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「CPAs for NGOs會計專業惠社群」社會責任計劃

編制財務報表實務須知

Hong Kong Institute of
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Agenda

1. Laws and Requirements on Preparation of Financial Statements
2. Financial Reporting Standards in Hong Kong
3. Practical Tips on Preparing Financial Statements and for Audits
4. Questions and Answers

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1. Laws and Requirements on Preparation of Financial Statements

a) By Governing Instruments

b) By Law

c) By Funding Bodies, Government Departments and Other Organisations

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1. Laws and Requirements on Preparation of Financial Statements

a) By Governing Instruments

- The type of instruments depend on the particular circumstances pertaining to the entity proposed and the preference of the promoters or founders.

- Commonly used structures include i) a trust, ii) a society established under the Societies Ordinance (Cap 151), iii) a company incorporated under the Companies Ordinance (Cap 622); and iv) a statutory body established by the Hong Kong legislature.

- There can be situations that written governing instruments impose requirements on audited financial statements in addition to the prevailing laws.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Effected on 3 March 2014 with many requirements under Part 9 Accounts and Audit applicable for financial years commencing on or after 3 March 2014
- Section 379(1)
  - A company's directors must prepare for each financial year statements that comply with sections 380 and 383.
- Section 379(2)
  - Despite subsection (1), if the company is a holding company at the end of the financial year, the directors must instead prepare for the financial year consolidated statements that comply with sections 380, 381 and 383.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 380
  - Annual financial statements for a financial year must <u>give a true and fair view</u> of the financial position of the company as at the end of the financial year and its financial performance for the financial year.
  - Annual consolidated financial statements for a financial year must <u>give a true and fair view</u> of the financial position of the company and its subsidiary undertakings as at the end of the financial year and their financial performance for the financial year.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 380
  - The financial statements for a financial year must comply with i) any other requirements of this Ordinance in relation to the financial statements; and (ii) the <u>accounting standards applicable to the financial statements</u>.
  - Accounting standards means statements of standard accounting practice <u>issued or specified by a body prescribed by the regulation</u>; and a reference to accounting standards applicable to any financial statements is a reference to accounting standards as are, in accordance with their terms, <u>relevant to the company's circumstances</u> and to the financial statements.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- The <u>HKICPA </u>is the body prescribed in the Companies (Accounting Standards (Prescribed Body)) Regulation for issuing or specifying the applicable accounting standards.
- The HKICPA issues <u>three sets</u> of financial reporting standards:
  - Hong Kong Financial Reporting Standards ("HKFRS") that gives a <u>true and fair view</u>
  - Hong Kong Financial Reporting Standards for Private Entities ("HKFRS for Private Entities") that gives a <u>true and fair view</u>
  - Small and Medium-Sized Entity Financial Reporting Standards ("SME-FRS") that does <u>not</u> give a <u>true and fair view</u>

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- SME-FRS, the accounting standards applicable to companies that fall within the reporting exemption and prepares simplified financial reports are less onerous than HKFRS applicable to listed, public or other companies not qualified for simplified reporting.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Reporting exemption
  - Sections 359, 363 and Schedule 3
    - A <u>small guarantee company</u> falls within the reporting exemption and qualifies for simplified financial reporting if <u>total revenue for the company does not exceed HK$25 million in a financial year</u>.
  - Sections 359, 366 and Schedule 3
    - A <u>holding guarantee company of a group of small guarantee companies</u> falls within the reporting exemption and qualifies for simplified financial reporting if <u>total aggregate revenue for the group and each company in the group do not exceeding HK$25 million in a financial year</u>.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Reporting exemption
  - The exemptions relating to preparation of financial statements:
    - Section 380(3) - no requirement to disclose auditor's remuneration in financial statements
    - Section 380(7) - no requirement for financial statements to give a true and fair view
    - Section 381(2) - subsidiary undertakings may be excluded from consolidated financial statements in accordance with applicable accounting standards
    - Section 406(1)(b) - no requirement for auditor to express a true and fair view opinion on the financial statements

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 405
  - Audit of the financial statements is required for all companies except dormant companies.

- Sections 429 and 431
  - Companies limited by guarantee are required to hold its annual general meeting each financial year within nine months after the end of the financial year and have its audited financial statements laid before the members in that annual general meeting.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 379(4)
  - If, as respects any financial statements a copy of which is laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, a director of the company <u>fails to take all reasonable steps to secure compliance</u> with <u>subsection (1) or (2)</u>, the <u>director</u> commits <u>an offence and is liable to a fine of $300,000</u>.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 379(5)
  - If, as respects any financial statements a copy of which is laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, a <u>director</u> of the company <u>wilfully fails to take all reasonable steps to secure compliance</u> with <u>subsection (1) or (2)</u>, the <u>director</u> commits <u>an offence and is liable to a fine of $300,000 and to imprisonment for 12 months</u>.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 379(6)
  - If a person is charged with an offence under subsection (4), it is a defence to establish that the person had reasonable grounds to believe, and did believe, that a competent and reliable person - (a) was charged with the duty of ensuring that subsection (1) or (2) (as the case may be) was complied with; and (b) was in a position to discharge that duty.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 429(3)
  - A director of a company who fails to take all reasonable steps to secure compliance with subsection (1) commits an offence and is liable to a fine of $300,000.

- Section 429(4)
  - A director of a company who wilfully fails to take all reasonable steps to secure compliance with subsection (1) commits an offence and is liable to a fine of $300,000 and to imprisonment for 12 months.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

i) Companies Ordinance (Cap 622)

- Section 429(5)
  - If a person is charged with an offence under subsection (3) - (a) it is a <u>defence</u> to establish that the person had <u>reasonable grounds to believe</u>, and did believe, that a <u>competent and reliable person</u> - (i) <u>was charged with the duty</u> of ensuring that subsection (1) was <u>complied with</u>; and (ii) was in a <u>position to discharge</u> that duty; and (b) it is <u>not a defence</u> to establish that the <u>financial statements or report was not in fact prepared</u> as required by this Ordinance.

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1. Laws and Requirements on Preparation of Financial Statements

b) By Law

ii) Societies Ordinance (Cap 151)

- No particular requirement on audit of financial statements

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1. Laws and Requirements on Preparation of Financial Statements

c) By Funding Bodies, Government Departments and Other Organisations

i) Funding bodies

- By terms contained in contracts, agreements, letters
- Some even require additional audit or other opinions on other areas in addition to the audited financial statements such as (i) compliance with terms of contracts, guidelines and requirements and (ii) in separate report on internal control

1. Laws and Requirements on Preparation of Financial Statements

c) By Funding Bodies, Government Departments and Other Organisations

ii) Government Departments

- Submission of accounts on application and call for accounts from time to time by the Inland Revenue Department for charitable institutions or trusts of a public character that are exempt from tax under section 88 of the Inland Revenue Ordinance

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1. Laws and Requirements on Preparation of Financial Statements

c) By Funding Bodies, Government Departments and Other Organisations

iii) Other Organisations

- Requirements after becoming member bodies of certain organisations such as one set out in the Constitution of The Hong Kong Council of Social Service as follows:
    - Clause 12(b): Submit copies of audited accounts or certified accounts with regards to annual income and expenditure after the end of their financial year

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2. Financial Reporting Standards in Hong Kong

a) General Principles

i) Accrual Basis of Accounting

- An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- An entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements.
- Depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.

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2. Financial Reporting Standards in Hong Kong

a) General Principles

ii) Going Concern Assumption

- The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.
- Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

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2. Financial Reporting Standards in Hong Kong

a) General Principles

iii) Elements of Financial Statements

- Income
  - The definition of income encompasses both revenue and gains. <u>Revenue</u> arises in the course of the <u>ordinary activities</u> of an entity.
  - Income is <u>recognised</u> in the income statement when an <u>increase in future economic benefits</u> related to an <u>increase in an asset</u> or a <u>decrease of a liability</u> has arisen that can be <u>measured reliably</u>.

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2. Financial Reporting Standards in Hong Kong

a) *General* Principles

iii) Elements of Financial Statements

- Expenses
  - The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. <u>Expenses</u> that arise in the course of the <u>ordinary activities</u> of the entity.
  - Expenses are <u>recognised</u> in the income statement when a <u>decrease in future economic benefits</u> related to a <u>decrease in an asset</u> or an <u>increase of a liability</u> has arisen that can be <u>measured reliably</u>.

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2. Financial Reporting Standards in Hong Kong

a) General Principles

iii) Elements of Financial Statements

- Asset
  - An asset is a <u>resource controlled</u> by the entity as a result of <u>past events</u> and from which <u>future economic benefits</u> are <u>expected to flow</u> to the entity.
  - An asset is <u>recognised</u> in the balance sheet when it is <u>probable</u> that the <u>future economic benefits will flow</u> to the entity and the asset has a cost or value that can be <u>measured reliably</u>.

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2. Financial Reporting Standards in Hong Kong

a) General Principles

iii) Elements of Financial Statements

- Liability
  - A liability is a <u>present obligation</u> of the entity arising from <u>past events</u>, the settlement of which is expected to result in an <u>outflow from the entity of resources</u> embodying <u>economic benefits</u>.
  - A liability is <u>recognised</u> in the balance sheet when it is <u>probable</u> that an <u>outflow of resources</u> embodying <u>economic benefits</u> will result from the <u>settlement of a present obligation</u> and the amount at which the settlement will take place can be <u>measured reliably</u>.

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2. Financial Reporting Standards in Hong Kong

a) General Principles

iii) Elements of Financial Statements

- Equity
  - Equity is the residual interest in the assets of the entity after deducting all its liabilities.

2. Financial Reporting Standards in Hong Kong

a) General Principles

iv) Measurement bases

- Historical cost basis in combination with present/fair value basis for HKFRS and HKFRS for Private Entities
- Historical cost basis for SME-FRS except when revaluation or discounting is allowed

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2. Financial Reporting Standards in Hong Kong

b) Core Statements at a Glance

- Appendix 1: Core Statements at a Glance
  - Statement of Financial Position
  - Statement of Profit or Loss
  - Statement of Changes in Funds
  - Statement of Cash Flows

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Common Issues
  - Cash basis instead of accrual basis of accounting is adopted for either or both income and expenses.
  - Revenue is recognised prematurely on a cash basis.
  - Revenue is not recognised when recognition criteria are met.
  - Expenses are recognised on cash basis without capitalising the portion of prepaid expenses.
  - Expenses are not accrued for when they are incurred.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition
  - Revenue is the gross inflow of <u>economic benefits</u> during the period arising in the course of the <u>ordinary activities</u> of an entity when those inflows result in increases in equity, <u>other than</u> increases relating to <u>contributions</u> from equity participants. (HKAS 18.7)
  - Revenue shall be measured at the <u>fair value</u> of the consideration received or receivable. (HKAS 18.9)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition
  - When the outcome of a transaction involving the <u>rendering of services</u> can be <u>estimated reliably</u>, revenue associated with the transaction shall be <u>recognised by reference to the stage of completion</u> of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

    (a) the amount of <u>revenue</u> can be <u>measured reliably</u>;

    (b) it is <u>probable</u> that the <u>economic benefits</u> associated with the transaction will flow to the entity;

    (c) the <u>stage of completion</u> of the transaction at the end of the reporting period can be <u>measured reliably</u>; and

    (d) the <u>costs incurred</u> for the transaction and the <u>costs to complete</u> the transaction can be <u>measured reliably</u>. (HKAS 18.20)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition
  - The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:
    - (a) surveys of work performed;
    - (b) services performed to date as a percentage of total services to be performed; or
    - (c) the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction. (HKAS 18.24)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition
  - When the outcome of the transaction involving the rendering of services <u>cannot be estimated reliably</u>, revenue shall be recognised only <u>to the extent</u> of the expenses recognised that are <u>recoverable</u>. (HKAS 18.26)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Facts
  - NGO Limited entered into a contract with Funder Limited that NGO Limited would operate a project to be funded by Funder Limited with a mutually agreed budget and service deliverables.
  - Total approved donation and budgeted cost were the same, HK$2,000,000 for two years. Any disqualified expenses would not be supported.
  - Any surplus at the end of the project would be refundable. Any project expenses beyond HK$2,000,000 would be borne by NGO Limited.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Facts

  Year 1:

  - On 1 Jan, HK$ 1,000,000 was received from Funder Limited.
  - For the year ended 31 Dec, HK$1,200,000 of cost was incurred included HK$1,180,000 of budgeted items yet HK$20,000 of disqualified expenses. Cost to complete the project was HK$1,000,000 expecting no disqualified expenses to be incurred.
  - All service deliverables were met.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Facts

  Year 2:

  - On 1 Jan, HK$ 1,000,000 was received from Funder Limited.
  - For the year ended 31 Dec, HK$800,000 of cost was incurred to complete the project with no disqualified expenses.
  - All service deliverables were met.

2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Suggested Solution

  Year 1:

  - On 1 Jan, HK$ 1,000,000 received from Funder Limited should first be recorded as deferred income/receipt in advance before any expenses were incurred.
  - At 31 Dec, HK$1,180,000 of cost was incurred (qualified expenses only) compared to total estimated cost of HK$2,180,000. In terms of stage of completion, the project was considered to be 54.13% complete.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Suggested Solution

  Year 1:

  - As total estimated cost exceeded the approved donation of HK$2,000,000, the portion of cost incurred (qualified expenses only) that was recoverable amounted to HK$1,082,569*.
  - At 31 Dec, the deferred income/receipt in advance of HK$1,000,000 was de-recognised, accounts receivable of HK$82,569 was recognised and donation of HK$1,082,569 was recognised.

  (HK$1,180,000/HK$2,180,000 x HK$2,000,000)*

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Suggested Solution

  Year 2:

  - On 1 Jan, HK$ 1,000,000 received from Funder Limited should first be recorded as deferred income/receipt in advance before any expenses were incurred.
  - At 31 Dec, HK$1,980,000 of cost was incurred (qualified expenses only) compared to total estimated cost of HK$1,980,000. In terms of stage of completion, the project was considered to be 100.00% complete.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Suggested Solution

  Year 2:

  - As total estimated cost was below the approved donation of HK$2,000,000, the cost incurred (qualified expenses only) that was recoverable amounted to HK$1,980,000.
  - At 31 Dec, the deferred income/receipt in advance of HK$1,000,000 was de-recognised, surplus refundable to Funder Limited of HK$20,000 was recognised and donation of HK$897,431* was recognised.

(HK$1,980,000 – HK$1,082,569)*

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Case No. 1- Suggested Solution
  - Appendix 2: Affected Financial Statement Items for Case No. 1

2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- Common Issues
  - Grants were recognised on cash basis as opposed to accrual basis of accounting.
  - Accounting for grants related to assets was surprisingly the same compared with those for grants related to income regardless of different financial reporting requirements.
  - Capital assets funded by grants related to assets were not capitalised.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
  - Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. (HKAS 20.3)
  - Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

    (a) the entity will comply with the conditions attaching to them; and

    (b) the grants will be received. (HKAS 20.7)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
  - Government grants shall be <u>recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses</u> the related costs for which the grants are <u>intended to compensate</u>. (HKAS 20.12)
  - Grants related to <u>assets</u> are government grants whose primary condition is that an entity qualifying for them should <u>purchase, construct or otherwise acquire long-term assets</u>. (HKAS 20.3)
  - Grants related to <u>income</u> are government grants <u>other than those related to assets</u>. (HKAS 20.3)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
  - Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. (HKAS 20.24)
  - One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. (HKAS 20.26)
  - The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. (HKAS 20.27)

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
    - Grants related to income are presented as part of profit or loss, either <u>separately</u> or under a general heading such as "Other income"; alternatively, they are <u>deducted in reporting the related expense</u>. (HKAS 20.9)

2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- Case No. 2- Facts
  - A government agency approved a grant of HK$300,000 to fund purchase of a prescribed equipment for NGO Limited.
  - The receipt of the grant and purchase of the equipment both took place at the beginning of the year on 1 Jan.
  - The actual purchase cost was HK$330,000 and the amount in excess of the grant was borne by NGO Limited.
  - The equipment had a useful live of 5 years.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- Case No. 2 - Suggested Solution

  Method 1

  - For the year ended 31 Dec, government grant of HK$60,000 and depreciation of $66,000 were recorded in the statement of profit or loss.
  - At 31 Dec, the equipment had a carrying amount of HK$264,000 and deferred income of HK$240,000 remained on the statement of financial position.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- Case No. 2 - Suggested Solution

  Method 2

  - For the year ended 31 Dec, depreciation of $6,000 was recorded in the statement of profit or loss after the gross depreciation amount of HK$66,000 was reduced by the grant amount of HK$60,000.
  - As at 31 Dec, the equipment had a carrying amount of HK$24,000 after the gross cost of HK$330,000 deducted government grant related to assets of HK$300,000 and accumulated depreciation of HK$6,000.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- Case No. 2 - Suggested Solution
  - Appendix 3: Affected Financial Statement Items for Case No. 2

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

iii) Allocation and Combination of Income and Expenses

- Common Issues
  - Arbitrary allocation of income and expenses among service units and projects could affect recoverability of revenue.
  - Inter-service unit income and expenses were omitted from elimination when service units are combined for the entity-wide financial statements.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

iv) Requirements on Financial Statements in addition to HKFRS

- Common Issues
  - Additional requirements usually in the form of note disclosures were imposed by funding bodies but either omitted from or not accurately compiled in the financial statements.
  - Additional reconciliations were not added to explain the differences between figures from different bases of accounting in note disclosures imposed by funding bodies, for example from cash basis to accrual basis.

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2. Financial Reporting Standards in Hong Kong

c) Common Financial Reporting Issues

v) Recording of Expenses

- Common Issues
  - Capital assets were recorded as expenses in the statements of profit or loss.
  - Insufficient number of ledger accounts were used to record expenses of different nature.

2. Financial Reporting Standards in Hong Kong

d) Simpler Sets of Standards than HKFRS

i) HKFRS for Private Entities

- Key differences from HKFRS
  - Single and standalone
  - Condensed and specifically tailored for private entities
  - Simplied version of HKFRS with same fundamental principles and fallback option to HKFRS
  - Accounting policy options both added and removed
  - Ease the burden of full HKFRS with significant reduction in disclosure requirements and exclusions of sections applicable only to listed entities
  - Full retrospective adjustments with some optional exemptions, unless impracticable and comparatives not required to be restated if undue cost or effort is involved
  - Reviewed and updated on a rolling three-year basis, much less frequent than HKFRS
  - Stringent revenue recognition requirements for government grants

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2. Financial Reporting Standards in Hong Kong

d) Simpler Sets of Standards than HKFRS

ii) SME-FRS

- Key differences from HKFRS
  - Self-contained and standalone
  - Exemption from giving a true and fair view
  - Historical cost based with much briefer and simplier accounting policies and explanatory notes than HKFRS and no fallback option to HKFRS
  - Subsidiaries can be excluded from consolidation on the grounds of expense and delay out of proportion to the value to members of the company
  - No requirement on derivatives except for forward contracts
  - Accounting for deferred taxation is not required
  - Optional cash-flow statement
  - Full retrospective adjustments unless impracticable and comparatives not required to be restated if undue cost or effort is involved

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2. Financial Reporting Standards in Hong Kong

d) Simpler Sets of Standards than HKFRS

iii) Eligibility for adoption

- Appendix 4: Extracts from High Level Comparison Between HKFRS for Private Entities and SME-FRS
- Link to High Level Comparison Between HKFRS for Private Entities and SME-FRS
  http://www.hkicpa.org.hk/file/media/section6_standards/standards/hkfrs-pe-info-center/hcomp.pdf

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2. Financial Reporting Standards in Hong Kong

d) Simpler Sets of Standards than HKFRS

iv) Sets of Standards with Illustrative Financial Statements

- Link to HKFRS for Private Entities
  http://app1.hkicpa.org.hk/ebook/index.php

- Link to SME-FRS
  http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeII/sme-frf&sme-frs_re.pdf

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3. Practical Tips on Preparing Financial Statements and for Audits

- Obtain understanding on the related laws and requirements
- Take ownership of reporting responsibilities
- Deploy sufficient internal resource or outsource
- Identify accountant and auditor on an honorary basis
- Budget for accounting and audit services
- Select service providers not only based on cost but also other considerations such as quality and reputation

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3. Practical Tips on Preparing Financial Statements and for Audits (cont'd)

- Agree on what are to be prepared for the audit, i.e. a list of documents to be prepared by client (“PBC listing”)
  - Management accounts, trial balance, accounting ledger, journal entries, supporting documents, schedules, breakdowns, contracts, budgets agreed with funding bodies, operational/project reports, letters and other means of key pieces of communication, estimated costs to complete contracts, etc.
- Agree on the different reporting timelines and availability for involved parties

4. Questions and Answers

Thank You

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