

Financial Reporting Update for 2010/11

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Effective for 2010 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

Effective for periods beginning on/after

• HKFRS 1 (Revised) <i>First-time Adoption of HKFRS</i>	➤ 1 Jul. 2009	
• Amendments to HKFRS 1 <i>Additional Exemptions for First-time Adopters</i>	➤ 1 Jan. 2010	
• Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>	➤ 1 Jan. 2010	
• HKAS 27 (Revised) <i>Consolidated and Separate Financial Statements</i>	➤ 1 Jul. 2009	◻
• HKFRS 3 (Revised) <i>Business Combination</i>	➤ 1 Jul. 2009	◻
• Amendments to HKAS 39 <i>Eligible Hedged Items</i>	➤ 1 Jul. 2009	
• HK(IFRIC) 17 <i>Distributions of Non-cash Assets to Owners</i>	➤ 1 Jul. 2009	
• HK(IFRIC) 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	➤ 1 Jul. 2010	
• Annual Improvements to HKFRSs 2009	➤ 1 Jan. 2010 & e	■
• Amendments to HK Interpretation 4 <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>	➤ Not specified	
• HK Interpretation 5 <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>	➤ Immediate effect	■
• HKFRS for Private Entities (or IFRS for SME)	➤ Effective upon is	■

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Updated to HKICPA Update No. 105 of 31 Mar. 2011 2.

Effective for 2011 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- | | |
|--|--|
| <ul style="list-style-type: none"> • Amendments to HKAS 32 <i>Classification of Rights Issues</i> • HKAS 24(Revised) <i>Related Party Disclosures</i> • Amendments to HK(IFRIC) 14 <i>HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> • Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> • Annual Improvements to HKFRSs 2010 | <ul style="list-style-type: none"> ➤ 1 Feb. 2010 ➤ 1 Jan. 2011 ➤ 1 Jan. 2011 ➤ 1 Jul. 2010 ➤ 1 Jan. 2011
(unless specified) |
|--|--|

Effective for periods beginning on/after

- AB 4 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*

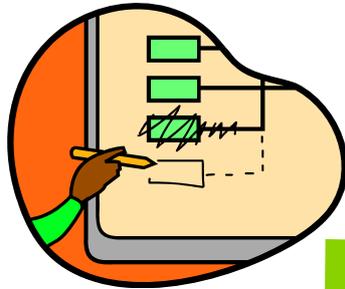
Effective after 2011 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- | | |
|---|--|
| <ul style="list-style-type: none"> • Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> • Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards—Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> • Amendments of HKAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i> • HKFRS 9 <i>Financial Instruments</i>
(with additions of financial liabilities in 2010) | <ul style="list-style-type: none"> ➤ 1 Jul. 2011 ➤ 1 Jul. 2011 ➤ 1 Jan. 2012 ➤ 1 Jan. 2013 |
|---|--|

Effective for periods beginning on/after

Improvements to HKFRSs 2009



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Introduction

- Annual Improvement Project
 - A vehicle for making non-urgent but necessary amendments to IFRS (and consequentially HKFRSs)
 - Introduced by the IASB in 2007 and issued each year
 - Improvement to HKFRSs 2009 is the one finalised in 2009
- The project has amended
 - 10 HKFRSs and 2 HK(IFRIC) Interpretations



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Summary

Amendments to

- HKFRS 2 Share-based Payment
- HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- HKFRS 8 Operating Segments
- HKAS 1 Presentation of Financial Statements
- HKAS 7 Statement of Cash Flows
- HKAS 17 Leases
- HKAS 18 Revenue
- HKAS 36 Impairment of Assets
- HKAS 38 Intangible Assets
- HKAS 39 Financial Instruments: Recognition and Measurement
- HK(IFRIC) 9 Reassessment of Embedded Derivatives
- HK(IFRIC) 16 Hedges of a Net Investment in a Foreign Operation

Amendments to HKAS 1



HKAS 1 Presentation of Financial Statements

- An entity shall classify a liability as **current** when:
 - a) it expects to settle the liability in its normal operating cycle;
 - b) it hold the liability primarily for the purpose of trading;
 - c) The liability is due to be settled within 12 months after the reporting period; or
 - d) It **does not have an unconditional right to** defer settlement of the liability for at least 12 months after the reporting period (see HKAS 1.73).

Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

New requirements

- All other liabilities shall be classified as **non-current**.

Amendments to HKAS 17

Do you remember these 2 paragraphs in HKAS 17?

HKAS 17 Leases

- Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments
- The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease
- When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with para. 14. The buildings element is classified as a finance or operating lease in accordance with para. 7–13.

Amendments to HKAS 17

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- As part of its annual improvements project in 2007, the IASB reconsidered the decisions it made in 2003, specifically the perceived inconsistency between
- the general lease classification guidance in IAS 17.7–13 and
 - the specific lease classification guidance in IAS 17.14 and 15 related to long-term leases of land and buildings.
- The IASB concluded that the guidance in IAS 17.14 and 15 might lead to a conclusion on the classification of land leases that does not reflect the substance of the transaction.

Amendments to HKAS 17

HKAS 17 Leases

- HKAS 17.14 and 15 are deleted and HKAS 17.15A is added as follows:
 - When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with HKAS 17.7–13.
 - In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

Amendments to HKAS 17

Example

- HKAS 17.BC8B and BC8C states that:
 - For example, consider a 999-year lease of land and buildings.
 - In this situation, significant risks and rewards associated with the land during the lease term would have been transferred to the lessee despite there being no transfer of title.
 - The Board noted that the lessee in leases of this type will typically be in a position economically similar to an entity that purchased the land and buildings.
 - The present value of the residual value of the property in a lease with a term of several decades would be negligible.
 - The Board concluded that the accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee.

Unclear how long the lease term must be for the IASB to conclude that a lessee and a purchaser are in the same economic position

Amendments to HKAS 17

Case



Financial Statements 2009

- Note 2 states (for early adoption of Amendment to HKAS 17 in 2009):
 - The early adoption of the amendment to HKAS 17 has resulted in a change in accounting policy for the classification of leasehold land of the Group.
 - Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation.
 - In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group.
 - As the present value of the minimum lease payments (ie, the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold,
 - the leasehold land of the Group has been classified as a finance lease.
 - The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases. The amendment does not apply to the leasehold land disposed of by the Group in prior years.

Amendments to HKAS 17

Case



Financial Statements 2010

- Note 2 states “Amendments to HKAS 17 Leases” as follows:
 - As part of Improvements to HKFRSs issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land The amendments to HKAS 17 require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not risks and rewards incidental to ownership of a leased asset have been transferred substantially to the lessee.
 - In accordance with the transitional provisions the Group reassessed the classification of unexpired leasehold land as at 1 Jan. 2010 based on information that existed at the inception of these leases.
 - Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant and equipment and has been measured using the revaluation model on a retrospective basis.
 - The application of the amendments has had no significant financial impact to the Group’s consolidated income statements for the current and prior periods.

Amendments to HKAS 17

Case



Financial Statements 2010

- Note 2 states:
 - HKAS 17 (amendment), “Leases”, deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification.
 - As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards of ownership of an asset to the lessee.
 - Prior to the amendment, land has been classified as under an operating lease when the title to that land is not expected to pass to the Group at the end of the lease term.

Amendments to HKAS 17

Case



Financial Statements 2010

- Note 2 states:
 - The Group has reassessed the classification of leases of land as at 1 January 2010.
 - As a result of the reassessment, the Group has reclassified certain leasehold land in Hong Kong from under operating lease to finance lease.
 - As the leasehold land is held for own use, it is classified as fixed assets on the statement of financial position and is depreciated over the unexpired term of the lease.

Amendments to HKAS 17

Case



Financial Statements 2010

- Note 2 states:
 - HKAS 17 (amendment) has been applied retrospectively with comparatives restated. The effect of the resulting changes on the consolidated statement of financial position is summarised below. There are no effects on the consolidated income statement and the consolidated statement of comprehensive income.

	At 31 December 2010 HK\$M	At 31 December 2009 HK\$M	At 1 January 2009 HK\$M
Increase in fixed assets	412	494	543
Decrease in leasehold land and land use rights under operating leases	(412)	(494)	(543)
Change in net assets	–	–	–

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Amendments to HKAS 18

HKAS 18 Revenue

- Appendix to HKAS 18 is added with Example 21: Determining whether an entity is acting as a principal or as an agent (2009 amendment).
- HKAS 18.8 states that:
 - “in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity.
 - The amounts collected on behalf of the principal are not revenue.
 - Instead, revenue is the amount of commission.”
- Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

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Amendments to HKAS 18

HKAS 18 Revenue

- An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.
- Features that indicate that an entity is acting as a principal include:
 - a. the entity has the primary responsibility
 - for providing the goods or services to the customer or
 - for fulfilling the order,
for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
 - b. the entity has inventory risk before or after the customer order, during shipping or on return;
 - c. the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
 - d. the entity bears the customer's credit risk for the amount receivable from the customer.

Amendments to HKAS 18

HKAS 18 Revenue

- An entity is acting as an agent when
 - it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.
- One feature indicating that an entity is acting as an agent is that
 - the amount the entity earns is predetermined, being either
 - a fixed fee per transaction or
 - a stated percentage of the amount billed to the customer.

As it is an additional example,
no transition and effective
date are stated.

Presentation of Financial Statements – Classification of Loan (HK Interpretation 5)



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HK Interpretation 5



HKAS 1.69 states that:

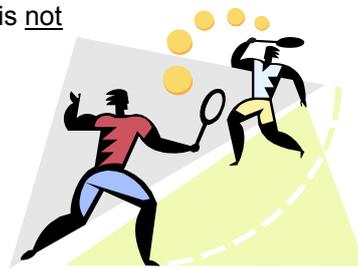
- An entity shall classify a liability as **current** when:
 - a) it expects to settle the liability in its normal operating cycle;
 - b) it holds the liability primarily for the purpose of trading;
 - c) The liability is due to be settled within 12 months after the reporting period; or
 - d) It **does not have an unconditional right to** defer settlement of the liability for at least 12 months after the reporting period (see HKAS 1.73).
 - Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
- All other liabilities shall be classified as **non-current**.

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HK Interpretation 5

- The classification of a term loan as a current or non-current liability in accordance with HKAS 1.69(d)
 - shall be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the reporting date.
 - In this regard, the probability of the lender choosing to exercise its rights within the next twelve months after the reporting date is not relevant.



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HK Interpretation 5

- The classification of a term loan in accordance with HKAS 1.69(d)
 - (instead) shall depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting period.
 - Consequently, amounts repayable under a loan agreement which **includes a clause that gives the lender the unconditional right to call the loan at any time** shall be classified by the borrower as **current** in its statement of financial position.
 - This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.



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HK Interpretation 5

- Similarly, in the contractual maturity analysis disclosed by the borrower in accordance with HKFRS 7.39(a) , amounts repayable under a loan agreement that includes a clause that gives the lender the unconditional right to call the loan at any time
 - shall be classified in the earliest time bracket, in accordance with the guidance in HKFRS 7.B11C(a).



HK Interpretation 5

Effective Date

- HK Interpretation 5 is a clarification of an existing standard and shall have immediate effect.

Transition

- Where the initial application of this Interpretation constitutes a change in accounting policy,
 - it should be accounted for retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.



HK Interpretation 5

Example

- HKICPA issued a set of Illustrative disclosures in respect of HK Interpretation 5 in Jan. 2011, including
 - Illustrative wordings on changes in accounting policies, maturity analysis under HKFRS 7 and other, for example:

Effect of adoption of Hong Kong Interpretation 5 on the statement of financial position

	At 31 December 2010	At 31 December 2009	At 1 January 2009
	\$'000	\$'000	\$'000
Increase/(decrease) in			
Current liabilities			
Bank borrowings	3,500	4,000	5,000
Non-current liabilities			
Bank borrowings	(3,500)	(4,000)	(5,000)

HKFRS for Private Entities



Introduction



- In July 2009, the IASB issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

- HKICPA considers that IFRS for SMEs should be adopted in Hong Kong as a reporting option for eligible private entities.
- Then, in April 2010, **HKFRS for Private Entities** is issued with certain amendments to suit Hong Kong's circumstances



Introduction

- Compared with IFRS for SMEs, HKFRS for Private Entities has the following differences:
 - a. Replacing the term "SMEs" in IFRS for SMEs by "Private Entities";
 - b. Replacing the recognition and measurement principles in section 29 Income Tax of the IFRS for SMEs with the extant version of HKAS 12 *Income Taxes*; and
 - c. The measurement of deferred tax liabilities associated with an investment property measured at fair value is capped at the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period. (PE.P13)



Introduction

Effective Upon Issue



- HKFRS for Private Entities contains
 - Preface
 - 35 individual sections
 - A set of glossary
 - A derivation table
 - A basis of conclusions
 - A set of illustrative financial statements and presentation and disclosure checklist
- HKFRS for Private Entities is a financial reporting option (PE.P16)
 - That implies
 - All HK incorporated entities can still choose to use full HKFRSs
 - An entity qualified under both SME-FRS and HKFRS for Private Entities can still choose SME-FRS

Summary of HKFRS for PE

35 sections in HKFRS for PE

Equivalent HKFRS

1 Private Entities	⇐ No
2 Concepts and Pervasive Principles	⇐ HKAS 1
3 Financial Statement Presentation	⇐ HKAS 1
4 Statement of Financial Position	⇐ HKAS 1
5 Statement of Comprehensive Income & Income Statement	⇐ HKAS 1
6 Statement of Changes in Equity and Statement of Income and Retained Earnings	⇐ HKAS 1
7 Statement of Cash Flows	⇐ HKAS 7
8 Notes to the Financial Statements	⇐ HKAS 1
9 Consolidated and Separate Financial Statements	⇐ HKAS 27
10 Accounting Policies, Estimates and Errors	⇐ HKAS 8
11 Basic Financial Instruments	⇐) HKAS 32 & 39
12 Other Financial Instruments Issues) HKFRS 7 & 9
13 Inventories	⇐ HKAS 2
14 Investments in Associates	⇐ HKAS 28
15 Investments in Joint Ventures	⇐ HKAS 31
16 Investment Property	⇐ HKAS 40
17 Property, Plant and Equipment	⇐ HKAS 16

Summary of HKFRS for PE

<u>35 sections in HKFRS for PE</u>	<u>Equivalent HKFRS</u>
18 Intangible Assets Other Than Goodwill	⇐ HKAS 38
19 Business Combinations and Goodwill	⇐ HKFRS 3
20 Leases	⇐ HKAS 17
21 Provisions and Contingencies	⇐ HKAS 37
22 Liabilities and Equity	⇐ HKAS 32 & etc
23 Revenue	⇐ HKAS 18
24 Government Grants	⇐ HKAS 20
25 Borrowing Costs	⇐ HKAS 23
26 Share-Based Payment	⇐ HKFRS 2
27 Impairment of Assets	⇐ HKAS 36
28 Employee Benefits	⇐ HKAS 19
29 Income Tax	⇐ HKAS 12
30 Foreign Currency Translation	⇐ HKAS 21
31 Hyperinflation	⇐ HKAS 29
32 Events after the End of the Reporting Period	⇐ HKAS 10
33 Related Party Disclosures	⇐ HKAS 24
34 Specialised Activities	⇐ Various
35 Transition to the HKFRS for Private Entities	⇐ HKFRS 1

Section 1: Private Entities

- Private entities are entities that:
 - do not have **public accountability**, and
 - publish general purpose financial statements for **external users**. (PE 1.2)

**Public
Accountability**

External Users

An entity has **public accountability** if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
 - This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Section 1: Private Entities

- HKFRS for PE
 - Does not have “size test”
 - Does not require shareholders’ approval
 - Does not restrict HK incorporated entities to those selected Section 141D of the Companies Ordinance
- In consequence, the following entities meeting the definition of “private entity” may still elect to use HKFRS for PE:
 1. A HK incorporate entity cannot obtain the shareholders’ approval to adopt section 141D
 2. A HK incorporated parent
 3. A listed entity’s subsidiary
 4. An entity limited by guarantee

**Public
Accountability**

External Users

Section 3: Financial Statement Presentation

- Complete set of financial statements
 - a. A [statement of financial position](#) as at the reporting date
 - b. A [single statement of comprehensive income](#) (or a [separate income statement and a separate statement of comprehensive income](#)) for the reporting period
 - c. A [statement of changes in equity](#) for the reporting period
 - d. A [statement of cash flows](#) for the reporting period
 - e. [Notes](#), comprising a summary of significant accounting policies and other explanatory information (PE 3.17)

HKAS 1 requires but HKFRS for PE does not require

- a statement of financial position as at the beginning of the earliest comparative period (i.e. 3rd year’s balance sheet)
 - a. when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
 - b. when it reclassifies items in its financial statements.

Section 6: Statement of Changes in Equity

- The statement of income and retained earnings
 - presents an entity's
 - profit or loss and
 - changes in retained earnings
 for a reporting period.
 - can be presented in place of a statement of comprehensive income and a statement of changes in equity
 - if the only changes to its equity during the periods for which financial statements are presented arise from
 - profit or loss,
 - payment of dividends,
 - corrections of prior period errors, and
 - changes in accounting policy. (PE 6.2)

No such alternative in HKAS 1

Implies that there are no items recognised in other comprehensive income

Section 6: Statement of Changes in Equity

Example

Consolidated statement of income and retained earnings for the year ended 31 December 20X2

(Alternative 1 – illustrating the classification of expenses by function)

	Notes	20X2 HK\$	20X1 HK\$
Revenue	6	6,863,545	5,808,653
Cost of sales		(5,346,537)	(4,591,375)
Gross profit		1,517,008	1,217,278
Other income	7	388,850	225,000
Distribution costs		(175,550)	(156,800)
Administrative expenses		(824,210)	(659,823)
Other expenses		(106,763)	(100,030)
Finance costs	8	(26,366)	(36,712)
Profit before tax	9	772,969	488,913
Income tax expense	10	(100,290)	(71,875)
Profit for the year		672,679	417,038
Retained earnings at start of year		6,303,540	5,986,502
Dividends	29	(150,000)	(100,000)
Retained earnings at end of year		6,826,219	6,303,540

A sample for HK Co. Ord.

Section 9: Consolidated and Separate Fin. S.

- A parent **need not present** consolidated financial statements **if**:
 - a. **both** of the following conditions are met:
 - (i) the parent is itself a subsidiary, and
 - (ii) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full HKFRSs, IFRSs, HKFRS for PE or the IFRS for SMEs issued by the IASB;
 - or**
 - b. it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. A parent shall account for such a subsidiary:
 - (i) at fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably, or
 - (ii) otherwise at cost less impairment. (PE 9.3)

No such exemption in HKAS 27

Section 9: Consolidated and Separate Fin. S.

- **Combined financial statements**
 - are a single set of financial statements of two or more entities controlled by a single investor.
 - HKFRS for PE does not require combined financial statements to be prepared. (PE 9.28)
- However, if the investor prepares combined financial statements and describes them as conforming to the HKFRS for Private Entities,
 - those statements shall comply with all of the requirements of this HKFRS. (PE 9.29)
- HKFRS for PE 9.29 and 9.30 specifies the requirements and disclosures in combined financial statements

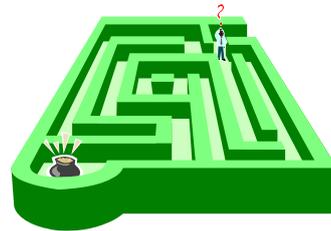
Not covered by HKAS 27



Section 11: Basic Financial Instruments

- Definition of financial instruments are similar to HKAS 32
- To account for all of its financial instruments, an entity shall choose to apply either:
 - a. the provisions of both sections 11 and 12 of HKFRS for PE in full, or
 - b. the recognition and measurement provisions of HKAS 39 and the disclosure requirements of sections 11 and 12 of HKFRS for PE. (PE 11.2)

- No such accounting choice in full HKFRS
- The impact of HKFRS 9 has not been covered in HKFRS for PE



Section 11: Basic Financial Instruments

Basic Financial Instruments

- Section 11 applies to basic financial instruments and is relevant to all entities.

- Section 11 requires an amortised cost model for all basic financial instruments, except for
 - investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares
 - that are publicly traded or
 - whose fair value can otherwise be measured reliably. (PE 11.4)

More Complex Financial Instruments

- Section 12 applies to other, more complex financial instruments and transactions.

Section 11: Basic Financial Instruments

Basic Financial Instruments

- An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11:
 - a. cash
 - b. a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in HKFRS for PE 11.9
 - c. a commitment to receive a loan that:
 - i. cannot be settled net in cash, and
 - ii. when the commitment is executed, is expected to meet the conditions in HKFRS for PE 11.9
 - d. an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares (PE 19.8)

Debt Instrument
Characteristics
(HKFRS for PE 11.9)

Section 11: Basic Financial Instruments

Initial Recognition and Initial Measurement

- Recognise only when the entity becomes a party to the contractual provisions of the instrument. (PE 11.12) ← Similar to HKAS 39
- Initially measure at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss)
 - unless the arrangement constitutes, in effect, a financing transaction. (PE 11.13)

HKAS 39 and HKFRS 9
require "fair value plus
transaction cost"

Fair value is normally the
transaction price,

- unless part of the
consideration given or
received is for
something other than the
financial instrument



Section 11: Basic Financial Instruments

Subsequent Measurement

- At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:
 - a. **Debt instruments** (that meet the conditions in HKFRS for PE) shall be measured at amortised cost using the effective interest method.
 - b. **Commitments to receive a loan** (that meet the conditions in HKFRS for PE) shall be measured at cost (which sometimes is nil) less impairment.
 - c. Investments in **non-convertible preference shares and non-puttable ordinary or preference shares** (that meet the conditions in HKFRS for PE) shall be measured as follows :
 - i. if the shares are publicly traded or their fair value can otherwise be measured reliably, the investment shall be measured at fair value with changes in fair value recognised in profit or loss.
 - ii. all other such investments shall be measured at cost less impairment. (PE 11.14)

Section 11: Basic Financial Instruments

Impairment of those Measured at Cost or Amortised Cost

- At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost.
- If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately. (PE 11.14)
- An entity shall assess the following financial assets individually for impairment:
 - a. all equity instruments regardless of significance, and
 - b. other financial assets that are individually significant.
- An entity shall assess other financial assets for impairment either
 - individually or
 - grouped on the basis of similar credit risk characteristics. (PE 11.24)

HKAS 39 also covers asset at fair value

Section 12: Other Fin. Instruments Issues

Basic Financial Instruments

- Section 11 applies to basic financial instruments and is relevant to all entities.



More Complex Financial Instruments

- Section 12 applies to other, more complex financial instruments and transactions.
 - Same initial recognition criteria as Section 11
 - However, initial measurement at fair value, which is normally the transaction price (PE 12.7)

Section 12: Other Fin. Instruments Issues

More Complex Financial Instruments

Subsequent Measurement

- At the end of each reporting period, an entity shall
 - measure all financial instruments within the scope of Section 12 at fair value and
 - recognise changes in fair value in profit or loss, except the following instruments
- Equity instruments
 - that are not publicly traded and
 - whose fair value cannot otherwise be measured reliably, andContracts linked to such instruments that, if exercised, will result in delivery of such instruments,
 - shall be measured at cost less impairment. (PE 12.8)

Section 12: Other Fin. Instruments Issues

More Complex
Financial Instruments

Impairment

- Only on those financial instruments measured at cost less impairment
 - as those for basic financial instruments in section 11 (PE 12.13)

Derecognition

- Same as those for basic financial instruments in section 11 (PE 12.14)



Section 12: Other Fin. Instruments Issues

Disclosure

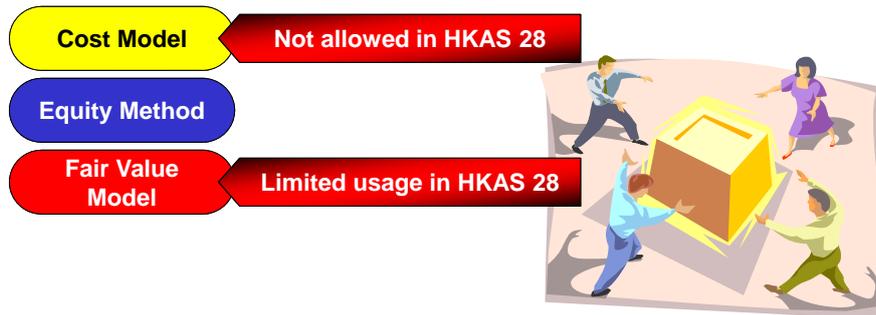
- For details relating to hedge accounting

The detailed disclosure requirements of HKFRS 7 are not required



Section 14: Investments in Associates

- Definition of associate is same as HKAS 28
 - i.e. significant influence (but not control or joint control)
 - HKAS 28 has some examples to indicate the existence of significant influence
- An investor shall account for all of its investments in associates using one of the following: (PE 14.4)



Section 14: Investments in Associates

HKFRS for PE requires investments in associates for which there is a published price quotation

- Measured by using the Fair Value Model (PE 14.7)

- An investor shall measure its investments in associates, other than those for which there is a published price quotation
 - at cost
 - less any accumulated impairment losses recognised in accordance with Section 27 (PE 14.5)



Section 15: Investments in Joint Ventures

- Definition of joint venture is same as HKAS 31
 - i.e. joint control
 - the type includes jointly controlled operations, jointly controlled assets and jointly controlled entities
- A venturer shall account for all of its interests in jointly controlled entities using one of the following: (PE 15.9)

Cost Model

Not allowed in HKAS 31

Equity Method

Fair Value Model

Limited usage in HKAS 31

HKAS 31 also allows equity method but encourages an entity to use proportionate consolidation, that is not allowed in HKFRS for PE

Section 15: Investments in Joint Ventures

HKFRS for PE requires investments in JCE for which there is a **published price quotation**

- measured by using the **Fair Value Model** (PE 15.12)

Cost Model

Cost Model is not allowed in HKAS 31

- A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation
 - at cost
 - less any accumulated impairment losses recognised in accordance with Section 27 (PE 15.10)

Section 16: Investment Property

- Definition of investment property → Same as HKAS 40
- Initial recognised at cost → Similar to HKAS 40
- However, investment property whose fair value can be measured reliably without undue cost or effort shall be measured
 - at **fair value** at each reporting date with changes in fair value recognised in profit or loss.
- For all other investment property,
 - An entity shall account for them as property, plant and equipment using the cost-depreciation-impairment model in Section 17. (PE 16.7)

No choice!

HKAS 40 gives a choice to an entity, but HKFRS for PE does not give such choice!



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Section 17: Property, Plant and Equipment

- Definition of property, plant and equipment → Same as HKAS 16
- Initial recognised at cost → Similar to HKAS 16
- An entity shall measure all items of property, plant and equipment after initial recognition
 - at cost
 - less any accumulated depreciation and any accumulated impairment losses.
- An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred. (PE 17.15)

No revaluation model allowed



HKAS 16 allows an entity to use Revaluation Model, but HKFRS for PE does not allow!

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Section 18: Intangible Assets (excl. Goodwill)

- Definition of intangible asset → Same as HKAS 38
- Initial recognised at cost → Similar to HKAS 38
- However, internally generated intangible assets cannot be recognised as intangible assets
 - Recognise expenditure incurred internally on an intangible item, including all expenditure for both R&D activities, **as an expense** when it is incurred (PE 18.14)
- After recognition (for acquired intangible assets), an entity shall measure them
 - at cost less any accumulated depreciation and any accumulated impairment losses. (PE 18.18)

No revaluation model allowed

HKAS 38 allows an entity to use Revaluation Model on limited cases, but HKFRS for PE does not allow!



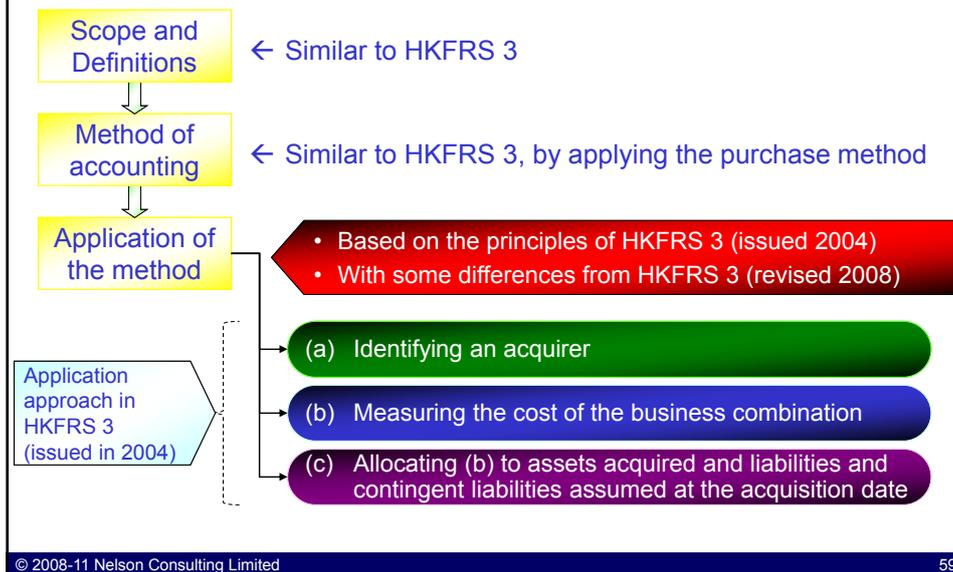
Section 19: Business Com. and Goodwill

- Section 19 is based on the principles of HKFRS 3 issued in 2004
 - In consequence, there are some differences between section 19 of HKFRS for PE and HKFRS 3 (revised 2008)

Some differences from HKFRS 3 (revised 2008)



Section 19: Business Com. and Goodwill



Section 29: Income Tax

- Replacing the recognition and measurement principles in section 29 Income Tax of the IFRS for SMEs with the extant version of HKAS 12 Income Taxes
 - Section 29 of IFRS for SMEs closely follows the IASB's ED to replace IAS 12, but the ED has been discontinued,
 - HKFRS for PE replaces the recognition and measurement principles contained in Section 29 of IFRS for SMEs with those contained in the extant version of HKAS 12 while retaining the relevant disclosures contained in the IFRS for SMEs. (PE P13)

Similar to
HKAS 12



Section 30: Foreign Currency Translation

- Definitions of functional currency and presentation currency are same as HKAS 21
- Approach of foreign currency translation and determination of functional currency are similar to HKAS 21

Determine
Functional Currency

Translate Foreign
Currency Transactions

Translate Foreign
Operation or Whole Set



Similar to
HKAS 21, but

Section 30: Foreign Currency Translation



Translate Foreign
Currency Transactions

HKAS 21.32 requires

- reclassified from equity to profit or loss on disposal of the net investment

- Monetary item that forms part of a reporting entity's net investment in a foreign operation
 - shall be recognised in profit or loss
 - in the separate financial statements of the reporting entity or
 - in the individual financial statements of the foreign operation, as appropriate
 - shall be recognised initially in other comprehensive income and reported as a component of equity but shall not again be recognised in profit or loss on disposal of the net investment
 - in the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary) (PE 3.13)

Section 30: Foreign Currency Translation

HKAS 21.48 requires

- reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised

- Disposal or partial disposal of a foreign operation is not specified in HKFRS for PE
 - In consequence, all resulting exchange differences on translating financial statements to a different presentation currency shall still be recognised in other comprehensive income. (PE 30.18)

Translate Foreign Operation or Whole Set

Use of a presentation currency other than the functional currency



Section 33: Related Party Disclosures

- Definition of related party
 - is updated to the ED IAS 24 but has some slight differences from HKAS 24 (revised 2009)
- Disclosure for non-state-owned entities are similar to HKAS 24



Similar to HKAS 24,
but

Section 33: Related Party Disclosures

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
 - a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
 - ii. has control over the reporting entity; or
 - iii. has joint control or significant influence over the reporting entity or has significant voting power in it.

HKAS 24 (revised 2009) deleted "significant voting power"

Section 33: Related Party Disclosures

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
 - b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, sub. and fellow sub. is related to the others).
 - ii. One entity is an associate or JV of the other entity (or an associate or JV of a member of a group of which the other entity is a member).
 - iii. Both entities are JV of the same third party.
 - iv. Either entity is a JV of a 3rd entity & the other entity is an associate of the 3rd entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled or jointly controlled by a person identified in (a).

Section 33: Related Party Disclosures

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
- **An entity** is related to a reporting entity if any of the following conditions applies:
 - vii. a person identified in (a)(i) has significant voting power in the entity.
 - viii. a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.
 - ix. a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity.
 - x. a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

Modified (shortened) in final HKAS 24

Section 33: Related Party Disclosures

- An entity is exempt from the disclosure of related party transaction in PE 33.9 in relation to:
 - a. a state (a national, regional or local government) that has control, joint control or significant influence over the reporting entity, and
 - b. another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.
- However, the entity must still disclose a parent-subsidiary relationship. (PE 33.11)

The above exemption is not the same as HKAS 24 (revised 2009)



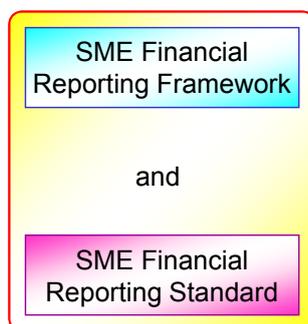
Section 35: Transition to HKFRS for PE



- An entity can be **a first-time adopter** of the HKFRS for PE **only once**.
- If an entity using the HKFRS for Private Entities stops using it but adopts it again later,
 - the special exemptions, simplifications and other requirements in this section **do not apply to the re-adoption**. (PE 35.2)
- The procedures in adopting HKFRS for PE are similar to HKFRS 1 (with modification)

HKFRS for PE vs. SME-FRS

Main Principles



The SME-FRF and SME-FRS have the following characteristics:

- Independence, self-contained and comprehensive
- A simplified version of HKAS/SSAP
- Follow **historical cost convention**
- Reduce disclosure requirements significantly
- To balance cost and benefit
- Only qualifying entities can choose to adopt

- Not directly linked to Main HKFRS
- Selective fallback is not allowed

- Mainly derived from Main HKFRS (or HK SSAP)
- Definitions largely the same
- Recognition on some items not required

HKFRS for PE vs. SME-FRS



Advantages of HKFRS for PE

- “True and fair view” on the financial statements
- No restriction of Section 141D
- Shareholders’ continuous agreement not required
- No size test
- Applicable to subsidiary of listed entities
- IFRS/HKFRS label:
 - resulting image to the external users, say bankers and creditors
 - convergence to international practice
- More comprehensive and more extensive coverage
- Have business combination and consolidation

HKFRS for PE vs. SME-FRS

**Tax
Implication!**

Advantages of SME-FRS

- Saving the cost of compliance
- Following historical cost convention – simple
- No deferred tax is required
- No cash flow statement is required
- No separate statement of changes in equity is required
- Fair value accounting on financial instruments can be avoided
- Fair value accounting on investment property can be avoided
- Less disclosure requirements
- Discounting is not required (but permitted in some cases)
- More



PE – Similar to HKFRS

35 sections in HKFRS for PE

	<u>Equivalent HKFRS</u>
3 Financial Statement Presentation	⇐ HKAS 1
4 Statement of Financial Position	⇐ HKAS 1
5 Statement of Comprehensive Income & Income Statement	⇐ HKAS 1
7 Statement of Cash Flows	⇐ HKAS 7
8 Notes to the Financial Statements	⇐ HKAS 1
10 Accounting Policies, Estimates and Errors	⇐ HKAS 8
13 Inventories	⇐ HKAS 2
20 Leases	⇐ HKAS 17
21 Provisions and Contingencies	⇐ HKAS 37
23 Revenue	⇐ HKAS 18
27 Impairment of Assets	⇐ HKAS 36
29 Income Tax	⇐ HKAS 12
32 Events after the End of the Reporting Period	⇐ HKAS 10

PE – Minor Differences from HKFRS

35 sections in HKFRS for PE

1 Private Entities	
2 Concepts and Pervasive Principles	
6 Statement of Changes in Equity and Statement of Income and Retained Earnings	⇐ A new alternative
16 Investment Property	⇐ Fair value model only
18 Intangible Assets Other Than Goodwill	⇐ No revaluation model & indefinite life
22 Liabilities and Equity	
28 Employee Benefits	⇐ Differences on defined benefit plan
31 Hyperinflation	

PE – Some Differences from HKFRS

35 sections in HKFRS for PE

9 Consolidated and Separate Financial Statements	Based on original HKAS 27
11 Basic Financial Instruments	Significant differences (more fair value)
12 Other Financial Instruments Issues	Significant differences (more fair value)
14 Investments in Associates	Three alternatives and no proportionate consolidation
15 Investments in Joint Ventures	No revaluation model
17 Property, Plant and Equipment	Based on original HKFRS 3
19 Business Combinations and Goodwill	More restrictive
24 Government Grants	Expense only
25 Borrowing Costs	
26 Share-Based Payment	
30 Foreign Currency Translation	No recycling upon disposal
33 Related Party Disclosures	Based on ED not revised final HKAS 24
34 Specialised Activities	
35 Transition to the HKFRS for Private Entities	Most critical and difficult?

Related Party Disclosures

(HKAS 24)



Key Amendments

- Related party – Definition change
- Government-related entities – Definition and Exemption
- Commitment is included for disclosure



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Definition of a Related Party – Key Changes

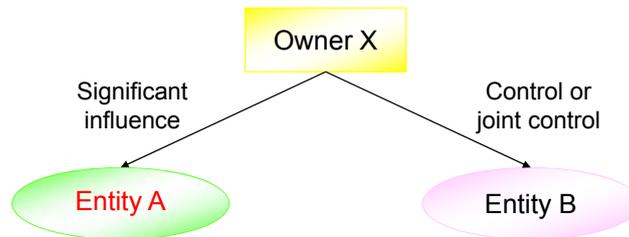
- Clearly separate the related party to 2 angles:
 - 1) Person (replaced “individual” as well), and
 - 2) Entity
- Eliminate inconsistencies in the definition and make it symmetrical:
 - When Entity A is identified as a related party in Entity B’s financial statements, Entity B will also be identified as related party in Entity A’s financial statements.
- Entities with only “common significant influence” (no matter from an entity or a person) are not related to each other
- However, whenever a person or entity has both
 - joint control over Entity X and
 - joint control or significant influence over Entity Y,
 - Entity X and Y are related to each other.

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Definition of a Related Party – Key Changes

Example



- Entity A and B are related to each other in both Entity A's and B's financial statements
- Previously, they are not regarded as related parties.

Definition of a Related Party – Key Changes

- Remove the term “significant voting power” in the definition of a related party
- Clarify that
 - An associate includes subsidiaries of the associate and
 - A joint venture includes subsidiaries of the joint venture
 - Two entities are not related parties simply because a member of key management personnel of one entity has significant influence over the other entity.
- Amended that
 - **Close members of the family** of an individual are (not may) those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (not “they may include” as in previous HKAS 24):
 - a) the person's children and spouse or domestic partner;
 - b) children of the person's spouse or domestic partner; and
 - c) dependants of that person or that person's spouse or domestic partner.

Disclosures – Government



- A reporting entity is exempt from the disclosure requirements of HKAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:
 - a) a government that has control, joint control or significant influence over the reporting entity; and
 - b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. (HKAS 24.25)

Disclosures – Government

- If a reporting entity applies the exemption in HKAS 24.25 (last slide), it shall disclose the following about the transactions and related outstanding balances referred to in HKAS 24.25:
 - a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
 - b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - i. the nature and amount of each individually significant transaction; and
 - ii. for other transactions that are collectively, but not individually, significant,
 - a qualitative or quantitative indication of their extent.
Types of transactions include those listed in HKAS 24.21. (HKAS 24.26)

Significant

Not significant

Recovery of Underlying Asset

(Amendments to HKFRS 12 Deferred Tax)



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Introduction

- HKAS 12 *Income Taxes* requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through
 - use or sale.
- It can be difficult and subjective to assess whether recovery will be through use or through sale
 - when the asset is measured using the fair value model in HKAS 40 *Investment Property*.
- The amendment provides a practical solution to the problem
 - by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.

No such exemption for PPE using revaluation model under HKAS 16

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Recovery of Underlying Asset

- If a deferred tax liability or asset arises from investment property that is measured using the fair value model in HKAS 40,
 - there is a **rebuttable presumption** that the carrying amount of the investment property will be recovered through sale.
- Accordingly, unless the presumption is rebutted,
 - the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property **entirely through sale**. (HKAS 12.51C)

i.e. no deferred tax is required when tax on sale is zero!

- This presumption is rebutted if the investment property
 - is depreciable and
 - is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.
- If the presumption is rebutted, the requirements of HKAS 12.51 and 51A shall be followed.



Effective Date and Transition

- An entity shall apply the amendments for annual periods beginning on or after 1 January 2012.
- Earlier application is permitted.
- If an entity applies the amendments for an earlier period, it shall disclose that fact.



Amendments to HKAS 12

Case



Financial Statements 2010

- Note 2 states “Amendments to HKAS 12 *Income Taxes*” as follows:
 - Amendments to HKAS 12 titled “Deferred Tax: Recovery of Underlying Assets” have been applied in advance of their effective date (annual periods beginning on or after 1 January 2012).
 - Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

Amendments to HKAS 12

Case



Financial Statements 2010

- Note 2 states “Amendments to HKAS 12 *Income Taxes*” as follows:
 - As a result, the Group’s investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax liabilities and deferred tax assets in respect of such properties.
 - This resulted in deferred tax liabilities being decreased by HK\$3,409 million and HK\$3,616 million as at 1 January 2009 and 31 December 2009 respectively, with the corresponding adjustment being recognised in retained profits.
 - In the current year, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties.
 - The application of the amendments has resulted in profit for the year being increased by HK\$426 million.

Financial Instruments

(HKFRS 9)



Chapters

- 1 Objective
- 2 Scope
- 3 Recognition and Derecognition
- 4 Classification
- 5 Measurement
- 6 Hedge Accounting (*not used yet*)
- ~~7 Disclosures (*not used yet*)~~
- ~~8 Effective Date and Transition~~

Background

- In response to the input received on its work responding to the financial crisis, and following the conclusions of the G20 leaders and the recommendations of international bodies,
 - the IASB announced an accelerated timetable for replacing IAS 39 in April 2009, and
 - finally, IFRS 9 *Financial Instruments* in Nov. 2009
- HKFRS 9 was issued to maintain international convergence with the issuance of IFRS 9.



Background

- The three main phases of the project to replace HKAS 39 are:
 - a) Phase 1: Classification and measurement of financial assets and financial liabilities.
 - b) Phase 2: Impairment methodology.
 - c) Phase 3: Hedge accounting.
- HKFRS 9 issued so far includes only the chapters relating to Phase 1 (classification and measurement of financial assets and financial liabilities).

Additions of Financial Liabilities
issued on 25 Nov. 2010 in HK



Chapter 1 and 2

Objective

- The objective of HKFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. (para. 1.1)

Scope

- An entity shall apply HKFRS 9 to all assets within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*. (para. 2.1)



Chapter 3 Recognition & Derecognition

- An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when,
 - the entity becomes party to the contractual provisions of the instrument.
- When an entity first recognises a financial asset, it shall
 - **classify** it in accordance with paragraphs 4.1.1-4.1.5 and
 - **measure** it in accordance with paragraph 5.1.1 and 5.1.2.
- When an entity first recognises a financial liability, it shall
 - **classify** it in accordance with paragraphs 4.2.1 and 4.2.2 and
 - **measure** it in accordance with paragraph 5.1.1. (para. 3.1.1)

Same as before

Amended
(Ch. 4 of HKFRS 9)

Amended
(Ch. 5 of HKFRS 9)

Similar to
HKAS 39

Same para. as
financial assets

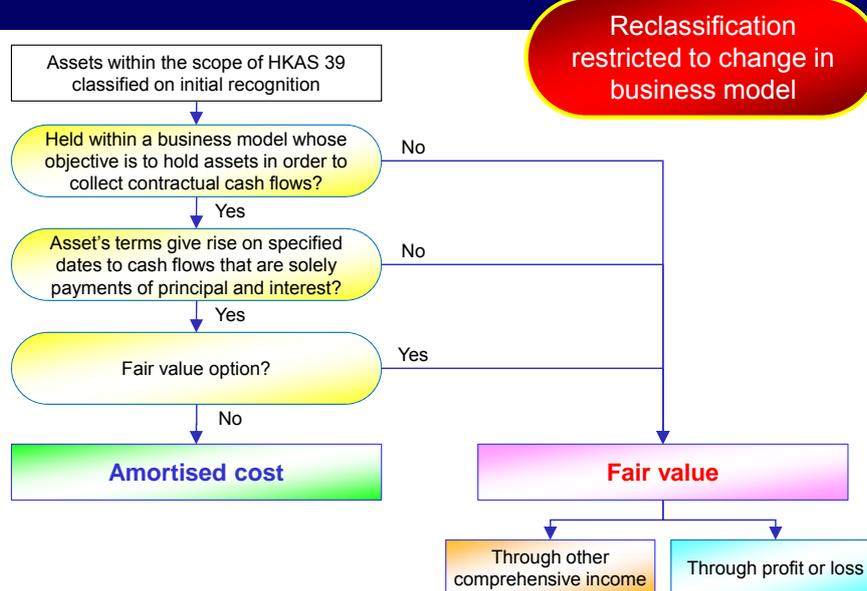
Chapter 4.1 Classification of FA

- Unless para. 4.1.5 of HKFRS 9 (so-called “fair value option”) applies, an entity shall classify financial assets as subsequently measured at either
 - amortised cost or
 - fair value
 on the basis of both:
 - a) the entity's business model for managing the financial assets; and
 - b) the contractual cash flow characteristics of the financial asset. (para. 4.1.1)

Amortised cost

Fair value

Chapter 4.1 Classification of FA



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Chapter 4.1 Classification of FA

Case



Financial statements 2009 states that:

- Following the adoption of HKFRS 9, investments and other financial assets of the Group extant at 31 December 2009 are classified under the following categories:

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on its investment, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

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Chapter 4.1 Classification of FA

Case



Financial statements 2009 states that:

Financial assets measured at **fair value through profit or loss**

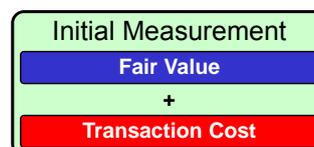
Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives are classified in their entirety as measured at fair value through profit or loss, where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk.

Chapter 5 Measurement

Initial measurement (same as HKAS 39)

- At initial recognition, an entity shall measure a financial asset or financial liabilities at
 - its **fair value** plus or minus,
 - in the case of a financial asset or financial liabilities not at fair value through profit or loss, **transaction costs** that are directly attributable to the acquisition or issue of the financial asset or financial liability. (para. 5.1.1)
- When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost,
 - the asset is recognised initially at its fair value on the trade date (see para. B3.1.3–B3.1.6). (para. 5.1.2)



Chapter 5 Measurement

Subsequent Measurement of Financial Assets

- After initial recognition, an entity shall measure financial assets in accordance with para. 4.1.1 -4.1.5 (as discussed above) at
 - fair value or
 - amortised cost. (para. 5.2.1)
- An entity shall apply the impairment requirements of HKAS 39 to all financial assets measured at amortised cost. (para. 5.2.2)
 - No impairment requirements on financial assets measured at fair value
- An entity shall apply the hedge accounting requirements of HKAS 39 to a financial asset that is designated as a hedged item. (para. 5.2.3)

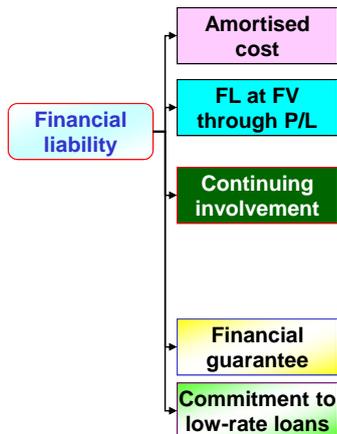
Amortised cost

Fair value

Chapter 5 Measurement

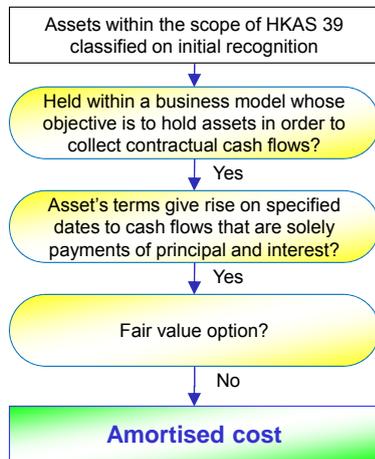
Same as HKAS 39

Subsequent Measurement of Financial Liabilities



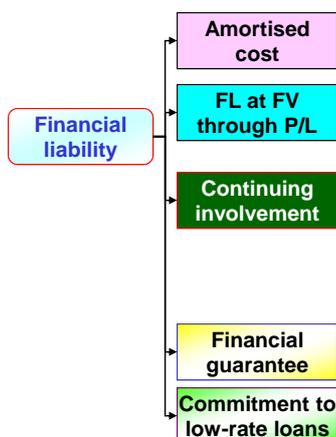
- After initial recognition, an entity shall measure a financial liability in accordance with para. 4.2.1–4.2.2.
- An entity shall apply the hedge accounting requirements of HKAS 39 to a financial liability that is designated as a hedged item. (para. 5.3.2)

Chapter 5.7 Gains and Losses



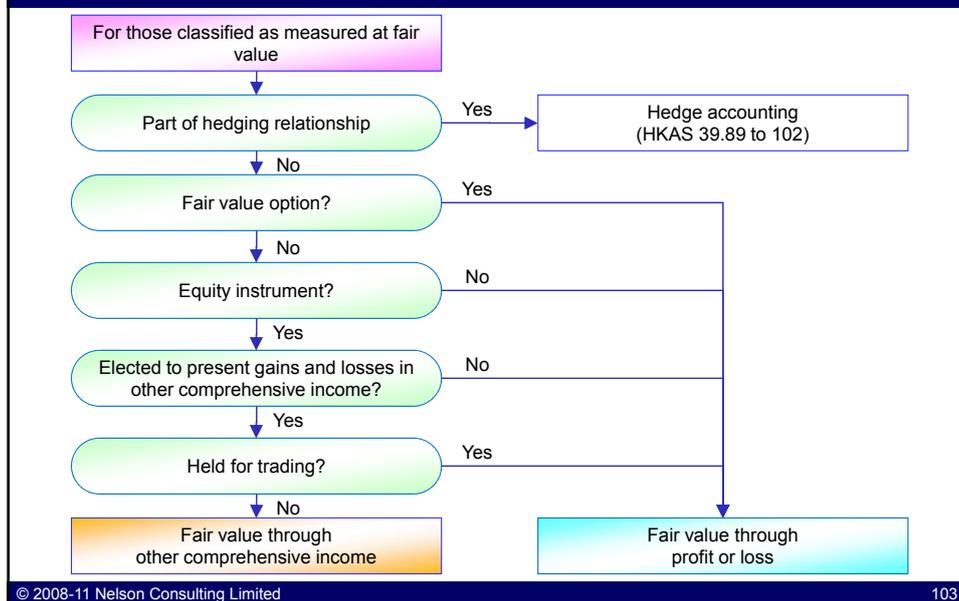
- A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship
 - shall be recognised in profit or loss
 - when the financial asset is derecognised, impaired or reclassified, and through the amortisation process. (para. 5.7.2)

Chapter 5.7 Gains and Losses



- A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship
 - shall be recognised in profit or loss
 - when the financial liability is derecognised and through the amortisation process. (para. 5.7.2)

Chapter 5.7 Gains and Losses



Chapter 5.7 Gains and Losses

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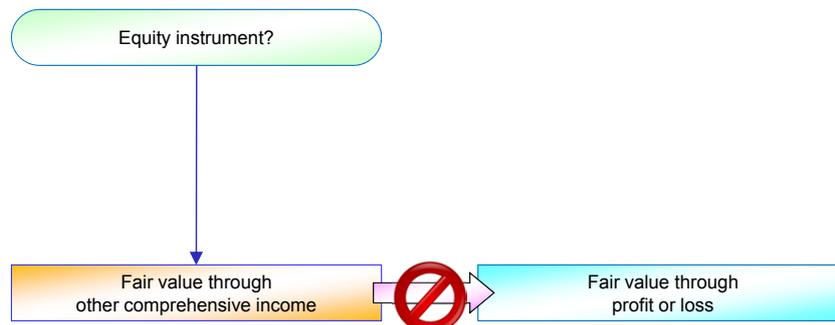
graph TD
    Q1{Equity instrument?} -- Yes --> Q2{Elected to present gains and losses in other comprehensive income?}
    Q2 -- Yes --> Q3{Held for trading?}
    Q3 -- No --> FVOCI[Fair value through other comprehensive income]
  
```

- Such irrevocable election (presenting fair value changes in other comprehensive income)
 - is made on an instrument-by-instrument (ie share-by-share) basis.
- Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss.
 - However, the entity may transfer the cumulative gain or loss within equity (e.g.. transfer between reserves).
- Dividends on such investments are recognised in profit or loss in accordance with HKAS 18 Revenue
 - unless the dividend clearly represents a recovery of part of the cost of the investment. (para. B5.7.1)

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Chapter 5.7 Gains and Losses

- Under HKFRS 9, amount presented in other comprehensive income shall not be subsequently transferred to profit or loss
 - Implies that
 - no recycling of any fair value change on those financial assets measured at fair value through other comprehensive income to profit or loss (or income statement)
 - no gain or loss will be recognised in profit or loss (or income statement) on derecognition of such investments in equity instruments



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Chapter 5.7 Gains and Losses

Case



Financial statements 2009 states that:

- For financial assets extant at 31 December 2009
 - Financial assets measured at fair value through profit or loss
 - Financial assets under this category are investments carried at fair value.
 - Unrealised gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise.
 - Upon disposal, the differences between the net sale proceeds and the carrying values are included in profit or loss.
 - Interest income is recognised using the effective interest method and included in net realised and unrealised gains/(losses) and interest income from these financial assets.
 - Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

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Chapter 5.7 Gains and Losses

Case



Financial statements 2009 states that:

- For financial assets extant at 31 December 2009
 - Financial assets measured at amortised cost
 - Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
 - Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in profit or loss.
 - Interest income is recognised using the effective interest method and disclosed as interest income.

Chapter 5.7 Gains and Losses

- An entity shall present a gain or loss on a financial liability designated as at fair value through profit or loss as follows:
 - a. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income (see para. B5.7.13–B5.7.20), and
 - b. the remaining amount of change in the fair value of the liability shall be presented in profit or loss

unless

 - the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss (in which case paragraph 5.7.8 applies). (para. 5.7.7)



Chapter 7 Effective Date & Transition

Effective date

- An entity shall apply HKFRS 9 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- However, if an entity elects to apply HKFRS 9 early and has not already applied HKFRS 9 issued in 2009, it must apply all of the requirements in HKFRS 9 at the same time (but see also para. 7.3.2).
- If an entity applies HKFRS 9 in its financial statements for a period beginning before 1 January 2013,
 - it shall disclose that fact and at the same time apply the amendments in Appendix C (i.e. Amendments to other HKFRSs). (para. 7.1.1)



Financial Reporting Update for 2010/11

8 April 2011

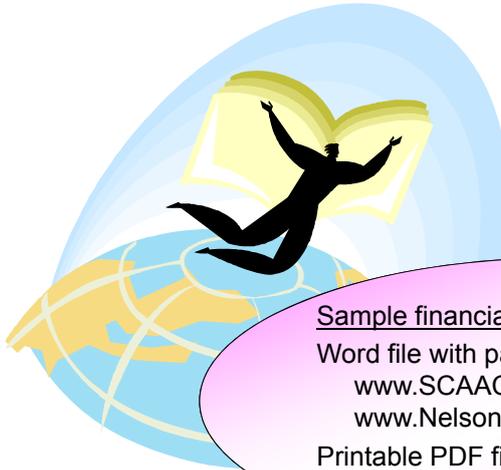
Full set of slides in PDF can be found in
www.NelsonCPA.com.hk



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Financial Reporting Update for 2010/11

8 April 2011



Sample financial statements

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