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Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queens' Road East
Wanchai, Hong Kong

By fax to: (852) 2865 6776
By email to: commentletters@hki CPA.org.hk

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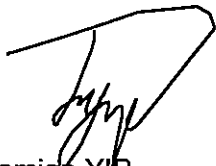
Dear Sirs

Re: HKICPA Exposure Draft of Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework and Standards (SME-FRF & SME-FRS) to cover Group Accounts and Cash Flow Statements

In response to the above, please find enclosed CIMA Hong Kong Division's responses to your questionnaire.

Thank you.

Yours faithfully,



Damian YIP
Divisional Director
CIMA Hong Kong Division

RECEIVED
19 SEP 2008

BY:.....

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO SMALL AND MEDIUMSIZED ENTITY FINANCIAL REPORTING FRAMEWORK (SME-FRF) AND PROPOSED SECTIONS OF SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING STANDARD (SME-FRS)

Comments by CIMA Consultation Group

Question 1

Do you agree that the SME-FRF and SME-FRS should be amended to cover groups? If not, why not?

Answer:

Yes, we agree that the SME-FRF and SME-FRS should be amended to cover groups.

Question 2

Do you agree that the size criteria set out in paragraph 24 of the SME-FRF appropriately identify a “small group” in Hong Kong? If not, why not?

Answer:

No, we do not agree that the size criteria set out in paragraph 24 of the SME-FRF appropriately identify a “small group” in Hong Kong.

We believe that the thresholds used in the testing of a “small group” are relatively low. Such thresholds should be expanded to include more companies in Hong Kong. For instance, there are numerous private companies owned by families in Hong Kong and they have very limited stakeholders. Such large private companies should be allowed to adopt the SME-FRS.

Question 3

Do you agree that at the company level, investments in associates and interests in jointly controlled entities should be accounted for using the cost method? If not, why not? Do you agree that when an investor / a venturer presents consolidated financial statements, investments in associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?

Answer:

We concur that at the company level, investments in associates and interests in jointly controlled entities should be accounted for using the cost method. Furthermore, we agree that when an investor / a venturer presents consolidated financial statements, investments in associates and interests in jointly controlled entities should be accounted for using the equity method. These treatments would enable more clear-cut applications in group accounts among the SMEs.

Question 4

Should a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement? If not, why not?

Answer:

We do not think that a complete set of financial statements under the SME-FRS should be required to include a cash flow statement. First of all, not all SMEs, especially for those with limited stakeholders, would need to present their cash flow statements as part of their standard set of financial statements. Both income statement and balance sheet are sufficient for their standard reporting needs. On the other hand, if an SME is required to present its cash flow statement to any particular stakeholder, it should have the option to prepare such statement for its specific need. However, there is no need for SMEs to have cash flow statement in its standard set of financial statements as it may incur unnecessary costs for them.

Question 5

If a cash flow statement is required, do you agree that either the direct method or indirect method can be used for reporting cash flows from operating activities, as set out in paragraph 22.7 of the SME-FRS? If not, why not?

Answer:

While we believe that a cash flow is not a compulsory item, our view is that if cash flow statement is considered as optional, indirect method can be used for reporting cash flows from operating activities to meet end-users' needs adequately.

Question 6

Are there any disclosure requirements included in sections 18 to 22 of the SME-FRS that you consider are too onerous for SMEs and therefore should be excluded? If so, what are they and why?

Answer:

Our view is that disclosures required in sections 18 to 22 of the SME-FRS are in general too onerous for SMEs and should be simplified as much as possible. In particular, we think that the disclosure requirements in Section 22 regarding cash flow statement need to be further simplified as we suggest not requiring cash flow statement to be included in a complete set of financial statements. More simplified disclosure requirements should be adopted to accompany an optional presentation of cash flow statement.

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