro-entity is hiring the asset until a certain time, when an option can be exercised to take over the legal title to the asset. The purchaser is normally not compelled to complete the transaction and if he wishes, may return the asset and not pay any further instalments.

10.1B An asset bought under a hire purchase agreement qualify for recognition as property, plant and equipment if all the following conditions are satisfied.

(a) The asset is specifically identified in the hire purchase agreement and cannot be substituted with another asset;

(b) The micro-entity has control over the use of the asset; and

(c) It is reasonably certain that the micro-entity will exercise the option to purchase the asset, and takes over the legal title of the asset.

10.1C For all other hire purchase or leases agreements, the micro-entity is to recognise the lease payments as expenses when they accrue (i.e. as the leases payments becomes payable).

Recognition

10.2 A micro-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 micro-entity; and

(b) the cost of the item can be measured reliably.

10.3 Spare parts and servicing equipment are usually carried as inventory and recognised as an expense when consumed. Spare parts and servicing equipment may be accounted for as property, plant and equipment in the following scenarios:

(a) when such items are expected to be used for more than one period; or

(b) when such items could be used only in connection with an item of property, plant and equipment.

Measurement at initial recognition

10.4 A micro-entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

10.5 The cost of an item of property, plant and equipment includes:

(a) the purchase price including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) other costs involved in bringing the property, plant and equipment to its location and condition necessary for its intended use (for example, site preparation costs, transport and handling costs, installation and assembly costs).

Measurement of cost

10.6 When the payment of the purchase price is deferred beyond normal credit terms (for e.g., under a hire purchase agreement or instalment plan), the cost of an item of property, plant and equipment is the sum of all deferred payment amounts at the recognition date.

Exchanges of assets

10.7 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset or assets, or for a combination of monetary and non-monetary assets. A micro-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.

Measurement after initial recognition

10.8 After initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation.

Depreciation

10.9 The depreciation charge for each period shall be recognised in profit or loss.

Depreciable amount and depreciation period

10.10 A micro-entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life.

10.11 Factors may indicate that the useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, the micro-entity shall review its previous estimates and, if current expectations differ, amend the useful life. The change in useful life shall be accounted for as a change in an accounting estimate in accordance with Paragraphs 6.11 to 6.13.

10.12 Depreciation of an asset begins when it is ready for use or put to use and 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.

Residual value

10.13 A micro-entity shall assume that the residual value of a property, plant and equipment 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.

Depreciation method

10.14 A micro-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.

Derecognition

10.15 A micro-entity shall derecognise an item of property, plant and equipment on disposal.

10.16 A micro-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. Such gains are not to be classified as "revenue".

Presentation and Disclosure

10.17 The financial statements should disclose:

(a) the nature and form of any items of property, plant and equipment that are pledged as security; and

(b) the amount of contractual commitments not recognised in the statement of financial position for the acquisition of property, plant and equipment.

Section 12
Revenue

Scope of this section

12.1 This section specifies the accounting for revenue. It addresses the recognition of revenue during the course of business of a micro-entity, normally from the sale of goods, the rendering of services, a combination of both, and other uses of the resources of a micro-entity that yield interest, royalties, and dividends.

Recognition

12.2 Revenue from sales and service transactions should be recognised when the micro-entity has completed the sales or performed the service and ultimate collection is reasonably assured.

Sales of goods

12.3 In a transaction involving the sale of goods, the micro-entity has completed the sales of goods when it has transferred to the buyer the significant risks and rewards of ownership and is no longer involved with the goods transferred.

12.4 When the micro-entity retains significant risks of ownership, it is normally inappropriate to recognise the transaction as a sale. Examples of a significant risk of ownership being retained by a seller are when the purchaser has the right to rescind the transaction; and when the goods are shipped on consignment.

12.5 Assessing when the risks and rewards of ownership are transferred to the buyer with sufficient certainty requires an examination of the circumstances of the transaction. In most cases, revenue is recognised on the passing of possession of the goods. In retail sales, this is usually coincident with the passing of legal title. In other cases, the passing of legal title may occur at a different time from the passing of possession or of the risks and rewards of ownership.

Rendering of services and long-term contracts

12.6 In the case of rendering of services and long-term contracts, performance should be determined using either the percentage of completion method or the completed contract method, whichever better relates the revenue to the work accomplished. In addition, the micro-entity should be able to measure the consideration that will be derived from rendering the service or performing the long-term contract with reasonable assurance.

12.7 The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognised proportionately by reference to the performance of each act. Revenue recognised under this method should be determined on a rational and consistent basis, such as on the basis of sales value, associated costs, extent of progress, or number of acts.

12.8 For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue should be recognised on a straight-line basis over the period, unless there is evidence that some other method better reflects the pattern of performance. The amount of work accomplished should be assessed by reference to measures of performance that are reasonably determinable and relate as directly as possible to the activities critical to the completion of the contract. (Measures of performance include output measures, such as units produced and project milestones, or input measures, such as cost, labour hours, or machine use.) Amounts billed are not an appropriate basis of measurement unless they reflect the work accomplished.

12.9 Completion of sales or performance of service should be regarded as being achieved under paragraphs 12.3 to 12.8 when all the following criteria have been met:

(a) Persuasive evidence of a sales or service arrangement exists.

(b) Delivery of goods has occurred, or services have been rendered.

(c) The seller's price to the buyer is fixed or determinable.

Others

12.10 Revenue arising from resources yielding interest, royalties, and dividends should be recognised when the micro-entity is reasonably assured of the measurement and collectability. These revenues should be recognised on the following bases:

(a) Interest, as it accrues

(b) Royalties, as they accrue, in accordance with the terms of the relevant agreement

(c) Dividends, when the shareholder's right to receive payment is established

Accounting for Contract-Related Claims

12.11 Recognition of amounts of additional contract revenue relating to contract-related claims is appropriate only if it is probable that the claims will result in additional contract revenue and if amounts can be reliably estimated, as evidenced by satisfying the following conditions:

(a) There is a legal basis for the claims.

(b) Additional costs are caused by circumstances that were unforeseen at the contract date and are not the result of contractor performance deficiencies.

(c) Costs associated with the claims are identifiable or otherwise determinable and are reasonable in view of the work performed.

(d) Evidence supporting the claims is objective and verifiable.

12.12 If the above requirements are met, revenue from contract-related claims should be recorded only to the extent that contract costs relating to the claims have been incurred. Costs attributable to claims should be treated as costs of contract performance, as incurred.

12.13 A practice such as recording revenues from claims only when the amounts have been received or awarded may be used.

Effect of Uncertainties

12.14 Recognition of revenue requires that the revenue is measurable and that collection is reasonably assured. When there is reasonable assurance of collection, revenue is recognised, even though cash receipts are deferred. When there is uncertainty about collection, it may be appropriate to recognise revenue only as cash is received.

12.15 When the uncertainty relates to collectability and arises subsequent to the time revenue was recognised, a separate provision to reflect the uncertainty should be made. The amount of revenue originally recorded should not be adjusted.

12.16 Uncertainties relating to the measurement of revenue may result from one or both of the following issues:

(a) Consideration. When consideration is not determinable within reasonable limits, for example, when payment relating to goods sold depends on the resale of the goods by the buyer, revenue should not be recognised.

(b) Returns. Revenue should not be recognised when a micro-entity is subject to material and unpredictable amounts of returns, (for example, when the market for a returnable good is untested). If a micro-entity is exposed to material and predictable amounts of returns, it may be sufficient to provide for an allowance for returns.

Presentation

12.17 The amount of revenue recognised during the period should be presented separately in the income statement.

Disclosure

12.18 A micro-entity should disclose separately, either on the face of the income statement or in the notes to the financial statements, the major categories of revenue recognised during the period.

12.19 A micro-entity should disclose its revenue recognition policy. If a micro-entity has different policies for different types of revenue transactions, the policy for each material type of transaction should be disclosed.

Section 13
Government Grants

Introduction

13.1 Government grants are assistance given by government in the form of transfers of resources (eg financial awards, subsidies, forgivable loans from government, benefits of government loans at below-market rate of interest, etc) to micro-entities that qualify, i.e., that comply with the conditions attached to the grants.

Scope of this section

13.2 This section specifies the accounting for government grants.

13.3 This section does not deal with government assistance provided to a micro-entity in the form of benefits in determining taxable profit or tax loss. Examples of such benefits are investment tax credits, accelerated depreciation allowance, income tax holidays and reduced income tax rates. Such benefits are to be dealt with as described under the accounting for income tax.

Recognition and measurement

13.4 A micro-entity shall recognise a government grant when there is reasonable assurance that the micro-entity will comply with the conditions attached to them and that the grant will be received. The grant shall be recognised as income when the grant proceeds are receivable.

13.5 When there is no reasonable assurance that a micro-entity will comply with the conditions attached to a grant but has received the grant in advance, the micro-entity shall recognise a liability until the time when the conditions are complied with. Such liabilities can be presented as deferred income and reversed to income when the conditions are fulfilled.

13.6 A micro-entity shall measure grants that are received or receivable in monetary assets at the transaction amount. Grants that are received or receivable in non-monetary assets shall be measured at the fair value of the asset received or receivable.

Disclosures

13.7 A micro-entity shall disclose the following about government grants:

(a) The nature and amounts of government grants recognised in the financial statements.

(b) Unfulfilled conditions attached to government grants that have been received in advance and recognised as a liability.

Section 14
Borrowing Costs

Scope of this section

14.1 This section specifies the accounting for borrowing costs. Borrowing costs are interest and other costs that a micro-entity incurs in connection with the borrowing of funds.

Recognition

14.2 A micro-entity shall recognise all borrowing costs as expense in the profit or loss in the period in which they are incurred.

Disclosures

14.3 Paragraph 3.16 requires explanatory notes to be provided when their disclosure provide relevant information to users of the financial statements. This section does not require any additional disclosures.

Section 15
Income Tax

Scope of this section

15.1 This section specifies the accounting for current income tax. Income tax includes all domestic and foreign taxes that are based on taxable profit.

15.2 Current income tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods.

15.3 This section does not require the recognition of deferred tax, which represents the future tax consequences of transactions and events recognised in the financial statements of the current and previous periods.

Recognition

15.4 A micro-entity shall recognise a current income tax liability for tax payable on taxable profit for the current and past periods.

15.5 If the amount of tax paid for the current and past periods exceeds the amount of tax payable for those periods, the micro-entity shall recognise the excess as a current tax asset.

15.6 A micro-entity shall recognise changes in a current income tax liability (asset) as tax expense (income) under the tax financial statement line item in the income statement.

Measurement

15.7 A micro-entity shall measure a current income tax liability (asset) at the amount of tax it expects to pay (recover) using tax rates and laws that have been enacted or subsequently enacted by the reporting date.

15.8 A micro-entity shall not discount current income tax assets and liabilities.

Presentation and Disclosures

15.9 Current income tax liabilities and current income tax assets should be presented separately from other liabilities and assets.

15.10 Current income tax expense (benefit) should be presented separately in the income statement.

15.11 Paragraph 3.16 requires explanatory notes to be provided when their disclosure provide relevant information to users of the financial statements. This section does not require any additional disclosures.

Section 16
Foreign Currency Translation

Introduction

16.1 Foreign currency is a currency other than the reporting currency of the micro-entity.

16.2 The reporting currency of a micro-entity is the currency that the micro-entity determines to be most representative of its business.

16.3 A foreign currency transaction is a transaction of the micro-entity whose terms are denominated in a currency other than its reporting currency.

Scope of this section

16.4 This section specifies the accounting for transactions in foreign currencies.

Recognition

16.5 A micro-entity shall recognise a foreign currency transaction in the reporting currency of the micro-entity by applying the spot exchange rate at the date of the transaction.

16.6 The date of transaction is the date on which the transaction first qualifies for recognition.

16.7 At the end of each reporting period, a micro-entity shall:

(a) translate foreign currency monetary items using the closing rate; and

(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.

16.8 Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

16.9 An exchange gain or loss arises when a foreign currency denominated monetary item is settled or translated at an exchange rate different from the one at which it was previously recorded or carried.

Disclosures

16.20 A micro-entity shall disclose the amount of exchange differences recognised in profit or loss during the period.

Section 17
Transition to MAM

Scope of this section

17.1 This section applies to a first-time adopter of MAM.

17.2 A first-time adopter is a micro-entity that prepares its financial statements under MAM for the first time.

17.3 A first-time adopter shall apply this section in its first financial statements that conform to this MAM.

First-time adopter

17.4 A micro-entity's first financial statements that confirm to this MAM are the first financial statements prepared in accordance with this MAM, if the micro-entity:

(a) did not present financial statements for previous periods; or

(b) presented its most recent previous financial statements under another framework that is not consistent with MAM in all respects.

17.5 Paragraph 3.7 defines a complete set of financial statements for a micro-entity.

17.6 Paragraph 3.5 requires a micro-entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements, as well as specified comparative narrative and descriptive information.

Consequently, a micro-entity's date of transition to MAM is the beginning of the earliest period for which the micro-entity presents full comparative information in accordance with MAM in its first set of financial statements that conform to MAM.

However, if the micro-entity does not present comparative information in accordance with paragraph 17.7 (b), the micro-entity's date of transition to MAM is the beginning of the current period in which the micro-entity presents its financial statements under MAM.

17.7 This section provides the following exemptions for first-time adopter of MAM:

(a) Opening statement of financial position at the date of transition to MAM need not be presented;

(b) Comparative information need not be presented; and

(c) A micro-entity may elect to measure an item of property, plant and equipment or investment property at the date of transition to MAM at its fair value and use that fair value as its deemed cost at that date.

Appendix I

A Comparison of MAM, IFRS for SMEs and IFRS

1. Intended Scope, Overarching Principles and Financial Statement Concepts (Sections 1, 2)

	MAM	IFRS for SMEs	IFRS
Scope	Micro market participants operating in ASEAN countries that are allowed by their respective countries' jurisdictions' legislation to apply this *Framework*. [MAM 1.1]	Do not have public accountability, and publish general purpose financial statements for external users.	General purpose financial statements, directed towards the common information needs of a wide range of users.
Objective	To facilitate micro businesses operating in ASEAN to make a transition from cash accounting to the most basic form of accrual accounting; and to prepare consistent and reliable financial information about the financial position and performance of the business, appropriate to/for the size and complexity of micro-entities and users' information needs. [MAM 2.2]	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 of the financial statements who are not in a position to demand reports tailored to meet their particular information needs.	Similar to IFRS for SMEs.

Overarching Principles			
Overarching Principles	The following overarching principles have been applied in the drafting of MAM, whilst keeping within the confines of the pervasive principles in IASB's Conceptual Framework for Financial Reporting. (i) The cost or burden of applying an accounting treatment must not outweigh the benefits to micro-entities. (ii) Complexities in the recognition of an item into the statement of financial position or income statement are to be minimised where possible. (iii) The degree of estimations and judgments in the measurements of assets, liabilities, income and expenses is to be minimised where possible. [MAM 2.3]	N/A	N/A
Over-Riding Concepts			
Materiality	Materiality describes the significance of financial statement information to users. The concept of materiality is to be applied in all recognition, measurement, presentation and disclosure considerations in the preparation of financial statements. This ensures that financial statements are an effective and understandable summary of the information contained in a micro-entity's internal accounting records. Materiality is a matter of judgment in the particular circumstances. Materiality is considered when applying the principles MAM and meeting the objectives of financial statements. Items that are immaterial to the financial statements are not required to be separately presented	Included under qualitative characteristics.	Included under fundamental qualitative characteristics of "relevance".

	or disclosed. The accounting policies in MAM need not be applied when the effect of applying them is immaterial. [MAM 2.4]		
Qualitative characteristics	Six qualitative characteristics of useful financial statements – understandability, relevance, reliability, comparability, verifiability and timeliness. [MAM 2.5]	Eleven qualitative characteristics – understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, balance between benefit and cost and undue cost or effort.	Two fundamental qualitative characteristics – relevance and faithful representation; Four enhancing qualitative characteristics – comparability, verifiability, timeliness and understandability.
Basic Financial Statement Concepts			
Recognition Criteria	Only items that meet the definition of an asset or a liability are considered for recognition in the statement of financial position; Accordingly only those assets or liabilities that meet the definition of an asset or a liability and satisfy the following recognition criteria are recognised: (a) For items that involve obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up; (b) The item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved; and (c) The information derived from the recognition of an item results in benefits exceeding the cost of providing that information. [MAM 2.33]	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 reliably.	Similar to IFRS for SMEs.

2. Financial Statement Presentation (Section 3)

<table>
<tr><th></th><th>MAM</th><th>IFRS for SMEs</th><th>IFRS</th></tr>
<tr><td>Complete set of financial statements</td><td>A complete set of financial statements of a micro-entity shall include the following:
(a) a statement of financial position;
(b) an income statement; and
(c) notes to the financial statements.
[MAM 3.7]</td><td>A complete set of financial statements includes:
• A statement of financial position
• A statement of comprehensive income (or a separate income statement and statement of comprehensive income)
• A statement of changes in equity
• A statement of cash flows
• Notes comprising significant accounting policies and other explanatory information.</td><td>Similar to IFRS for SME except that:
• A statement of financial position at the beginning of the earliest comparative period is also required when a retrospective change in accounting policy, restatement or reclassification occurs.</td></tr>
<tr><td colspan="4">Disclosure</td></tr>
<tr><td>Accounting policies</td><td>At a minimum, disclosure of information on accounting policies should be provided for policies subject to choice, those that had changed in the period or those for which the micro-entity would need to apply judgments or make assumptions and accounting estimates.
[MAM 3.13]</td><td>An entity shall disclose the following in the summary of significant accounting policies:
(a) the measurement basis (or bases) used in preparing the financial statements; and
(b) the other accounting policies used that are relevant to an understanding of the financial statements.
Disclosure is also required in respect of significant judgments and major sources of estimation uncertainty.</td><td>Similar to IFRS for SMEs except that IFRS provides greater guidance in respect of these specific disclosures.</td></tr>
</table>

Other notes to the financial statements	Other explanatory notes should be provided when their disclosure provide relevant information to users of the financial statements. [MAM 3.16]	The notes shall: (a) present information about the basis of preparation of the financial statements and the specific accounting policies used; (b) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and (c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.	Similar to IFRS for SMEs.

3. Statement of Financial Position & Income Statement (Sections 4, 5)

	MAM	IFRS for SMEs	IFRS
Statement of Financial Position and Income Statement			
Information to be presented	MAM provides guidance on the asset line items, liability line items and income statement line items that are ordinarily presented on the Statement of Financial Position and Income Statement. [MAM 4.4, 4.5 & 5.3]	IFRS for SMEs provides a list of items that, as a minimum, should be disclosed on the face of the Statement of Financial Position and Income Statement.	Similar to IFRS for SME.

4. Financial Assets and Liabilities (Section 7)

	MAM	IFRS for SMEs	IFRS
Definitions			
Definition of financial asset	The definition of financial asset excludes contracts that will be settled in the micro-entity's own equity instruments even if the micro-entity is obliged to receive a variable number of its own equity instruments. [MAM 7.2]	Similar to MAM but includes a contract that will or may be settled in the entity's own equity instruments and: (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.	Similar to IFRS for SME, with the only essential difference being puttable financial instruments. In addition, IFRS provides detailed application guidance.
Definition of financial liability	The definition of financial liability excludes contracts that will be settled in the micro-entity's own equity instruments even if the micro-entity is obliged to deliver a variable number of its own equity instruments. [MAM 7.3]	Similar to MAM but includes a contract that will or may be settled in the entity's own equity instruments and: (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed	Similar to IFRS for SME, with the only essential difference being puttable financial instruments. In addition, IFRS provides detailed application guidance.

		amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity’s own equity instruments.	
Convertible debt	Not included as micro-entities are not expected to issue debts.	Requires the proceeds to be allocated between liability and equity components. The basis of allocation is to value the liability on the same basis as a liability without the equity component and the residual to the equity component.	Similar to IFRS for SME but detailed application guidance provided.
Recognition of derivatives	Not included as micro-entities are not expected to have derivatives.	Derivatives are not covered under IFRS for SME.	Derivatives are accounted for at fair value when the entity becomes a party to the contract.
Measurement			
Initial measurement	A financial asset or financial liability is recognised initially at its cost. The cost is measured at the transaction price. Time value of money is not considered and any deferred payments or deferred settlements beyond normal credit terms are not present valued. Any interest income or interest expense is recognised as it accrues (i.e., as it becomes receivable or payable) and not on a present value accretion/amortised cost basis. [MAM 7.8]	Similar to MAM except that asset or liability is measured at the present value of the future payments if payment is deferred or is financed at an interest rate that is not a market rate.	On initial recognition, financial instruments are measured at fair value; and introduces the concept of day-1 gains/losses.

Subsequent measurement	A financial asset is recognised subsequently at its transaction price net of payments or settlements received and net of bad debts, provision for bad debts, impairment or provision for impairment. A financial liability is recognised subsequently at its transaction price net of payments or settlements paid. The amortised cost model is not used and any interest income or interest expense is recognised as it accrues and not on a present value accretion/amortised cost basis. [MAM 7.11]	At the end of each financial period, basic financial instruments are measured at amortised cost using the effective interest method. Investments in non-convertible and non-puttable ordinary shares or preference shares are measured at fair value through profit or loss if fair value can be measured reliably, otherwise at cost less impairment.	Various measurement basis depending on their measurement categories.

Impairment			
	Provisions for bad debts may be required when sales are on a credit basis and there is a risk that customers may not pay for the goods sold to them on credit. Provisions for bad debts need to be estimated for any debts whereby their recovery is doubtful, and are to be charged to the income statement. Bad debts are debts that are known to be irrecoverable and are to be written off to the income statement. The estimates for provisions for bad debts is arrived at on the basis of experience, a knowledge of the customers and of the state of the country’s economy at that point in time which is likely to effect on customer’s debt paying capacity. Micro-entities that have investments in debt or equity securities face the risk that there is a permanent diminution in the values of such investments, below their cost price. Accordingly, provisions for impairment need to be estimated for such investments and are to be charged to the income statement. [MAM 7.12 & 7.12A] A micro-entity shall derecognised a financial asset (or a part of the financial asset) when no future economic benefits are expected from holding it or its disposal. [MAM 7.16(b)]	Requires a review of objective evidence of impairment at the end of each reporting period.	Similar to IFRS for SME.

5. Non Financial Assets

(Sections 8, 9, 10)

	MAM	IFRS for SMEs	IFRS
Section 8: Inventories			
Scope	No specific scoping out of construction contracts, financial instruments and biological assets related to agricultural activity and agricultural produce at the point of harvest.	Scopes out work in progress arising under construction contracts, financial instruments and biological assets related to agricultural activity and agricultural produce at the point of harvest.	Similar to IFRS for SME.
Other costs included in inventories	Borrowing costs are recognised as an expense.	Borrowing costs are recognised as an expense	Borrowing costs are included in the cost of inventories under limited circumstances as identified by IAS 23.
Impairment	MAM does not require a micro-entity to assess impairment at the end of each reporting period. However, a micro-entity shall measure inventories at the lower of cost and net realisable value. [MAM 8.3]	Assess at the end of each reporting period whether any inventories are impaired.	Similar to IFRS for SME but contains additional guidance on the estimates of net realisable value.

Section 9: Investment Property			
Definition	MAM excludes references to leases. Investment properties are land or buildings held by a micro-entity to earn rentals or for capital appreciation or both. [MAM 9.1]	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.	Similar to IFRS for SME
Measurement at initial recognition	When the payment of the purchase price is deferred beyond normal credit terms, the cost of investment property is the sum of all deferred payment amounts at the recognition date. [MAM 9.4]	If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.	Similar to IFRS for SME except for borrowing costs, which are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.
Measurement after initial recognition	A micro-entity shall subsequently account for all investment properties at revalued amount in accordance with the revaluation model or at cost in accordance with Section 10, Property, Plant and Equipment. [MAM 9.5]	Investment property whose fair value can be measured reliably without undue cost or effort must be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. Otherwise, the cost model is used.	Accounting policy choice to carry all its investment properties at fair value model or at cost model. However, when an investment property is held by a lessee under an operating lease, the entity follows the fair value model for all its investment properties.

Section 10: Property, Plant and Equipment ("PPE")			
Recognition	- MAM does not require land and buildings to be accounted for separately when they are acquired together. - MAM does not stipulate the accounting for replacement parts of property, plant and equipment ("PPE"); and costs of regular major inspections for faults.	- Requires land and buildings to be accounted for separately. - Stipulates the accounting for replacement parts of PPE; and costs of regular major inspections for faults.	Similar to IFRS for SME
Measurement at initial recognition	- MAM does not require the initial estimate of costs of dismantling and removing the PPE, and restoring the site on which it is located on. - When the payment of the purchase price is deferred beyond normal credit terms, the cost of an item of PPE is the sum of all deferred payment amounts at the recognition date. [MAM 10.6]	- Requires the recognition of initial estimate of costs of dismantling and removing the PPE, and restoring the site on which it is located on. - The cost of an item of PPE 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. - Borrowing costs do not form part of the cost of an item of PPE.	Similar to IFRS for SME except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of the asset.
Measurement after initial recognition	MAM requires the cost model. [MAM 10.8]	Allows a choice of cost model or revaluation model.	Similar to IFRS for SME.
Residual value	A micro-entity shall assume that the residual value of a PPE 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	No similar assumption for residual value.	No similar assumption for residual value.

	of the asset's useful life. [MAM 10.13]		
Impairment	MAM does not require a micro-entity to assess impairment indicators at the end of each reporting period.	PPE is tested for impairment when there is an indication that the asset may be impaired. Existence of impairment indicators is assessed at each reporting date.	Similar to IFRS for SME

6. Revenue

(Section 12)

	MAM	IFRS for SMEs	IFRS
Section 12: Revenue			
Measurement of revenue	No requirement for revenue to be measured at fair value.	Revenue shall be measured at the fair value of the consideration received or receivable.	Similar to IFRS for SME.
Multiple-element arrangements	No requirement for multiple-element arrangements.	The revenue recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to separate a transaction into identifiable components in order to reflect the substance of the transaction. Two or more transactions may need to be grouped together if they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.	Similar to IFRS for SME.
Recognition – Sale of goods	MAM focuses on the timing of recognition of revenue. Revenue recognition criteria for sale of goods: - In a transaction involving the sale of goods, the micro-entity has completed the sales of goods when it has transferred to the buyer the significant risks and rewards of ownership and is no longer involved in the goods transferred. - Ultimate collection is reasonable assured [MAM 12.2 & 12.3]	The following additional criteria required: - The cost incurred or to be incurred in respect of the transaction can be measured reliably.	Similar to IFRS for SME.

Recognition – Rendering of services and long-term contracts	Revenue recognition criteria for rendering of services and long term contracts: - In the case of rendering of services and long-term contracts, performance should be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. In addition, the micro-entity should be able to measure the consideration that will be derived from rendering the service or performing the long-term contract with reasonable assurance. - Ultimate collection is reasonably assured [MAM 12.2 & 12.6]	The following additional criteria required: - The stage of completion of the transaction at the end of the reporting period can be measured reliably - The cost incurred for the transaction and the cost to complete the transaction can be measured reliably	Similar to IFRS for SME.
Construction contracts	MAM does not separately address revenue recognition arising from construction contracts.	IFRS for SME addresses revenue from construction contracts separately.	Similar to IFRS for SME but IAS 11 provides additional detailed guidance on fixed price and cost-plus contracts.
Revenue from interest	Interest is recognised as it accrues. [MAM 12.10(a)]	Interest is recognised using the effective interest method.	Similar to IFRS for SME.
Accounting for contract-related claims	Additional guidance for the recognition of additional revenue arising from contract-related claims. [MAM 12.11, 12.12 & 12.13]		
Effect of uncertainties	Additional guidance on the consideration of uncertainties on revenue recognition. [MAM 12.14, 12.15 & 12.16]		

7. Other Topics

(Sections 13, 14, 15, 16, 17)

	MAM	IFRS for SMEs	IFRS
Section 13: Government Grants			
Scope	Scope in MAM is similar to IFRS for SMEs.	Scope in MAM is similar to IFRS for SMEs.	Similar to IFRS for SMEs except that government grants relating to agriculture are dealt with in a separate standard.
Recognition and measurement	Recognition and measurement in MAM is similar to IFRS for SMEs.	Recognition and measurement in MAM is similar to IFRS for SMEs.	Similar to IFRS for SMEs except that grants in the form of transfer of non-monetary asset can be measured at either fair value of the asset received or at nominal amount. Under IFRS for SMEs, no option to measure such grants at nominal value.

Section 14: Borrowing Costs			
Scope	Borrowing costs are interest and other costs that a micro-entity incurs in connection with the borrowing of funds. [MAM 14.1]	Similar to MAM but scope expended to include interest expense calculated using the effective interest method, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings which are regarded as an adjustment to interest costs.	Similar to IFRS for SMEs except for some additional scope exemption under IAS 23.
Recognition	A micro-entity shall recognise all borrowing costs as expense in the profit or loss in the period in which they are incurred. [MAM 14.2]	Similar to MAM.	Requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
Section 15: Income Tax			
Scope	Specifies the accounting for current income tax. This section does not require the recognition of deferred tax which represents the future tax consequences of transactions and events recognised in the financial statements of the current and previous periods. [MAM 15.3]	Covers the accounting for income tax, which comprises current tax and deferred tax.	Similar to IFRS for SMEs.
Recognition	Excludes recognition of deferred tax	Requires recognition of current tax and deferred tax.	Similar to IFRS for SMEs.

Section 16: Foreign Currency Translation			
Functional currency & reporting currency	Does not require a micro-entity to determine its functional currency or to measure all components of the financial statements in the functional currency. Instead, a micro-entity determines its reporting currency. The reporting currency of a micro-entity is the currency that the micro-entity determines to be most representative of its business. [MAM 16.2]	All components of the financial statements are measured in the functional currency of the entity. No concept of reporting currency.	Similar to IFRS for SMEs
Foreign currency transaction at initial recognition	A micro-entity shall recognise a foreign currency transaction at the reporting currency of the micro-entity by applying the spot exchange rate at the date of the transaction. [MAM 16.5]	An entity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.	Similar to IFRS for SMEs.
Foreign currency transaction at end of each reporting period	At the end of each reporting period, a micro-entity shall: (a) translate foreign currency monetary items using the closing rate; and (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. [MAM 16.7]	Similar to MAM except that IFRS for SME also addresses non-monetary items that are measured at fair value in a foreign currency.	Similar to IFRS for SMEs.

Appendix II

Illustrative Financial Statements

Micro-Accounting Model ("MAM")

Illustrative Financial Statements

This guidance accompanies MAM, the accounting framework applicable to micro market participants operating in ASEAN countries.

Scope

This guidance provides an illustrative financial statements of a fictitious business, MAM Micro Enterprise, for the financial year ended 31 December 2015. MAM Micro Enterprise is a business operating in an ASEAN country ("SEA land").

The names of people and entities included in this publication are fictitious. Any resemblance to a person or entity is purely coincidental.

Illustrative in nature

The sample disclosures in this illustrative financial statements should not be considered to be the only acceptable form of presentation. The form and content of each business' financial statements are the responsibility of the business. Other forms of presentation that provide relevant information to the users of the financial statements and are in compliance with MAM are equally acceptable. The relevant sections in MAM which form the basis for the presentation format of this illustrative financial statements are as follows:

1. Section 3 *"Financial Statement Presentation"* explains fair presentation of financial statements, what compliance with the *Framework* requires and what makes up a complete set of financial statements for a micro-entity.

2. Sections 4–5 prescribe the format and content of the Statement of Financial Position and the Income Statement. Other sections of MAM set out additional presentation and disclosure requirements.

3. In accordance with paragraph 3.7 of MAM, this illustrative financial statements present a Statement of Financial Position as at the end of the period, an Income Statement for the period and Notes to the financial statements.

4. MAM does not require the presentation of a Statement of Changes in Equity and a Statement of Cash Flows. Accordingly, this illustrative financial statements does not present the above statements. However, businesses are not precluded from presenting such statements if these provide additional relevant information to users of their financial statements.

5. This illustrative financial statements are not intended to illustrate all aspects of the MAM.

MAM Micro Enterprise

Statement of financial position as at 31 December 2015

	Note	2015 CU	2014 CU	MAM Reference
ASSETS				
Current assets				4.3(a)
Cash and bank balances	3	15,000	10,000	
Trade and other receivables		8,000	6,000	
Inventories	4	18,000	15,000	
		41,000	31,000	
Long-term assets				4.3(b)
Investments in equity	5	5,000	5,000	
Investment property	6	157,000	150,000	
Property, plant and equipment	7	56,000	60,000	
		218,000	215,000	
Total assets		**259,000**	**246,000**	4.3(c)
LIABILITIES AND EQUITY				
Current liabilities				4.3(d)
Trade and other payables		15,000	17,700	
Current income tax liability		1,000	800	
		16,000	18,500	
Long-term liabilities				4.3(e)
Bank loan	8	150,000	150,000	
Other long-term liability	9	18,000	18,500	
		168,000	168,500	
Total liabilities		**184,000**	**187,000**	4.3(f)
Equity				4.3(g)
Retained earnings		68,000	59,000	
Revaluation surplus		7,000	-	
		75,000	59,000	
Total liabilities and equity		**259,000**	**246,000**	4.3(h)

MAM Micro Enterprise

MAM Reference

Income statement for the year ended 31 December 2015 5.3

	Note	2015 CU	2014 CU	
Revenue	10	31,500	32,500	
Other income	11	5,500	500	
Operating expenses		(24,000)	(22,000)	
Interest expense on bank loan		(3,000)	(3,000)	
Profit before tax		**10,000**	**8,000**	
Income tax expense		(1,000)	(800)	15.10
Profit for the year		**9,000**	**7,200**	

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

1. General information

MAM Micro Enterprise is a business set up in SEA land. The address of its principal place of business is Lane 10, SEA land. The principal activities of MAM Micro Enterprise are the sale of bicycle tyres and holding of investment properties.

2. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with MAM. They are presented in the reporting currency of SEA land.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of finished goods comprises the purchase price and transport costs incurred in the acquisition of the finished goods. Cost is calculated using the first-in, first-out (FIFO) method. 8.18(a)

(ii) Investment properties

Investment properties are land or buildings held to earn rentals. 9.1

Investment properties are initially recognised at cost and subsequently, at revalued amount. 9.10(a)

Increases in carrying amounts as a result of revaluations are recognised and accumulated in equity under the heading of "revaluation surplus." 9.8

Decreases in carrying amount, as a result of revaluations are recognised in "revaluation surplus" to the extent of existing credit balances. Any decreases exceeding the credit balance in the "revaluation surplus" are recognised in the income statement. 9.9

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

(iii) Revenue recognition 12.19

Sale of goods – bicycle tyres 12.3
Revenue from sale of bicycle tyres is recognised upon the transfer of significant risks and rewards of ownership of bicycle tyres to the customer.

Rental income
Rental income from investment properties are recognised as it accrues[1]. 2.8

Interest income
Interest income from fixed deposits is recognised as it accrues, and not on a present value accretion basis. 12.10(a)

Explanatory note
(1) This is a departure from IAS 17 paragraph 50 which requires lease income from operating leases to be recognised in income on a straight-line basis over the lease term.

(iv) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. 10.8

When the payment of the purchase price is deferred beyond normal credit terms, the cost of an item of property, plant and equipment is the sum of all deferred payment amounts at the recognition date[2]. 10.6

Depreciation is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives as follows:

Motor vehicles	10 years
Freehold land and building[3]	50 years

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

Explanatory note

(2) This is a departure from IAS 16.23, which requires the difference between the cash price equivalent and the total payment to be recognised as interest over the period of credit.

(3) Freehold land and building are accounted for together in the determination of depreciation. This is a departure from IAS 16.58, which requires land and buildings to be accounted for separately even when they are acquired together

(v) Financial assets and liabilities[4]

A financial asset or financial liability is recognised initially at its cost. The cost is measured at the transaction price. 7.8

Bank loan

The transaction price is the amount borrowed or loaned. Interest expense is recognised when it accrues. 7.10(a)

Investment in equity

The transaction price is the consideration paid. 7.9(a)

Financial liability of which payment is deferred beyond normal credit terms

The transaction price equals the sum of all deferred payment amounts at recognition date. No interest expense is recognised. 7.8

At the end of each reporting period, financial assets and liabilities are measured at initial cost, net of settlements received or paid. 7.11

Explanatory note

(4) This is a departure from IAS 39 and IFRS 9, which require initial recognition at fair value, and subsequent measurement at either amortised cost or fair value.

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

3. Cash and bank balances 3.16

	2015 CU	2014 CU
Cash on hand	2,000	2,000
Cash at bank	10,000	5,000
Fixed deposits	3,000	3,000
	15,000	**10,000**

4. Inventories

	2015 CU	2014 CU	
Finished goods	**18,000**	**15,000**	8.18(b)

The cost of goods sold during the year ended 31 December 2015 amounted to CU12,000 (2014: CU15,000). 8.18(c)

5. Investments in equity 3.16

In June 2013, MAM Micro Enterprise acquired an interest of 5% of the total share capital equal to 500 ordinary shares in the share capital of ABC Pte Ltd, for cash consideration of CU5,000. This investment is accounted for at cost.

Dividend income earned from investments in equity amounted to CU200 (2014: CU200) (Note 11). 7.23

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

6. Investment property 3.16

	Freehold land and building CU
Valuation	
At 1 January 2014, 31 December 2014 and 1 January 2015	150,000
Revaluation surplus	7,000
At 31 December 2015	**157,000**

Freehold land and building refers to a 2-storey shophouse located at Lane 1, SEA land which is rented out to earn rental income.

Valuation of investment property

MAM Micro Enterprise engaged Valuers Pte Ltd, an independent valuer to determine the fair value of the investment property. The date of the revaluation was 31 December 2015. 9.10(b)

Investment property pledged as security

The investment property is mortgaged to secure bank loan (Note 8). 7.25, 9.10(c)

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

7. Property, plant and equipment

	Freehold land and building CU	Motor vehicle CU	Total CU
Cost			
At 1 January 2014, 31 December 2014, 31 December 2015	**100,000**	**20,000**	**120,000**
Accumulated depreciation			
At 1 January 2014,	48,000	8,000	56,000
Depreciation charge for the year	2,000	2,000	4,000
At 31 December 2014	50,000	10,000	60,000
Depreciation charge for the year	2,000	2,000	4,000
At 31 December 2015	**52,000**	**12,000**	**64,000**
Net carrying amount at 31 December 2015	**48,000**	**8,000**	**56,000**
Net carrying amount at 31 December 2014	50,000	10,000	60,000

Freehold land and building refers to a single-storey shophouse located at Lane 10, SEA land.

<u>Property, plant and equipment pledged as security</u>
The motor vehicle was purchased using financing from a finance company (Note 9). The motor vehicle is pledged as security for the finance company. 7.25, 10.17(a)

Included in Operating Expenses is depreciation charge of CU4,000 (2014: CU4,000).

8. Bank loan

The bank loan is repayable on 1 June 2040 and is secured by a charge over MAM Micro Enterprise's investment property (Note 6). 7.25

Interest is payable at a fixed rate of 2% per annum (2014: 2% per annum).

Accounting policies and explanatory notes to the financial statements for the year ended 31 December 2015

9. Other long-term liability

Other long-term liability relates to amount payable[5] to a finance company for the purchase of a motor vehicle (Note 7). 10.6

Explanatory note

(5) The amount payable is the sum of all deferred payment amount. This is a departure from the IFRS which requires the recognition of financial liabilities at amortised cost.

10. Revenue

12.18

	2015 CU	2014 CU
Sale of bicycle tyres	19,500	20,500
Rental income from Investment property	12,000	12,000
	31,500	**32,500**

11. Other income

13.7

Other income comprises mainly government grant of CU5,000 (2014: CU Nil) and dividend income of CU200 (2014: CU200) from investments in equity.

The grant was received from the government as part of the government's drive to encourage business growth.