

HKFRS Update

March 2013 year-end focus areas

April Newsletter – Issue No. 2/2013

Background

This update serves as a reminder and provides a summary of significant areas to consider in preparing your financial statements for the year ended 31 March 2013, which covers the following areas:

- *New and revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are effective*
- *New / revised / recommended disclosure requirements*
- *Highlights for significant accounting topics*

What are the new and revised HKFRSs that are effective as at 1 April 2012?

In preparing the March 2013 year-end financial statements, we should consider the application of the following new and revised HKFRSs have any material impact on the entity’s financial performance and positions for the current and prior years and / or on the disclosures set out in the financial statements:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

What are the relevant amendments?

<u>Amendments to</u>	<u>Summary of major amendments</u>
HKFRS 1	<ul style="list-style-type: none"> ● Revise the appropriate date for a first time adopter to restate the past derecognition transactions. The date “1 January 2004” is replaced by “the date of transition to HKFRSs” ● Provides guidance on how an entity should resume presenting the financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe inflation
HKAS 12	<ul style="list-style-type: none"> ● Introduce a rebuttable presumption that if a deferred asset arises from investment property that is measured using fair value model in HKAS 40 Investment Property, the carrying amount of the investment property will be recovered entirely by sale unless the investment property is <ol style="list-style-type: none"> a) depreciable (i.e. recognised under cost model in HKAS 40); and b) held within a business model whose objective is to consume substantially all of the economic benefits embodies in it over time, rather than through sales
HKFRS 7	<ul style="list-style-type: none"> ● Introduce new disclosure requirement for: <ol style="list-style-type: none"> a) transfer financial assets that are not derecognised in their entirety (e.g. factoring of receivables with recourse) b) transfer financial assets that are derecognised in their entirety but the entity has continuing involvement (e.g. securities lending)

What are the impacts?

I. Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

If there is **NO** capital gain tax imposed in the relevant jurisdiction (e.g. Hong Kong), the amendments will have the following impacts:

- Result in the entity not recognised any deferred taxes on changes in fair value of the investment property
- Apply the amendments retrospectively, resulting in:
 - (i) the decrease in the opening deferred tax liabilities with the corresponding credit being recognised in retained earnings
 - (ii) the decrease in the closing deferred tax liabilities
 - (iii) the decrease in income tax expense for both current and prior years
 - (iv) the increase / decrease in profit / loss for both current and prior years

Remarks: The engagement team is advised to check the tax law in the relevant jurisdiction and consult SW Tax Department

II. Amendments to HKFRS 7 Disclosures – Transfer of Financial Assets

The amendments are aimed to improve the disclosure requirements for the understanding of transfer transactions of financial assets. The entity is required to present the disclosures in a single note in the financial statements. However, in the first year of application, an entity need not present comparative figures.





Other highlights for the financial statements

- a) Adoption of amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets
 - To add the new accounting policy of deferred tax

- b) New HKFRS / IFRS 10 Consolidated Financial Statements
 - To disclose an assessment of the financial impact of HKFRS / IFRS 10 in 2013 financial statements

 - To make detailed disclosures of the amounts of adjustments in their first set of quarterly or interim results to be published in 2013 or later

- c) HKFRS 2 Share-based payment
 - Apply share-based payment in which an entity acquires **goods**

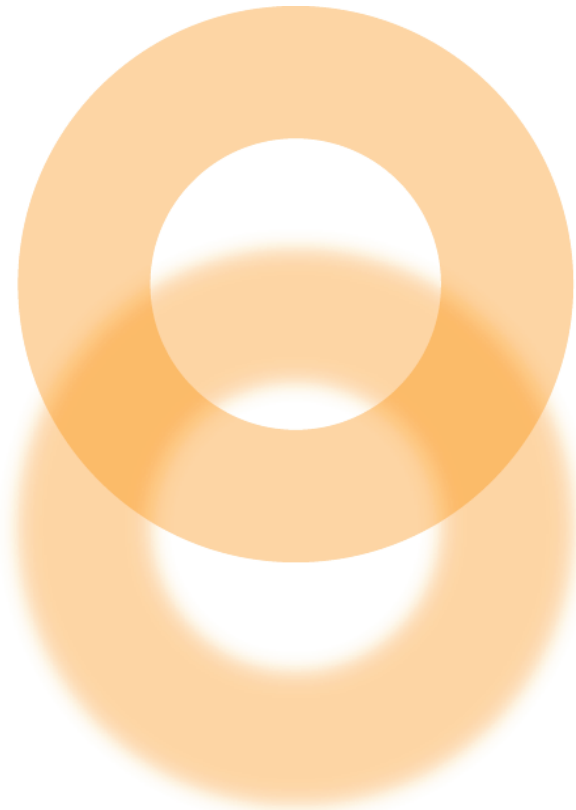
 - Goods include inventories, consumables, **property, plant and equipment, intangible assets** and other non-financial assets

 - Common example – The entity issues equity-settled share-based payment like convertible bonds to acquire the intangible assets through the acquisition of a subsidiary

 - Require to **measure the fair value of the goods** at the date the entity obtains the goods



- d) Amendments to HKFRS 3 Business combinations (as part of 2010 improvements to HKFRSs)
 - The measurement choice regarding non-controlling interest at the date of acquisition is only available in respect of non-controlling interest
 - (i) that are present ownership interests;
 - (ii) that entitle the holders to a proportionate share of the entity's net assets in the event of liquidation
 - Otherwise, all other types of non-controlling interests are measured at their acquisition – fair value
- e) Material balances of other receivables and payables
 - Encourage to disclose the nature in the note to the financial statements
- f) Amendment on Corporate Governance Code
 - To disclose the emoluments of chief executive and its emoluments band
 - If the chief executive is also a director, no separate disclosure is required. Instead, the fact should be stated



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