Alert

Updates on financial reporting and auditing

Issue 25 (July 2017)

Dear members,

Keeping your head above water – financial reporting considerations for 2017

We are half way through 2017 and you may be planning for the next annual reporting period. We have some observations and reminders to help you along the way.

Implementation and disclosure of possible impacts of upcoming major HKFRSs

Our previous alert highlighted the importance of preparing for the adoption of and disclosing the possible impact of the upcoming major standards on financial instruments, revenue and leases.

Most entities gave a generic overview of key concepts in the major new standards in their 2016 financial reports. As we draw closer to the effective date of these standards, a reporting entity is expected to provide more tailored and granular information on the impact of the standards to its products, services and other circumstances. If you have started implementation, disclosing this information should not be a burden. If you haven't begun implementation, you really need to get going.

What's new for 2017

There are some changes to accounting standards that are effective for financial years beginning on or after 1 January 2017, but they are mostly narrow-scope amendments.

Here are lists of new and amended accounting standards and interpretations issued by the Institute to date:

- For reporting periods beginning on or after 1 January 2017, click here
- For reporting periods beginning on or after 1 January 2016, click here

Common financial reporting deficiencies

Some common concerns that surfaced in prior years are summarized in the Institute's *Quality Assurance Report*. Members should study the findings in the reports to avoid making the same mistakes, namely on:

- HKAS 12 *Income Taxes*;
- HKAS 32 *Financial Instruments: Presentation*;
- HKAS 36 *Impairment of Assets*;
- HKAS 39 *Financial Instruments: Recognition and Measurement*; and
- HKFRS 3 (Revised) *Business Combinations.*

Reminders on Companies Ordinance Cap. 622 provisions (CO)

The CO has been in effect for at least two reporting periods. We have some reminders on the following topics, which are most commonly asked about.

Determining the eligibility of reporting exemption for a holding company

- Whether a holding company should use its consolidated or company-level figures when applying the size test for determining eligibility of reporting exemption depends on the type of financial statements that the company needs to prepare under section 379 of the CO.

- The 'expense and delay' relief provided in the *SME-FRF & SME-FRS (Revised)* to exclude one or more subsidiary undertakings from consolidation should not be applied when determining the eligibility for reporting exemption. In other words, all subsidiary undertakings in the group should be included for the purpose of calculating the size of the group.

Requirements relating to non-statutory accounts under section 436

Section 436 of the CO mandates specific disclosures in reports that are 'non-statutory accounts'.

If a company circulates, publishes or issues non-statutory accounts in a way that is within the scope of section 436 of the CO, you are reminded that such accounts:

- must be accompanied by a statement that includes the information required by section 436(3); and
- must not be accompanied by the auditor's report on the company's specified financial statements.

Defined terms, requirements and guidance on section 436 are available in the Institute's *Accounting Bulletin 6*.

Technical resources

The Institute's Technical Resource Centres contain a number of technical references that may be useful for preparing the next reporting season, which include the new and major standards.

Sincere regards,

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