

Update on HKFRS (or IFRS)

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Nelson Lam 林智遠
MBA MSc BBA ACA ACS CFA CPA(Aust.)
CPA(US) FCCA FCPA(Practising) MSCA

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Amendment Effective After 1.1.2008

Selected new interpretations and amendments to HKFRSs issued in 2007 to 2008

Effective for periods beginning on/after

- HK(IFRIC) 12 *Service Concession Arrangements* (2007) ➤ 1 Jan. 2008
- HK(IFRIC) 13 *Customer Loyalty Programmes* (2007) ➤ 1 Jul. 2008
- HK(IFRIC) 14 *HKAS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (2007) ➤ 1 Jan. 2008
- HKFRS 8 *Operating Segments* (2007) ➤ 1 Jan. 2009
- HKFRS 23 *Borrowing Costs* (2007) ➤ 1 Jan. 2009
- HKAS 1 *Presentation of Financial Statements* (2007) ➤ 1 Jan. 2009
- HKAS 27 *Consolidated and Separate Financial Statements* (2008) ➤ 1 Jul. 2009
- HKFRS 3 *Business Combination* (2008) ➤ 1 Jul. 2009

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Today's Agenda



Operating Segment
(IFRS/HKFRS 8)

Presentation of Financial Statements
(IAS/HKAS 1)

Consolidated and Separate Financial
Statements (IAS/HKAS 27)

Business Combinations
(IFRS/HKFRS 3)

HKFRS 8 Operating Segments



Background

- HKFRS 8 arises from the IASB's consideration of
 - FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131 of United States) issued in 1997, compared with IAS 14 *Segment Reporting*, which is similar to HKAS 14.
- HKFRS 8 achieves convergence with the requirements of SFAS 131.
 - The wording of HKFRS 8 is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other HKFRSs.



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Core Principle and Scope

Core Principle

- An entity shall disclose information to enable users of its financial statements to evaluate
 - the nature and financial effects of the business activities in which it engages and
 - the economic environments in which it operates.



Scope

- HKFRS 8 applies to:
 - the separate or individual financial statements of an entity with listed debt and equity
 - the consolidated financial statements of a group with a parent with listed debt and equity
 - The segment information of an entity which chooses to follow HKFRS 8
- If a financial report contains both the parent's consolidated financial statements and separate financial statements,
 - segment information is required only in the consolidated financial statements.

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Operating Segments

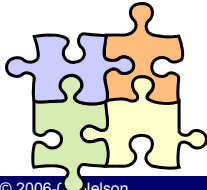
- An **operating segment** is a component of an entity:
 - that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
 - whose operating results are regularly reviewed by the entity's chief operating decision maker to
 - make decisions about resources to be allocated to the segment and
 - assess its performance, and
 - for which discrete financial information is available.

A business activity might have not yet earned any revenue

For example: CEO, COO, or a group of executive directors

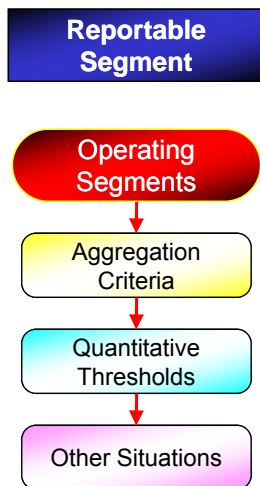
Not necessary be geographical areas or products

Operating Segments



- Not every part of an entity is necessarily an operating segment or part of an operating segment, say corporate headquarter

Reporting Segments



- An entity shall report separately information about each **operating segment** that
 - has been identified as operating segment or results from aggregating two or more of those segments under the **aggregation criteria**, and
 - exceeds the **quantitative thresholds** ("10% or more test").
- There are also other situations in which separate information about an operating segment shall be reported.

Reporting Segments

- Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.
 - For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar.

Aggregation
Criteria



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Reporting Segments

- Two or more operating segments may be aggregated into a single operating segment if
 - aggregation is consistent with the core principle of HKFRS 8,
 - the segments have similar economic characteristics, and
 - the segments are similar in each of the following respects:
 - a) the nature of the products and services;
 - b) the nature of the production processes;
 - c) the type or class of customer for their products and services;
 - d) the methods used to distribute their products or provide their services; and
 - e) if applicable, the nature of the regulatory environment, e.g., banking or public utilities.

Aggregation
Criteria



Aggregate
segments if desired

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Reporting Segments

- An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
 - a) Its reported revenue (including both sales to external customers and intersegment sales or transfers) is 10% or more of the combined revenue (internal and external) of all operating segments.
 - b) The absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of
 - i) the combined reported profit of all operating segments that did not report a loss and
 - ii) the combined reported loss of all operating segments that reported a loss.
 - c) Its assets are 10% or more of the combined assets of all operating segments.

Quantitative
Thresholds

Disclosure

- To give effect to the core principle, an entity shall disclose the following for each period for which an income statement is presented:
 - a) general information as described in HKFRS 8;
 - b) information about
 - reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss,
 - segment assets, and
 - the basis of measurement; and
 - c) reconciliations of the totals of
 - segment revenues,
 - reported segment profit or loss,
 - segment assets, and
 - other material segment itemsto corresponding entity amounts.



General
Information

Other Information

Reconciliations

Disclosure – Reconciliations

- Reconciliations of balance sheet amounts for reportable segments
 - to the entity's balance sheet amounts are required for each date at which a balance sheet is presented.
- Previously reported information for prior periods shall be restated.



Reconciliations

Disclosure – Other Information

- An entity shall report a measure of profit or loss and total assets for each reportable segment.
- An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.

Other Information



Measurement

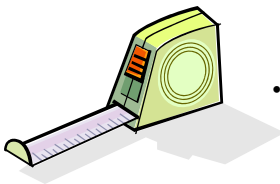
- The amount of each segment item reported shall be the measure reported to the chief operating decision maker
 - for the purposes of making decisions about allocating resources to the segment and assessing its performance.



- Compared with HKAS 14,
 - HKAS 14 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
 - HKAS 14 defines segment revenue, segment expense, segment result, segment assets and segment liabilities
 - HKFRS 8 does not define these terms but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

Measurement

- Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if
 - they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker.
- Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment.
- If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.



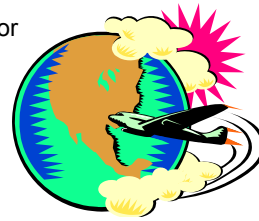
Entity-Wide Disclosures

- All entities subject to HKFRS 8, including those that have a single reportable segment, are also required to have certain entity-wide disclosures, including:
 - the revenues from external customers for each product and service, or each group of similar products and services
 - certain geographical information
 - information about the extent of its reliance on its major customers.

Products and Services

Geographical Areas

Major Customers



Transition and Effective Date

- An entity shall apply HKFRS 8 in its annual financial statements for periods beginning on or after 1 January 2009.
- Earlier application is permitted.
- If an entity applies this HKFRS in its financial statements for a period before 1 January 2009, it shall disclose that fact.
- Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this HKFRS, unless
 - the necessary information is not available and
 - the cost to develop it would be excessive.



Presentation of Financial Statements

(HKAS 1 Revised in 2007)



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Summary of Changes

- A complete set of financial statements comprises:
 - a statement of financial position as at the end of the period;
 - a statement of comprehensive income for the period;
 - a statement of changes in equity for the period;
 - a statement of cash flows for the period;
 - notes, comprising a summary of significant accounting policies and other explanatory information; and
 - a statement of financial position as at the beginning of the earliest comparative period
 - when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
 - when it reclassifies items in its financial statements.
- An entity may use titles for the statements other than those used in HKAS 1. (HKAS 1.10)

Previously, we call it "Balance Sheet"

Previously, we call it "Income Statement"

3 years' "balance sheets"

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Summary of Changes

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財務狀況表

全面收益表

Summary of Changes

Complete Set of Financial Statements

		Previous title or changes
Statement of Financial Position as at the end of the period		Previous title: "Balance Sheet"
To use a single statement to present all items of income and expense	To use two statements to present all items of income and expense	
Statement of Comprehensive Income for the period	Income Statement for the period	No title change
	Statement of Comprehensive Income for the period	New statement
Statement of Changes in Equity for the period		No title change (but restructured)
Statement of Cash Flows for the period		Previous title: "Cash Flow Statement"
Notes		No title change
A statement of financial position as at the beginning of the earliest comparative period, if required		New requirement

Statement of Comprehensive Inc.

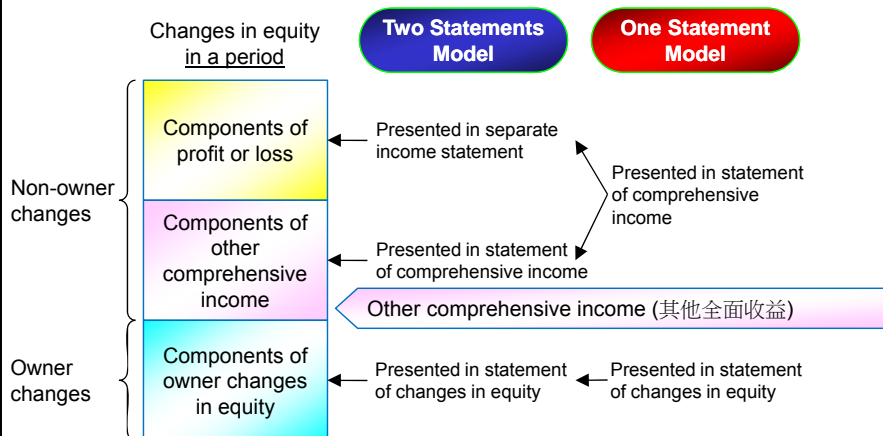
- Statement of comprehensive income can be further divided into 2 statements
- An entity shall present all items of income and expense recognised in a period:
 - a) in a single statement of comprehensive income, or
 - b) in two statements:
 - a statement displaying components of profit or loss (*separate income statement*) and
 - a second statement beginning with profit or loss and displaying components of other comprehensive income (*statement of comprehensive income*). (HKAS 1.81)

One Statement Model

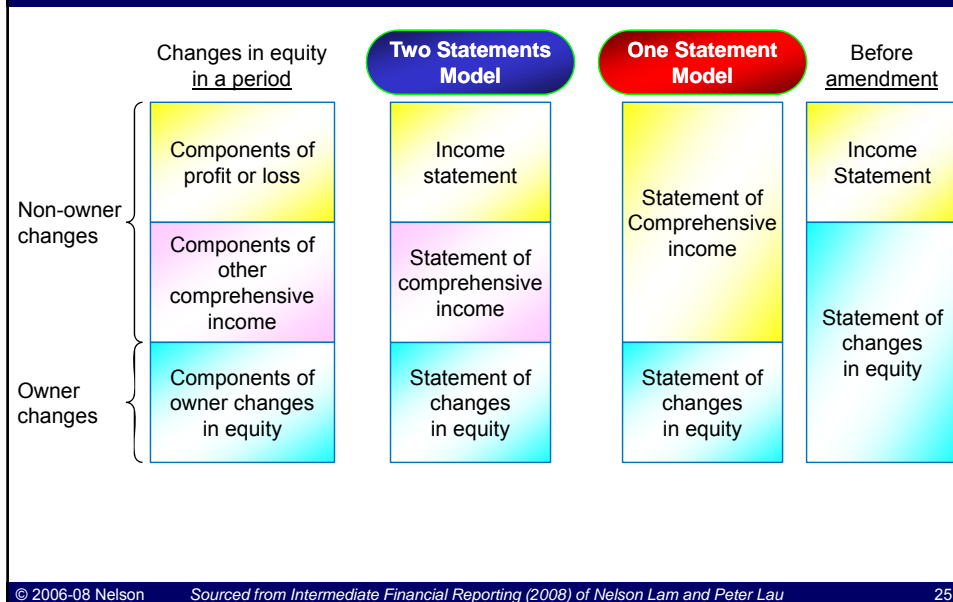
Two Statements Model

Comprehensive income concept used in US since 90s

Statement of Comprehensive Inc.



Statement of Comprehensive Inc.



Statement of Comprehensive Inc.

Components of profit or loss

- Profit or loss
 - is the total of income less expenses, excluding the components of other comprehensive income.
 - All items of income and expense are recognised in a period in profit or loss unless an IFRS requires or permits otherwise.
- Minimum line items to be disclosed in the statement of comprehensive income in respect of the component of profit or loss include:
 1. revenue
 2. finance costs
 3. share of the profit or loss of associates and joint ventures accounted for using the equity method
 4. tax expenses
 5. profit or loss

Statement of Comprehensive Inc.

Components of
other
comprehensive
income

- Other comprehensive income
 - Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.
 - their components classified by nature to be reported in the statement of comprehensive income and to be presented either:
 1. net of related tax effects, or
 2. before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.
 - the amount of income tax relating to each component, including reclassification adjustments, either
 1. in the statement of comprehensive income or
 2. in the notes.

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Sourced from *Intermediate Financial Reporting (2008)* of Nelson Lam and Peter Lau

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Statement of Comprehensive Inc.

Components of
other
comprehensive
income

- Other comprehensive income also comprises “reclassification adjustments”.
 - Reclassification adjustments are defined as:
 - amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.
 - An entity is required to disclose reclassification adjustments relating to components of other comprehensive income either:
 - in the statement of comprehensive income, or
 - in the notes (then presents the components of other comprehensive income after any related reclassification adjustments in the statement of comprehensive income)

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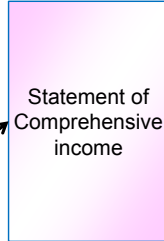
Sourced from *Intermediate Financial Reporting (2008)* of Nelson Lam and Peter Lau

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Statement of Comprehensive Inc.

- In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include some line items that present the amounts for the period
- For example, the following amounts should be presented:
 1. revenue
 2. finance costs
 3. profit or loss
 4. each component of other comprehensive income classified by nature
 5. total comprehensive income

One Statement Model

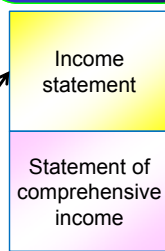


Statement of Comprehensive Inc.

Under the Two-Statement Approach, these items are presented in the separate income statement.

1. revenue
2. finance costs
3. profit or loss
4. each component of other comprehensive income classified by nature
5. total comprehensive income

Two Statements Model



Under the Two-Statement Approach, these items are presented in the statement of comprehensive income.

Statement of Comprehensive Inc.

- HKAS 1 requires an entity to disclose in the statement of comprehensive income:
 - each component of other comprehensive income classified by nature
 - share of the other comprehensive income of associates and joint ventures accounted for using the equity method
 - total comprehensive income (全面收益總額).

Statement of
Comprehensive
income



Statement of Comprehensive Inc.

Example

Statement of comprehensive statement (under Two-Statement Approach)

	<u>2007</u>	<u>2006</u>
Profit for the year	\$ <u>121,250</u>	\$ <u>65,500</u>
Other comprehensive income:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to components of other comprehensive income	<u>4,667</u>	<u>(9,334)</u>
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
Total comprehensive income for the year	<u>107,250</u>	<u>93,500</u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Minority interest	<u>21,450</u>	<u>18,700</u>
	<u>107,250</u>	<u>93,500</u>

Consolidated Financial Statements

(HKAS 27 Revised in 2008)



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HKAS 27 (Revised in 2008)

- Scope and definitions
- Presentation of consolidated financial statements
- Scope of consolidated financial statements
- Consolidation procedures
- Loss of control
- Accounting in separate financial statements

Significant changes

New section



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Presentation of Consol. Fin. State.

- A parent, other than a parent described below, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.
- A parent need not present consolidated financial statements if and only if:
 - a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
 - b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
 - d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

Scope of Consol. Fin. State.

- Consolidated financial statements shall include all subsidiaries of the parent.
- Potential voting rights are also counted in assessing whether there is any control on an entity.



Consolidation Procedures

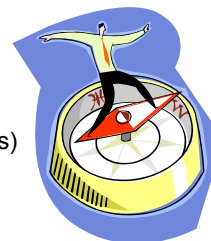
- Consolidation procedures are similar to previous standard, but
- Minority interests renamed as “non-controlling interests”, which
 - shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.
- Profit or loss and each component of other comprehensive income are attributed
 - to the owners of the parent and
 - to the non-controlling interests.
- Total comprehensive income is attributed
 - to the owners of the parent and
 - to the non-controlling interests

even if this results in the non-controlling interests having a deficit balance.



Consolidation Procedures

- Most critical
- Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control
 - are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners)
 - i.e. no gain or loss on disposal of interests in subsidiary can be recognised in profit or loss if the subsidiary is still a subsidiary.



- In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.
- Any difference between
 - the amount by which the non-controlling interests are adjusted and
 - the fair value of the consideration paid or receivedshall be recognised directly in equity and attributed to the owners of the parent.

Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
 - If a parent loses control of a subsidiary, it:
 - a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
 - b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);
 - c) recognises:
 - i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
 - ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
 - If a parent loses control of a subsidiary, it:
 - d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
 - e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other HKFRSs, the amounts identified in HKAS 27.35 (discussed in next slide); and
 - f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.



Loss of Control

- If a parent loses control of a subsidiary,
 - the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.
- Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities,
 - the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.



Loss of Control

Example

A parent loses control of a subsidiary and the subsidiary has the following assets:

- The subsidiary has available-for-sale financial assets
- The subsidiary has property, plant and equipment with revaluation surplus previously recognised in other comprehensive income

The parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets.

The parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary

- since the revaluation surplus would be transferred directly to retained earnings on the disposal of the asset

Loss of Control

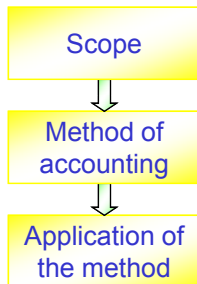
- On the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other HKFRSs from the date when control is lost.
- The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with
 - HKAS 39 *Financial Instruments: Recognition and Measurement* or,
 - when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business Combinations

(HKFRS 3 Revised in 2008)



Introduction



- The objective of HKFRS 3 (revised 2008) is
 - to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
- To accomplish that, HKFRS 3 establishes principles and requirements for how the acquirer:
 - a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
 - b) recognises and measures
 - the goodwill acquired in the business combination or
 - a gain from a bargain purchase; and What is it?
 - c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Scope



AG 5 is still applicable

- HKFRS 3 applies to a transaction or other event that meets the definition of a business combination.
- HKFRS 3 does not apply to:
 - a) the formation of a joint venture.
 - b) the acquisition of an asset or a group of assets that does not constitute a business.
 - Brief requirements set out for such acquisition and it does not give rise to goodwill
 - c) a combination of entities or businesses under common control.

Identifying a Business Combin.

Scope

- An entity shall determine whether a transaction or other event is a business combination by applying the definition in HKFRS 3,
 - which requires that the assets acquired and liabilities assumed constitute a business.
- If the assets acquired are not a business,
 - the reporting entity shall account for the transaction or other event as an asset acquisition. (HKFRS 3.3)
- HKFRS 3.B5–B12 provide guidance on identifying a business combination and the definition of a business.

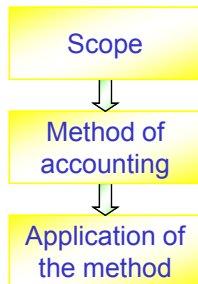
Scope

Scope

- An entity shall determine whether a transaction or other event is a business combination by applying the definition in HKFRS 3,
 - which requires that the assets acquired and liabilities assumed constitute a business. (HKFRS 3.3)

- Business is defined as:
 - an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
- Business combination is defined as
 - a transaction or other event in which an acquirer obtains control of one or more businesses.
 - Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in HKFRS 3.

The Acquisition Method



- An entity shall account for each business combination by applying **the acquisition method**. (HKFRS 3.4)
- Applying the acquisition method requires:
 - a) identifying the acquirer; Guidance in HKAS 27
 - b) determining the acquisition date; Date of control obtained
 - c) recognising and measuring
 - the identifiable assets acquired,
 - the liabilities assumed and
 - any non-controlling interest in the acquiree; and
 - d) recognising and measuring
 - goodwill or
 - a gain from a bargain purchase. (HKFRS 3.5)

The Acquisition Method

• Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- The acquirer shall **measure** the identifiable assets acquired and the liabilities assumed
 - at their **acquisition-date fair values**. Affect acquisition in stages
(HKFRS 3.18)
- For each business combination, the acquirer shall **measure** any non-controlling interest in the acquiree either
 - at fair value or New alternative (“full goodwill method”)
 - at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. (HKFRS 3.19) Existing practice

The Acquisition Method

Critical Amendment

- Recognising and measuring goodwill or a gain from a bargain purchase

- The acquirer shall **recognise goodwill** as of the acquisition date measured as the excess of (a) over (b) below:
 - a) the aggregate of:
 - i) the consideration transferred measured in accordance with HKFRS 3, which generally requires acquisition-date fair value;
 - ii) the amount of any non-controlling interest in the acquiree measured in accordance with HKFRS 3; and
 - iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
 - b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with HKFRS 3. (HKFRS 3. 32)

Application of the method

If fair value is adopted, it will affect the amount of goodwill

Practices changed

The Acquisition Method

- Additional guidance
 - Amended practices on business combination achieved in stages

- In a business combination achieved in stages, the acquirer shall
 - remeasure its previously held equity interest in the acquiree **at its acquisition-date fair value** and
 - recognise the resulting gain or loss, if any, in profit or loss. (HKFRS 3.42)



The Acquisition Method

- Additional guidance
 - Amended practices on business combination achieved in stages
- In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale).
 - If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest. (HKFRS 3.42)
 - In other words, “the amount recognised directly in other comprehensive income is reclassified and included in the calculation of the gain or loss recognised in profit or loss”. (KPMG-UK, 2008.01)

The Acquisition Method

Example

<u>On 1.1.2010</u>	<u>Parent P</u>	<u>Sub S</u>
Property	\$ 0	\$ 6,000
Investment	0	0
Cash at bank	<u>30,000</u>	<u>2,000</u>
	<u>30,000</u>	<u>8,000</u>
Issued equity	\$ (30,000)	\$ (5,000)
Retained earnings	<u>0</u>	<u>(3,000)</u>
	<u>(30,000)</u>	<u>(8,000)</u>

On 1.1.2010

- Parent P acquired 20% interest in Subsidiary S at \$3,500 by cash.
- Fair value of the property of S was \$8,000.

During 2010

- Parent P reported nil profit and profit of S was HK\$6,000 (became cash).
- Fair value of S is HK\$30,000 at year-end.
- P accounted for S as held for trading.

On 1.1.2011

- P acquired additional 60% interest in S at \$22,000 by cash.
- Fair value of the property of S was \$11,000.

The Acquisition Method

Example

- Firstly, the acquirer (i.e. P) shall
 - remeasure its previously held equity interest in the acquiree (i.e. S) at its acquisition-date fair value and
 - recognise the resulting gain or loss, if any, in profit or loss.
- On 1.1.2011, P acquired additional 60% interest in S at \$22,000 by cash
 - It implies that previously held equity interest of 20% (acquired on 1.1.2010) should have a fair value of \$7,333 ($\$22,000 \div 60\% \times 20\%$)
 - The resulting gain should be recognised in profit or loss as follows:

	Dr(\$)	Cr(\$)
Dr Investment (\$7,333 – \$6,000)	1,333	
Cr Profit or loss		1,333
To remeasure the previously held 20% in S at acquisition-date fair value		

The Acquisition Method

You would miss this

Example

	1 st Transaction	2 nd Transaction	
	<u>1.1.2010</u>	<u>1.1.2011</u>	<u>Total</u>
Cost of combinations (or investments)	<u>3,500</u>	<u>22,000</u>	25,500
Fair value information			
Property, at fair value	8,000	11,000	
Cash	2,000	2,000	
Cash (profit for the year)	<u>0</u>	<u>6,000</u>	
	10,000	19,000	
Ownership interest	<u>20%</u>	<u>60%</u>	80%
Share of fair value	<u>2,000</u>	<u>11,400</u>	
Goodwill	<u>1,500</u>	<u>10,600</u>	12,100

The Acquisition Method

Example

The calculation approach would be revised as

	NCI at old approach	NCI at fair value
	<u>New 1</u>	<u>New 2</u>
1. Consideration transferred	22,000	22,000
2. Non-controlling interest (NCI)	(\$19K x 20%) 3,800	(\$22K + 60% x 20%) 7,333
3. Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree	<u>7,333</u>	<u>7,333</u>
	<u>33,133</u>	<u>36,666</u>
Less: Acquisition-date amount of net identifiable assets		
Property, at fair value	11,000	11,000
Cash	2,000	2,000
Cash (profit for the year)	<u>6,000</u>	<u>6,000</u>
	<u>19,000</u>	<u>19,000</u>
Goodwill	<u>14,133</u>	<u>17,666</u>

The Acquisition Method

Example

Consolidation journals (for NCI at old approach):

	Dr(\$)	Cr(\$)
Dr Property – fair value adjustment (\$11,000 - \$6,000)	5,000	
Issued equity – subsidiary (given)	5,000	
Retained earnings – subsidiary (given)	9,000	
Goodwill (as calculated in last slide)	14,133	
Cr Investment (\$7,333 + \$22,000)		29,333
Non-controlling interest (\$19,000 x 20%)		3,800
To recognise the goodwill and eliminate the investments with the equity shares		

The Acquisition Method

Example

Consolidation journals (for NCI at fair value):

	Dr(\$)	Cr(\$)
Dr Property – fair value adjustment (\$11,000 - \$6,000)	5,000	
Issued equity – subsidiary (given)	5,000	
Retained earnings – subsidiary (given)	9,000	
Goodwill (as calculated in last slide)	17,666	
Cr Investment (\$7,333 + \$22,000)		29,333
Non-controlling interest (\$22,000 ÷ 60% x 20%)		7,333

To recognise the goodwill and eliminate the investments with the equity shares

The Acquisition Method

Example

<u>On 1.1.2011</u>	<u>Parent P</u>	<u>Sub S</u>	<u>Old</u>	<u>New 1</u>	<u>New 2</u>
Property	\$ 0	\$ 6,000	\$ 11,000	\$ 11,000	\$ 11,000
Goodwill	0	0	12,100	14,133	17,666
Investment	28,000	0	0	0	0
Cash at bank	<u>4,500</u>	<u>8,000</u>	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>
	<u>32,500</u>	<u>14,000</u>	<u>35,600</u>	<u>37,633</u>	<u>41,166</u>
Issued equity	\$ (30,000)	\$ (5,000)	\$(30,000)	\$(30,000)	\$(30,000)
Retained earnings	(2,500)	(9,000)	(1,200)	(3,833)	(3,833)
Revaluation reserves	0	0	(600)	0	0
Minority interest	<u>0</u>	<u>0</u>	<u>(3,800)</u>	<u>(3,800)</u>	<u>(7,333)</u>
Non-controlling interests	<u>(32,500)</u>	<u>(14,000)</u>	<u>(35,600)</u>	<u>(37,633)</u>	<u>(41,166)</u>

The Acquisition Method

• Measurement Period

Application of the method

- If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs,
 - the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.
- During the measurement period,
 - the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

The Acquisition Method

• Measurement Period

- During the measurement period, the acquirer shall also recognise additional assets or liabilities
 - if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.
- The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.
- However, the measurement period shall not exceed one year from the acquisition date. (HKFRS 3.45)

The Acquisition Method

- Determining what is part of the business combination transaction

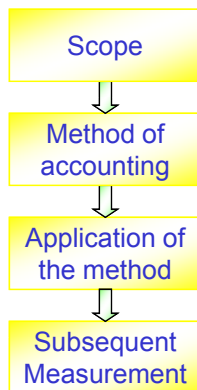
- The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began, or they may enter into an arrangement during the negotiations that is separate from the business combination.
- In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination, ie amounts that are not part of the exchange for the acquiree.
- The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree.
- Separate transactions shall be accounted for in accordance with the relevant HKFRSs. (HKFRS 3.51)

The Acquisition Method

- Acquisition-related costs

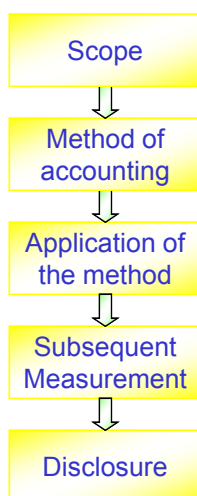
- Acquisition-related costs are costs the acquirer incurs to effect a business combination.
 - Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities.
- The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception.
- The costs to issue debt or equity securities shall be recognised in accordance with HKAS 32 and HKAS 39.

Subsequent Measurement and Acc.



- In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable HKFRSs for those items, depending on their nature.
- However, HKFRS 3 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:
 - a) reacquired rights;
 - b) contingent liabilities recognised as of the acquisition date;
 - c) indemnification assets; and
 - d) contingent consideration. (HKFRS 3.54)

Disclosure



- The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:
 - a) during the current reporting period; or
 - b) after the end of the reporting period but before the financial statements are authorised for issue.
 - HKFRS 3.B64 to B66 have further disclosure requirements
- The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.
 - HKFRS 3.B67 has further disclosure requirements

Effective Date

- HKFRS 3 (revised 2008) shall be applied prospectively to
 - business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- Earlier application is permitted.
 - However, HKFRS 3 shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007.
 - If an entity applies HKFRS 3 before 1 July 2009, it shall
 - disclose that fact and
 - apply HKAS 27 (as amended in 2008) at the same time.



Today's Agenda



Operating Segment
(IFRS/HKFRS 8)

Presentation of Financial Statements
(IAS/HKAS 1)

Consolidated and Separate Financial
Statements (IAS/HKAS 27)

Business Combinations
(IFRS/HKFRS 3)

Forthcoming Change in 2008 – 2009

- **Exposure Drafts finalised by IASB in 2008**
 - Financial Instruments: Puttable Instruments (IAS 32)
- **Exposure Drafts to be finalised in 2008**
(per IASB Work Plan – Project Timetable)
 - Related Party Disclosures (IAS 24)
 - Joint Ventures (IAS 31)
 - IFRS for SMEs
 - Earnings per Share: Treasury Stock Method (IAS 33)
 - Annual Improvement (first annual project)



Proposed 41 separate amendments affecting 25 different IFRSs

Update on HKFRS (or IFRS)

26 August 2008

Full set of slides in PDF can be found in
www.NelsonCPA.com.hk



Nelson Lam 林智遠
nelson@nelsoncpa.com.hk
www.nelsoncpa.com.hk

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26 August 2008

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Nelson Lam 林智遠
nelson@nelsoncpa.com.hk
www.nelsoncpa.com.hk

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