

Amendments to HKAS 27 – Separate Financial Statements

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MAIN FEATURES

- An entity is allowed to account for its investments in subsidiaries, associates and joint ventures using the equity method in its separate financial statements.
- The amendments are to be applied retrospectively.
- Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Background

The laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations, and those local regulations require the investments in subsidiaries, associates and joint ventures to be accounted for using equity method. However, under International Accounting Standard (“IAS”) 27, the investments in subsidiaries, associates and joint ventures in separate financial statements could only be accounted for at cost or in accordance with International Financial Reporting Standard (“IFRS”) 9. In order to tackle this issue, the International Accounting Standards Board has issued the amendments to IAS 27 to allow investments in subsidiaries, associates and joint ventures be accounted for using equity method.

Subsequently in September 2014, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to Hong Kong Accounting Standard (“HKAS”) 27 – *Separate Financial Statements*, so as to maintain the convergence with IFRSs.

What are the major content of the amendments?

(a) Amended concept for accounting treatment of investments in subsidiaries, associates and joint ventures in separate financial statements

Other than allowing investments in subsidiaries, associates and joint ventures to be accounted for in the separate financial statements at cost or in accordance with HKFRS 9, those investments can also be accounted for using equity method as described in HKAS 28 (2011) *Investments in Associates and Joint Ventures*.

(b) Other impacts from the amended concept

Further amendments have also been made in the following areas:

<i>Areas</i>	<i>Impacts</i>
Non-current Assets Held for Sale and Discontinued Operations	<ul style="list-style-type: none">Investments accounted for at cost or <u>using the equity method</u> shall be accounted for in accordance with HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution).
Investment Entity	<ul style="list-style-type: none">To account for an investment in a subsidiary either at cost, in accordance with HKFRS 9, <u>or using equity method</u> when it ceases to be an investment entity.The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration.
Dividend	<ul style="list-style-type: none">When equity method is adopted, dividends from subsidiaries, associates or joint ventures are recognised as a reduction from the carrying amounts of the investments. Otherwise, such dividends should be recognised in profit or loss.

When will these amendments become effective?

The Amendments to HKAS 27 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies these amendments for an earlier period, it should disclose that fact.

An entity shall apply these amendments retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.



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