

User Guidelines as per Article 3 (2) (d) of the Small Business Act **(Chapter 512 of the laws of Malta)**

Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) (Amendment) Regulations, 2024

These User Guidelines are intended specifically for Small and Medium Sized Enterprises (hereinafter SMEs), to be informed of the consequences of this legal instrument which is intended to amend the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations – S.L. 281.05 (hereinafter referred to as “GAPSME”).

The objectives behind the amendments being proposed are the following:

- (i) Clarification of certain aspects already incorporated in the current regulations, but which gave rise to uncertainty in their interpretation;
- (ii) Rectification of a number of inconsistencies and typos identified in the current regulations; and
- (iii) Consequential changes as a result of the above amendments.

The below are some of the proposed amendments to the current GAPSME framework, the objective of which is detailed above:

- i) Amendment to Section 7 - Property, plant and equipment [regulation 5(x)]:

Paragraph 7.30 was amended in such a way as to introduce a new disclosure requirement for small entities, having already been required for medium-sized entities in the current regulations, namely with regards to the basis of valuation in instances where items of property, plant and equipment have been revalued. This amendment is being proposed to enhance the usefulness of financial statements, whilst also aligning same with requirements emanating from other international accounting standards.

- ii) Amendments to Section 9 - Financial assets, financial liabilities and equity [regulation 5(cc) and (hh)]:

- Paragraph 9.17 was amended in such a way as to introduce the measurement basis of *Fair Value through Profit or Loss (“FVTPL”)* at initial recognition, subject to the satisfaction of certain criteria laid out therein. This amendment is being proposed with two other projects in mind, namely (1) the minimum financial reporting requirements for different categories of entities authorised by, supervised by or in the supervisory remit of the Malta Financial Services Authority (MFSA), and (2) the Accountancy Profession (General Accounting Principles in respect of certain Eligible Entities related to the business of Insurance) Regulations, 2023 (GAPEE).
- Paragraph 9.36 was amended in such a way as to deal with financial instruments containing both a liability and an equity component, including the respective allocation of the initial amount thereof. This amendment is being proposed to clarify the correct approach and avoid instances which would merit the need for interpretation, and may thus result in incorrect accounting treatment being applied and possible accounting inconsistencies across different entities.

- iii) Amendment to Section 11 - Intangible assets other than goodwill [regulation 5(nn)]:

Paragraph 11.1 was amended, through a proviso, in such a way as to exclude cryptographic assets and tokens from the scope of the reporting requirements relating to intangible assets as prescribed under this Section. This amendment is being proposed due to the fact that the reporting requirements emanating from Section 11, as catered for in the current regulations, cannot be applied to cryptographic assets and tokens given the nature of these items.

- iv) Amendments to Section 21 - Business combinations and goodwill [regulation 5(zz) -(hhh)]: Various paragraphs were amended in such a way as to provide clarifications in relation to business combinations. Among such clarifications there are:
- the application of paragraphs 21.18 and 21.19 to business combinations under common control;
 - substitutes to be used for book values of shares and percentage of capital where a business combination under common control does not result in the acquirer holding shares in the capital of an entity; and
 - the interchangeable use of the terms “*consolidated reserves*” and “*equity*”.

Naturally, the target audience of these amendments are largely members of the accountancy profession who have to prepare financial statements for small and medium-sized enterprises under the GAPSME Framework. Having said that, such amendments are not changing current reporting requirements, but rather aiding the reporting process and preparation of financials by providing necessary clarifications, maintaining proper alignment with crucial concepts and rules, and introducing new options for preparers. All this essentially supports the application of best practices, whilst avoiding accounting inconsistencies, and enhances the usefulness of the financial statements.

Furthermore, it is important to note that all the amendments being proposed, as per above, seek to maintain and enhance the original objective of the current GAPSME framework, that of simplification and alignment with Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

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