Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 55

(Issued October 2008)

This Update contains:

- *Improvements to HKFRSs*
- Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Editorial changes

Document Reference and Title	*Instructions*	*Explanations*
VOLUME II		
Contents of Volume II	Discard the existing pages i and ii and replace with the new pages i and ii.	Revised contents pages
PREFACE AND FRAMEWORK		
Preface to Hong Kong Financial Reporting Standards	Insert page 1A after cover page.	Editorial changes
Framework for the Preparation and Presentation of Financial Statements	Insert cover page and page i before page 1.	Editorial changes
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 1 (Revised) *Presentation of Financial Statements*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 2 *Inventories*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 7 *Cash Flow Statements*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes

HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 10 *Events after the Balance Sheet Date*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 16 *Property, Plant and Equipment*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 18 *Revenue*	Replace cover page with revised cover page. Insert page 1A after cover page and page 17 after page 16.	Improvements to HKFRSs – Note 1, amendments to HKFRS 1 and HKAS 27 – Note 2 & editorial changes
HKAS 19 *Employee Benefits*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 21 *The Effects of Changes in Foreign Exchange Rates*	Insert page 1A after cover page, pages 21F after page 21E and page 32 after page 31.	Amendments to HKFRS 1 and HKAS 27 – Note 2 & editorial changes
HKAS 23 (Revised) *Borrowing Costs*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 27 (Revised) *Consolidated and Separate Financial Statements*	Replace cover page, pages 2, 3, 16 and 33 with revised cover page, pages 2, 3, 16 and 33. Insert page 1A after cover page, pages 15A – 15B after page 15 and pages 33A – 33D after page 33.	Improvements to HKFRSs – Note 1, amendments to HKFRS 1 and HKAS 27 – Note 2 & editorial changes
HKAS 28 *Investments in Associates*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 29 *Financial Reporting in Hyperinflationary Economies*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 31 *Interests in Joint Ventures*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes

HKAS 32 *Financial Instruments: Presentation*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 34 *Interim Financial Reporting*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 36 *Impairment of Assets*	Replace cover page and page 51E with revised cover page and page 51E. Insert page 1A after cover page and page 51F after page 51E.	Improvements to HKFRSs – Note 1, amendments to HKFRS 1 and HKAS 27 – Note 2 & editorial changes
HKAS 38 *Intangible Assets*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 39 *Financial Instruments: Recognition and Measurement*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 40 *Investment Property*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKAS 41 *Agriculture*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
Other Hong Kong Accounting Standards (HKAS 1, HKAS 11, HKAS 12, HKAS 14, HKAS 17, HKAS 23, HKAS 24, HKAS 26, HKAS 27, HKAS 33 and HKAS 37)	Insert page 1A after cover page.	Editorial changes

HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*	Replace cover page, pages 3, 26, 28 and 50A – 50C with revised cover page, pages 3, 26, 28 and 50A – 50C. Insert page 1A after cover page, pages 25A – 25B after page 25 and pages 50D – 50F after page 50C.	Improvements to HKFRSs – Note 1, amendments to HKFRS 1 and HKAS 27– Note 2 & editorial changes
HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes
HKFRS 7 *Financial Instruments: Disclosures*	Replace cover page with revised cover page. Insert page 1A after cover page.	Improvements to HKFRSs – Note 1 & editorial changes

Improvements to HKFRSs	Insert these pages after HKFRS 8 *Operating Segments*.	Improvements to HKFRSs – Note 1
Other Hong Kong Financial Reporting Standards (HKFRS 2, HKFRS 3, HKFRS 3 (Revised), HKFRS 4, HKFRS 6 and HKFRS 8)	Insert page 1A after cover page.	Editorial changes

HONG KONG (IFRIC) INTERPRETATIONS (HK(IFRIC)-Int)

All Hong Kong (IFRIC) Interpretations (HK(IFRIC)-Int 1, HK(IFRIC)-Int 2 and HK(IFRIC)-Int 4 – 16)	Insert page 1A after cover page.	Editorial changes

HONG KONG INTERPRETATIONS (HK-Int)

All Hong Kong Interpretations (HK-Int 1, HK-Int 3 and HK-Int 4)	Insert page 1A after cover page.	Editorial changes

HONG KONG (SIC) INTERPRETATIONS (HK(SIC)-Int)

All Hong Kong (SIC) Interpretations (HK(SIC)-Int 10, HK(SIC)-Int 12, HK(SIC)-Int 13, HK(SIC)-Int 15, HK(SIC)-Int 21, HK(SIC)-Int 25, HK(SIC)-Int 27, HK(SIC)-Int 29, HK(SIC)-Int 31 and HK(SIC)-Int 32)	Insert cover page and page i before page 1.	Editorial changes

GLOSSARY OF TERMS RELATING TO HONG KONG FINANCIAL REPORTING STANDARDS

Glossary of Terms Relating to Hong Kong Financial Reporting Standards	Insert page 1A after cover page.	Editorial changes

SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING FRAMEWORK AND FINANCIAL REPORTING STANDARD

Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard	Replace page ii with revised page ii.	Editorial changes

ACCOUNTING GUIDELINES (AG)

AG 1 *Preparation and Presentation of Accounts from Incomplete Records*	Insert cover page and page i before page 1.	Editorial changes
AG 5 *Merger Accounting for Common Control Combinations*	Insert page 1A after cover page.	Editorial changes
AG 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*	Insert page 1A after cover page.	Editorial changes

ACCOUNTING BULLETINS (AB)

All Accounting Bulletins (AB1 and AB 3)	Insert cover page and page i before page 1.	Editorial changes

Notes:

1. BACKGROUND ABOUT *IMPROVEMENTS TO HKFRSs*:

The International Accounting Standards Board (IASB) decided to initiate an annual improvements project in 2007 as a method of making necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. The IASB's objective is to ease the burden for all concerned by presenting the amendments in a single document rather than as a series of piecemeal changes. The amendments issued are presented in two parts:

Part I of *Improvements to HKFRSs* contains amendments that result in accounting changes for presentation, recognition or measurement purposes with the rationale included in related Bases for Conclusions. The following table shows the list of HKFRSs where amendments have been made.

HKFRS	**Subject of amendment contained in Part I**
HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Plan to sell the controlling interest in a subsidiary
HKAS 1 *Presentation of Financial Statements*	Current/non-current classification of derivatives
HKAS 16 *Property, Plant and Equipment*	Recoverable amount
	Sale of assets held for rental
HKAS 19 *Employee Benefits*	Curtailments and negative past service cost
	Plan administration costs
	Replacement of term 'fall due'
	Guidance on contingent liabilities
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Government loans with a below-market rate of interest
HKAS 23 *Borrowing Costs*	Components of borrowing costs
HKAS 27 *Consolidated and Separate Financial Statements*	Measurement of subsidiary held for sale in separate financial statements

HKAS 28 *Investments in Associates*	Required disclosures when investments in associates are accounted for at fair value through profit or loss
	Impairment of investment in associate
HKAS 29 *Financial Reporting in Hyperinflationary Economies*	Description of measurement basis in financial statements
HKAS 31 *Interests in Joint Ventures*	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
HKAS 36 *Impairment of Assets*	Disclosure of estimates used to determine recoverable amount
HKAS 38 *Intangible Assets*	Advertising and promotional activities
	Unit of production method of amortisation
HKAS 39 *Financial Instruments: Recognition and Measurement*	Reclassification of derivatives into or out of the classification of at fair value through profit or loss
	Designating and documenting hedges at the segment level
	Applicable effective interest rate on cessation of fair value hedge accounting
HKAS 40 Investment Property	Property under construction or development for future use as investment property
HKAS 41 *Agriculture*	Discount rate for fair value calculations
	Additional biological transformation

Part II contains amendments that are terminology or editorial changes only, which is expected to have no or minimal effect on accounting.

HKFRS	**Subject of amendment**
HKFRS 7 *Financial Instruments: Disclosures*	Presentation of finance costs
HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Status of implementation guidance
HKAS 10 *Events after the Reporting Period*	Dividends declared after the end of the reporting period
HKAS 18 *Revenue*	Costs of originating a loan
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Consistency of terminology with other HKFRSs
HKAS 29 *Financial Reporting in Hyperinflationary Economies*	Consistency of terminology with other HKFRSs
HKAS 34 *Interim Financial Reporting*	Earnings per share disclosures in interim financial reports
HKAS 40 *Investment Property*	Consistency of terminology with HKAS 8
	Investment property held under lease
HKAS 41 *Agriculture*	Examples of agricultural produce and products
	Point-of-sale costs

2. BACKGROUND ABOUT AMENDMENTS TO HKFRS 1 AND HKAS 27

The amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKAS 27 *Consolidated and Separate Financial Statements* respond to concerns that retrospectively determining cost and applying the cost method in accordance with HKAS 27 on first-time adoption of HKFRSs cannot, in some circumstances, be achieved without undue cost or effort. The amendments address that issue:

(a) by allowing first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and

(b) by removing the definition of the cost method from HKAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor.

The amendments to HKAS 27 also deal with the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation. The amendments require the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

3. EDITORIAL CHANGES

This relates to the new copyright statement of the Hong Kong Institute of Certified Public Accountants for 2008.

MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to October 2008)

Framework
Issued June 1997

Effective upon issue

Framework for the Preparation and Presentation of Financial Statements

Hong Kong Institute of
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HKAS 1 (Revised)
~~Issued December 2007~~Revised October 2008

Effective for annual periods
beginning on or after 1 January 2009*

Hong Kong Accounting Standard 1 (Revised)

Presentation of Financial Statements

* (a) HKAS 1 (Revised) is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. HKAS 1 (Revised) supersedes HKAS 1 issued in 2004, as amended in 2005.

(b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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Hong Kong Accounting Standard 2

Inventories

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 7

Cash Flow Statements

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 8

Accounting Policies, Changes in Accounting Estimates and Errors

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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Hong Kong Accounting Standard 10

Events after the Balance Sheet Date

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 16

Property, Plant and Equipment

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 18

Revenue

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009

Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

Entities shall apply the following amendments when they apply the related amendments to paragraphs 4 and 38A of HKAS 27. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In the rubric, the first sentence is amended as follows:

> Hong Kong Accounting Standard 18 *Revenue* (HKAS 18) is set out in paragraphs 1~~–37~~38. All the paragraphs...

Paragraph 32 is amended and paragraph 38 is added as follows.

32 When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue. ~~When dividends on equity securities are declared from pre-acquisition profits, those dividends are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.~~

38 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKAS 27 *Consolidated and Separate Financial Statements*), issued in October 2008, amended paragraph 32. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 38A of HKAS 27 for an earlier period, it shall apply the amendment in paragraph 32 at the same time.

Hong Kong Accounting Standard 19

Employee Benefits

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009

Hong Kong Accounting Standard 20

Accounting for Government Grants and Disclosure of Government Assistance

This HKFRS is amended as a result of the adoption of *Improvements to HKFRSs* issued in October 2008. An entity shall apply the amendments contained in Part I of *Improvements to HKFRSs* prospectively for government loans received in periods beginning on or after 1 January 2009, and amendments contained in Part II for annual periods beginning on or after 1 January 2009.

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Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

Entities shall apply the following amendment when they apply the related amendments to paragraphs 4 and 38A of HKAS 27.

Paragraph 49 is amended as follows:

49 An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. ~~The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits.~~ A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

Paragraph BC35 is added as follows:

BC35 As part of *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*), issued in May 2008, the Board amended IAS 27 to remove the definition of the 'cost method'. The cost method required an entity to recognise distributions as income only if they came from post-acquisition retained earnings. Distributions received in excess of such profits were regarded as a recovery of the investment and were recognised as a reduction of its cost. Consequently, the Board amended paragraph 49 to remove the reference to pre-acquisition profits and to clarify that a dividend accounted for in accordance with paragraph 38A of IAS 27 cannot be a disposal or partial disposal of a net investment in IAS 21.

HKAS 23 (Revised)
~~Issued June 2007~~Revised October 2008

Effective for annual periods
beginning on or after 1 January 2009*

Hong Kong Accounting Standard 23 (Revised)

Borrowing Costs

*	(a)	HKSA 23 (Revised) is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. HKAS 23 (Revised) supersedes HKAS 23 issued in 2004.
	(b)	An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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HKAS 27 (Revised)
~~Issued March 2008~~Revised October 2008

Effective for annual periods beginning on or after 1 July 2009*

Hong Kong Accounting Standard 27 (Revised)

Consolidated and Separate Financial Statements

* (a) HKAS 27 (Revised) is applicable for annual periods beginning on or after 1 July 2009. Earlier application is permitted. HKAS 27 (Revised) supersedes HKAS 27 issued in 2004, as amended in 2005 and 2007.

(b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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CONTENTS

Hong Kong Accounting Standard 27 *Consolidated and Separate Financial Statements* (HKAS 27) is set out in paragraphs 1 – 46 and Appendi~~x~~ces A and B. All the paragraphs have equal authority. HKAS 27 should be read in the context of the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This revised Standard was issued in March 2008. It supersedes HKAS 27, issued in 2004, as amended in 2005 and 2007.

Appendix B
Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

The following sets out amendments required for this Standard resulting from amendments to HKFRS 1 and HKAS 27 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In paragraph 4, the reference to the 'cost method' is deleted. After paragraph 38, paragraphs 38A–38C are added. After paragraph 45A, paragraphs 45B and 45C are added.

Definitions

4 **…**

~~**The *cost method* is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.**~~

...

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38A **An entity shall recognise a dividend from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.**

38B When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

(a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;

(b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and

(c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation

and the new parent accounts for its investment in the original parent in accordance with paragraph 38(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

38C Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 38B. The requirements in paragraph 38B apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Effective date and transition

45B *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 and HKAS 27), issued in October 2008, deleted the definition of the cost method from paragraph 4 and added paragraph 38A. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the changes for an earlier period, it shall disclose that fact and apply the related amendments to HKAS 18, HKAS 21 and HKAS 36 at the same time.

45C *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 and HKAS 27), issued in October 2008, added paragraphs 38B and 38C. An entity shall apply those paragraphs prospectively to reorganisations occurring in annual periods beginning on or after 1 January 2009. Earlier application is permitted. In addition, an entity may elect to apply paragraphs 38B and 38C retrospectively to past reorganisations within the scope of those paragraphs. However, if an entity restates any reorganisation to comply with paragraph 38B or 38C, it shall restate all later reorganisations within the scope of those paragraphs. If an entity applies paragraph 38B or 38C for an earlier period, it shall disclose that fact.

Appendix ~~B~~C
Comparison with International Accounting Standards

This comparison appendix, which was prepared in March 2008 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 27.

The International Accounting Standard comparable with HKAS 27 is IAS 27 *Consolidated and Separate Financial Statements*.

There are no major textual differences between HKAS 27 and IAS 27.

Appendix A

Amendments to the Basis for Conclusions on other HKFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs accompanying the equivalent converged HKFRSs that are necessary in order to ensure consistency with the revised IAS 27. In the amended paragraphs, new text is underlined and deleted text is struck through.

* * *

The amendments contained in this appendix when this Basis for Conclusions was issued have been incorporated into the text of the relevant Basis for Conclusions.

Appendix B

Amendments to Basis for Conclusions on HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

The following sets out amendments required for this Basis for Conclusions resulting from amendments to HKFRS 1 and HKAS 27 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In the Basis for Conclusions, the heading before paragraph BC65 is amended (new text is underlined). After paragraph BC66C, a heading, paragraphs BC66D–BC66J, another heading and paragraphs BC66K–BC66Q are added.

Measurement of investments in subsidiaries, jointly controlled entities and associates in separate financial statements (2003 revision and 2008 amendments)

Dividend received from a subsidiary, jointly controlled entity or associate

BC66D Before *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* was issued in May 2008, IAS 27 described a 'cost method'. This required an entity to recognise distributions as income only if they came from post-acquisition retained earnings. Distributions received in excess of such profits were regarded as a recovery of investment and were recognised as a reduction in the cost of the investment. To apply that method retrospectively upon first-time adoption of IFRSs in its separate financial statements, an investor would need to know the subsidiary's pre-acquisition retained earnings in accordance with IFRSs.

BC66E Restating pre-acquisition retained earnings would be a task tantamount to restating the business combination (for which IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides an exemption in Appendix B). It might involve subjective use of hindsight, which would diminish the relevance and reliability of the information. In some cases, the restatement would be time-consuming and difficult. In other cases, it would be impossible (because it would involve making judgements about the fair values of the assets and liabilities of a subsidiary at the acquisition date).

BC66F Therefore, in *Cost of an Investment in a Subsidiary*, an exposure draft of proposed amendments to IFRS 1 (published in January 2007), the Board proposed to give first-time adopters an exemption from restating the retained earnings of the subsidiary at the date of acquisition for the purpose of applying the cost method.

BC66G In considering the responses to that exposure draft, the Board observed that the principle underpinning the cost method is that a return of an investment should be deducted from the carrying amount of the investment. However, the wording in the previous version of IAS 27 created a problem in some jurisdictions because it made specific reference to retained earnings as the means of making that assessment. The Board determined that the best way to resolve this issue was to delete the definition of the cost method.

BC66H In removing the definition of the cost method, the Board concluded that an investor should recognise a dividend from a subsidiary, jointly controlled entity or associate as income in its separate financial statements. Consequently, the requirement to separate the retained earnings of an entity into pre-acquisition and post-acquisition components as a method for assessing whether a dividend is a recovery of its associated investment has been removed from IFRSs.

BC66I To reduce the risk that removing the definition of the cost method would lead to investments in subsidiaries, jointly controlled entities and associates being overstated in the separate financial statements of the investor, the Board proposed that the related investment should be tested for impairment in accordance with IAS 36.

BC66J The Board published its revised proposals in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, an exposure draft of proposed amendments to IFRS 1 and IAS 27, in December 2007. Respondents generally supported the proposed amendments to IAS 27, except for the proposal to require impairment testing of the related investment when an investor recognises a dividend. In the light of the comments received, the Board revised its proposal and identified specific indicators of impairment. This was done to narrow the circumstances under which impairment testing of the related investment would be required when an investor recognises a dividend (see paragraph 12(h) of IAS 36). The Board included the amendments in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* issued in May 2008.

Measurement of cost in the separate financial statements of a new parent

BC66K In 2007 the Board received enquiries about the application of paragraph 38(a) when a parent reorganises the structure of its group by establishing a new entity as its parent. The new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent.

BC66L In this type of reorganisation, the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation. In addition, the owners of the original parent have the same relative and absolute interests in the net assets of the new group immediately after the reorganisation as they had in the net assets of the original group before the reorganisation. Finally, this type of reorganisation involves an existing entity and its shareholders agreeing to create a new parent between them. In contrast, many transactions or events that result in a parent–subsidiary relationship are initiated by a parent over an entity that will be positioned below it in the structure of the group.

BC66M Therefore, the Board decided that in applying paragraph 38(a) *in the limited circumstances in which a parent establishes a new parent in this particular manner*, the new parent should measure the cost of its investment in the original parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. In December 2007 the Board published an exposure draft proposing to amend IAS 27 to add a paragraph with that requirement.

BC66N In response to comments received from respondents to that exposure draft, the Board modified the drafting of the amendment (paragraphs 38B and 38C of the Standard) to clarify that it applies to the following types of reorganisations when they satisfy the criteria specified in the amendment:

(a) reorganisations in which the new parent does not acquire all of the equity instruments of the original parent. For example, a new parent might issue equity instruments in exchange for ordinary shares of the original parent, but not acquire the preference shares of the original parent. In addition, a new parent might obtain control of the original parent, but not acquire all of the ordinary shares of the original parent.

(b) the establishment of an intermediate parent within a group, as well as the establishment of a new ultimate parent of a group.

(c) reorganisations in which an entity that is not a parent establishes a new entity as its parent.

BC66O In addition, the Board clarified that the amendment focuses on the measurement of one asset—the new parent's investment in the original parent in the new parent's separate financial statements. The amendment does not apply to the measurement of any other assets or liabilities in the separate financial statements of either the original parent or the new parent or in the consolidated financial statements.

BC66P The Board included the amendment in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* issued in May 2008.

BC66Q The Board did not consider the accounting for other types of reorganisations or for common control transactions more broadly. Accordingly, paragraphs 38B and 38C apply only when the criteria in those paragraphs are satisfied. Therefore, the Board expects that entities would continue to account for transactions that do not satisfy the criteria in paragraphs 38B and 38C in accordance with their accounting policies for such transactions. The Board plans to consider the definition of common control and the accounting for business combinations under common control in its project on common control transactions.

Appendix C

Dissenting opinions (2008 Amendment)

Dissent of Mary E Barth and Philippe Danjou

DO1 Professor Barth and Mr Danjou voted against the publication of the amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements—*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. The reasons for their dissent are set out below.

DO2 These Board members disagree with the **requirement** in paragraphs 38B and 38C of IAS 27 that when a reorganisation satisfies the criteria specified in those paragraphs and the resulting new parent accounts for its investment in the original parent at cost in accordance with paragraph 38(a) of IAS 27, the new parent must measure the cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

DO3 These Board members acknowledge that a new parent could choose to apply paragraph 38(b) of IAS 27 and account for its investment in the original parent in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. However, the new parent then would be required to account for the investment in accordance with IAS 39 in subsequent periods and to account for all other investments in the same category in accordance with IAS 39.

DO4 These Board members also acknowledge, as outlined in paragraph BC66L of the Basis for Conclusions on IAS 27, that this type of reorganisation is different from other types of reorganisations in that the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation, as are the interests of the owners of the original parent in the net assets of those groups. Therefore, using the previous carrying amount to measure the cost of the new parent’s investment in the original parent might be appropriate on the basis that the separate financial statements of the new parent would reflect its position as part of a pre-existing group.

DO5 However, these Board members believe that it is inappropriate to preclude a new parent from measuring the cost of its investment in the original parent at the fair value of the shares that it issues as part of the reorganisation. Separate financial statements are prepared to reflect the parent as a separate legal entity (ie not considering that the entity might be part of a group). Although such a reorganisation does not change the assets and liabilities of the group and therefore should have no accounting effect at the consolidated level, from the perspective of the new parent as a separate legal entity, its position has changed—it has issued shares and acquired an investment that it did not have previously. Also, in many jurisdictions, commercial law or corporate governance regulations require entities to measure new shares that they issue at the fair value of the consideration received for the shares.

DO6 These Board members believe that the appropriate measurement basis for the new parent’s cost of its investment in the original parent depends on the Board’s view of separate financial statements. The Board is or will be discussing related issues in the reporting entity phase of its Conceptual Framework project and in its project on common control transactions. Accordingly, these Board members believe that the Board should have permitted a new parent to measure the cost of its investment in the original parent either at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent or at the fair value of the equity instruments that it issues until the Board discusses the related issues in its projects on reporting entity and common control transactions.

Hong Kong Accounting Standard 28

Investments in Associates

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 29

Financial Reporting in Hyperinflationary Economies

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 31

Interests in Joint Ventures

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 32

Financial Instruments: Presentation

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 34

Interim Financial Reporting

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 36

Impairment of Assets

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

Entity shall apply the following amendments when they apply the related amendments to paragraphs 4 and 38A of HKAS 27.

After paragraph 12(g), a heading and subparagraph (h) are added. After paragraph 140C, paragraph 140D is added.

12 **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

...

Dividend from a subsidiary, jointly controlled entity or associate

(h) for an investment in a subsidiary, jointly controlled entity or associate, the investor recognises a dividend from the investment and evidence is available that:

(i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or

(ii) the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.

140D *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKAS 27), issued in October 2008, added paragraph 12(h). An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 38A of HKAS 27 for an earlier period, it shall apply the amendment in paragraph 12(h) at the same time.

Appendix E

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at August 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 36.

The International Accounting Standard comparable with HKAS 36 is IAS 36 *Impairment of Assets.*

There are no major textual differences between HKAS 36 and IAS 36.

Hong Kong Accounting Standard 38

Intangible Assets

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 39

Financial Instruments: Recognition and Measurement

(a) The related amendments to HKAS 39 and HKFRS 7 on the *Reclassification of Financial Assets* are set out in Appendix D of this HKAS 39 issued in October 2008. An entity shall apply those amendments from 1 July 2008.

(b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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Hong Kong Accounting Standard 40

Investment Property

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

Hong Kong Accounting Standard 41

Agriculture

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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HKFRS 1
Revised ~~May 2006~~October 2008

Effective for annual periods
beginning on or after 1 January 2004

Hong Kong Financial Reporting Standard 1

First-time Adoption of Hong Kong Financial Reporting Standards

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 July 2009.

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

BASIS FOR CONCLUSIONS

IMPLEMENTATION GUIDANCE

Hong Kong Financial Reporting Standard 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (HKFRS 1) is set out in paragraphs 1-47F and Appendices A-B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for Hong Kong Financial Reporting Standards. HKFRS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Appendix D

Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) - effective for annual periods beginning on or after 1 January 2009

The following sets out amendments required for this Standard resulting from amendments to HKFRS 1 and HKAS 27 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted.

The rubric is amended (new text is underlined and deleted text is struck through). After paragraph 13(e), paragraph 13(ea) is added. After paragraph 23, a heading and paragraphs 23A and 23B are added. Paragraphs 25A and 34C are amended (deleted text is struck through). After paragraph 44, a heading and paragraph 44A are added. After paragraph 47J, paragraph 47K is added.

In the rubric the first sentence is amended as follows:

Hong Kong Financial Reporting Standard 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (HKFRS 1) is set out in paragraphs 1–~~47J~~ <u>47K</u> …

Recognition and measurement

Exemptions from other HKFRSs

13 An entity may elect to use one or more of the following exemptions:

(a) ...

(ea) investments in subsidiaries, jointly controlled entities and associates (paragraphs 23A and 23B);

(f) ...

Investments in subsidiaries, jointly controlled entities and associates

23A When an entity prepares separate financial statements, HKAS 27 *Consolidated and Separate Financial Statements* requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost or

(b) in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement.*

23B If a first-time adopter measures such an investment at cost in accordance with paragraph 23A(a), it shall measure that investment at one of the following amounts in its separate opening HKFRS statement of financial position:

(a) cost determined in accordance with HKAS 27 or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value (determined in accordance with HKAS 39) at the entity's date of transition to HKFRSs in its separate financial statements or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.

Designation of previously recognised financial instruments

25A HKAS 39 ~~*Financial Instruments: Recognition and Measurement*~~ permits…

Exceptions to retrospective application of other HKFRSs

Non-controlling interests

34C A first-time adopter shall apply the following requirements of HKAS 27 ~~*Consolidated and Separate Financial Statements*~~ (as amended in 2008)…

Presentation and disclosure

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

44A Similarly, if an entity uses a deemed cost in its opening HKFRS statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph 23B), the entity's first HKFRS separate financial statements shall disclose:

(a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;

(b) the aggregate deemed cost of those investments for which deemed cost is fair value; and

(c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Effective date

47K *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 and HKAS 27), issued in October 2008, added paragraphs 13(ea), 23A, 23B and 44A. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the paragraphs for an earlier period, it shall disclose that fact.

Appendix ~~D~~E

Amendments resulting from other HKFRSs

The following sets out amendments required for this Standard resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HK(IFRIC)- Int 12 *Service Concession Arrangements* (issued in March 2007) - effective for annual periods beginning on or after 1 January 2008

Paragraph 9 is amended as follows:

9 The transitional provisions in other HKFRSs apply to changes in accounting policies made by an entity that already uses HKFRSs; they do not apply to a *first-time adopter's* transition to HKFRSs, except as specified in paragraphs 25D, 25H, 34A and 34B.

In paragraph 12(a), the reference to paragraphs 13-25G is changed to 13-25H.

In paragraph 13, subparagraphs (k) and (l) are amended, and subparagraph (m) is inserted, as follows:

(k) leases (paragraph 25F); ~~and~~

(l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G~~)~~.; and

(m) a financial asset or an intangible asset accounted for in accordance with HK(IFRIC)-Int 12 *Service Concession Arrangements* (paragraph 25H).

After paragraph 25G, a new heading and paragraph 25H are inserted as follows:

Service concession arrangements

25H A first-time adopter may apply the transitional provisions in HK(IFRIC)-Int 12 *Service Concession Arrangements*.

HKAS 23 *Borrowing Costs* (issued in June 2007) - effective for annual periods beginning on or after 1 January 2009

In the rubric, the first sentence is amended as follows:

Hong Kong Financial Reporting Standard 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (HKFRS 1) is set out in paragraphs ~~1–47F~~ 1-47G…

Paragraphs 9, 12 and 13 are amended, after paragraph 25H a heading and paragraph 25I are inserted, and paragraph 47G is added as follows:

9 The transitional provisions in other HKFRSs apply to changes in accounting policies made by an entity that already uses HKFRSs; they do not apply to a *first-time adopter's* transition to HKFRSs, except as specified in paragraphs 25D, 25H, 25I, 34A and 34B.

Appendix A

Amendments to Basis for Conclusions on HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued in October 2008) – effective for annual periods beginning on or after 1 January 2009

The following sets out amendments required for this Basis for Conclusions resulting from amendments to HKFRS 1 and HKAS 27 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In the Basis for Conclusions, after paragraph BC58, a heading and paragraphs BC58A–BC58M are added.

Investments in subsidiaries, jointly controlled entities and associates

BC58A IAS 27 *Consolidated and Separate Financial Statements* requires an entity, in its separate financial statements, to account for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39. For those investments that are measured at cost, the previous version of IAS 27 (before *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* was issued in May 2008) required an entity to recognise income from the investment only to the extent the entity received distributions from post-acquisition retained earnings (the 'cost method'). Distributions received in excess of such profits were regarded as a recovery of investment and were recognised as a reduction in the cost of the investment.

BC58B For some jurisdictions, these aspects of IAS 27 led to practical difficulties on transition to IFRSs. In order to apply IAS 27 retrospectively, it would be necessary:

(a) to measure the fair value of the consideration given at the date of acquisition; and

(b) to determine whether any dividends received from a subsidiary after its acquisition were paid out of pre-acquisition retained earnings, which would reduce the carrying amount of the investment in the subsidiary in the parent's separate financial statements.

BC58C If a parent held an investment in a subsidiary for many years, such an exercise might be difficult, or even impossible, and perhaps costly. For example, in some jurisdictions, entities accounted for some previous acquisitions that were share-for-share exchanges using so-called 'merger relief' or 'group reconstruction relief'. In this situation, the carrying amount of the investment in the parent's separate financial statements was based on the nominal value of the shares given rather than the value of the purchase consideration. This might make it difficult or impossible to measure the fair value of the shares given.

BC58D The Board published *Cost of an Investment in a Subsidiary*, an exposure draft of proposed amendments to IFRS 1, in January 2007. In response to the issues outlined in paragraphs BC58A–BC58C, the Board proposed two exemptions from applying the requirements of IAS 27 retrospectively upon first-time adoption of IFRSs:

(a) an alternative approach for determining the cost of an investment in a subsidiary in the separate financial statements of a parent; and

(b) a simplification of the process for determining the pre-acquisition retained earnings of that subsidiary.

BC58E In developing that exposure draft, the Board considered three ways of determining a deemed cost of an investment in a subsidiary at the parent's date of transition to IFRSs in its separate financial statements. These were:

(a) the previous GAAP cost of the investment (previous GAAP deemed cost).

(b) the parent's interest in the subsidiary's assets less liabilities, using the carrying amounts that IFRSs would require in the subsidiary's statement of financial position (net asset deemed cost).

(c) the fair value of the investment (fair value deemed cost).

BC58F The Board decided that the net asset deemed cost option would provide relevant information to users about the subsidiary's financial position at the date of transition to IFRSs and would be relatively easy to determine. The fair value deemed cost option would provide relevant information at the date of transition to IFRSs, but might be more costly and difficult to determine.

BC58G In some situations, the cost of an investment in a subsidiary determined using the previous GAAP carrying amount might bear little resemblance to cost determined in accordance with IAS 27. Therefore, the Board rejected the use of a deemed cost based on the previous GAAP carrying amount. The Board proposed to allow entities a choice between the net asset deemed cost and the fair value deemed cost.

BC58H Respondents to the exposure draft stated that the previous GAAP carrying amount is a more appropriate deemed cost. They argued that:

(a) A net asset deemed cost would not include goodwill or other intangible assets that might be present in a carrying amount determined under previous GAAP. When this is the case, the net asset deemed cost option would understate the assets of the entities for which it is used. The resulting reduction in the carrying amount of the investment could reduce the distributable profits of the parent.

(b) It was difficult to see why, in the light of the exemption in IFRS 1 from applying IFRS 3 retrospectively, the Board did not propose to permit the cost of the investment in a subsidiary under previous GAAP to be used as a deemed cost. When an entity had chosen not to apply IFRS 3 retrospectively to a past business combination, it would be logical not to require it to restate the cost of the related investment in the separate financial statements of the parent.

BC58I In the light of respondents' comments, the Board observed that, in many instances, neither the previous GAAP carrying amount nor the net asset deemed cost represents 'cost'—both numbers could be viewed as being equally arbitrary.

BC58J In order to reduce the cost of adopting IFRSs in the parent entity's separate financial statements without significantly reducing the benefits of those statements, the Board decided to allow entities a choice between the previous GAAP carrying amount and the fair value as deemed cost.

BC58K The Board also agreed with respondents that similar issues arise for investments in associates and jointly controlled entities. As a result, paragraph 23B of the IFRS applies to such investments.

BC58L The Board published its revised proposals in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, an exposure draft of proposed amendments to IFRS 1 and IAS 27, in December 2007. Respondents generally supported the proposed amendments to IFRS 1. The Board included the amendments in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* issued in May 2008.

BC58M In developing the December 2007 exposure draft, the Board decided to address the simplification of the process for determining the pre-acquisition retained earnings of a subsidiary more generally through an amendment to IAS 27. See paragraph 38A of IAS 27 and paragraphs BC66D–BC66J of the Basis for Conclusions on IAS 27.

Appendix B

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKFRS 8 *Operating Segments* (issued in March 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph BC4 is footnoted as follows:

In 2006 IAS 14 was replaced by IFRS 8 *Operating Segments* (as revised in 2007).

HKAS 23 *Borrowing Costs* (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph BC63D a heading and paragraph BC63E are added as follows:

Borrowing costs

BC63E IAS 23 *Borrowing Costs* (as revised in 2007) contains transitional provisions because the Board acknowledged that if an entity has been following the accounting policy of immediately recognising borrowing costs as an expense and has not previously gathered the necessary information for capitalisation of borrowing costs, getting the information retrospectively may be costly. First-time adopters of IFRSs face problems similar to those facing entities that already apply IFRSs. Moreover, although first-time adopters have the option of using fair value as the deemed cost of an asset at the date of transition to IFRSs, this option is not applicable to all qualifying assets, such as inventories. Furthermore, the Board concluded that the existence of the deemed cost option is not sufficient to justify a more stringent requirement for the application of IAS 23 for first-time adopters than for entities that already apply IFRSs. A more stringent requirement for the adoption of the capitalisation treatment could be justified when IFRS 1 was originally issued because capitalisation was then an option. The requirements for the application of mandatory capitalisation, on the other hand, should be the same for entities that already apply IFRSs and for first-time adopters. Therefore, the Board decided to amend IFRS 1, allowing first-time adopters transitional provisions equivalent to those available to entities that already apply IFRSs in paragraphs 27 and 28 of IAS 23, as revised in 2007.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRS 1.

<u>*In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*</u>

Paragraphs BC84 and BC89A are footnoted as follows:

BC84 An entity ... Some of those events might qualify as adjusting events under IAS 10 *Events after the Balance Sheet Date*.* However, if the entity made those estimates on a basis consistent with IFRSs

...

* In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007.

BC89A Nevertheless …. The disclosures in paragraph 36A* inform users of the lack of comparability.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007, paragraph 36A has been deleted.

Paragraph BC92 is amended and paragraphs BC92A–BC92C are added as follows:

BC92 Paragraph 39(a) and (b) of the IFRS requires reconciliations of equity and ~~profit or loss~~ total comprehensive income. The Board concluded that users would also find it helpful to have information about the other adjustments that affect the opening IFRS balance sheet but do not appear in these reconciliations. Because a reconciliation could be voluminous, the IFRS requires disclosure of narrative information about these adjustments, as well as about adjustments to the cash flow statement (paragraph 40 of the IFRS).

BC92A The Board decided to require a first-time adopter to include in its first IFRS financial statements a reconciliation of total comprehensive income (or, if an entity did not report such a total, profit or loss) in accordance with previous GAAP to total comprehensive income in accordance with IFRSs for the latest period reported in accordance with previous GAAP.

BC92B The Board observed that the amendments to IAS 1 in 2007 regarding the presentation of income and expense might result in users having to change their analytical models to include both income and expense that are recognised in profit or loss and those recognised outside profit or loss. Accordingly, the Board concluded that it would be helpful to those users to provide information on the effect and implication of the transition to IFRSs on all items of income and expense, not only those recognised in profit or loss.

BC92C The Board acknowledged that GAAP in other jurisdictions might not have a notion of total comprehensive income. Accordingly, it decided that an entity should reconcile to total comprehensive income in accordance with IFRSs from the previous GAAP equivalent of total comprehensive income. The previous GAAP equivalent might be profit or loss.

HKAS 27 *Consolidated and Separate Financial Statements* (issued in March 2008) – effective for annual periods beginning on or after 1 July 2009

Paragraph BC60 is footnoted as follows:

> In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended ‘minority interests’ to ‘non-controlling interests’.

Hong Kong Financial Reporting Standard 5

Non-current Assets Held for Sale and Discontinued Operations

This HKFRS is amended as a result of the adoption of *Improvements to HKFRSs* issued in October 2008. An entity shall apply the amendments contained in Part I of *Improvements to HKFRSs* for annual periods beginning on or after 1 July 2009, and amendments contained in Part II for annual periods beginning on or after 1 January 2009.

HKFRS 7
~~Issued September 2005~~Revised October 2008

Effective for annual periods
beginning on or after 1 January 2007*

Hong Kong Financial Reporting Standard 7

Financial Instruments:

Disclosures

(a) The related amendments to HKAS 39 and HKFRS 7 on the *Reclassification of Financial Assets* are set out in Appendix F of this HKFRS 7 issued in October 2008. An entity shall apply those amendments from 1 July 2008.

(b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

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Hong Kong Financial Reporting Standard

Improvements to HKFRSs

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CONTENTS

Improvements to HKFRSs

Improvements to HKFRSs

This document sets out amendments to Hong Kong Financial Reporting Standards (HKFRSs) and the related Bases for Conclusions and guidance made in response to the International Accounting Standards Board's (IASB) annual improvements project.

Part I of this document contains amendments that result in accounting changes for presentation, recognition or measurement purposes, with the IASB's rationale included in related Bases for Conclusions. Part II contains amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

The amendments result from proposals that were contained in an exposure draft of proposed amendments to International Financial Reporting Standards (IFRSs) published in October 2007.

The annual improvements project provides a vehicle for making non-urgent but necessary amendments to HKFRSs.

Some amendments involve consequential amendments to other HKFRSs. Those consequential amendments are set out in the HKFRSs affected.

In Part I the effective date of each amendment is included in the HKFRS affected. The effective date for all amendments in Part II is stated at the beginning of Part II.

HKFRSs addressed

The following table shows the topics addressed by these amendments:

Part I

HKFRS	**Subject of amendment**
HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Plan to sell the controlling interest in a subsidiary
HKAS 1 *Presentation of Financial Statements*	Current/non-current classification of derivatives
HKAS 16 *Property, Plant and Equipment*	Recoverable amount
	Sale of assets held for rental
HKAS 19 *Employee Benefits*	Curtailments and negative past service cost
	Plan administration costs
	Replacement of term ‘fall due’
	Guidance on contingent liabilities
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Government loans with a below-market rate of interest
HKAS 23 *Borrowing Costs*	Components of borrowing costs
HKAS 27 *Consolidated and Separate Financial Statements*	Measurement of subsidiary held for sale in separate financial statements
HKAS 28 *Investments in Associates*	Required disclosures when investments in associates are accounted for at fair value through profit or loss
	Impairment of investment in associate
HKAS 31 *Interests in Joint Ventures*	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
HKAS 29 *Financial Reporting in Hyperinflationary Economies*	Description of measurement basis in financial statements
HKAS 36 *Impairment of Assets*	Disclosure of estimates used to determine recoverable amount
HKAS 38 *Intangible Assets*	Advertising and promotional activities
	Unit of production method of amortisation
HKAS 39 *Financial Instruments: Recognition and Measurement*	Reclassification of derivatives into or out of the classification of at fair value through profit or loss
	Designating and documenting hedges at the segment level
	Applicable effective interest rate on cessation of fair value hedge accounting
HKAS 40 *Investment Property*	Property under construction or development for future use as investment property
HKAS 41 *Agriculture*	Discount rate for fair value calculations
	Additional biological transformation

Part II

HKFRS	**Subject of amendment**
HKFRS 7 *Financial Instruments: Disclosures*	Presentation of finance costs
HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Status of implementation guidance
HKAS 10 *Events after the Reporting Period*	Dividends declared after the end of the reporting period
HKAS 18 *Revenue*	Costs of originating a loan
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Consistency of terminology with other HKFRSs
HKAS 29 *Financial Reporting in Hyperinflationary Economies*	Consistency of terminology with other HKFRSs
HKAS 34 *Interim Financial Reporting*	Earnings per share disclosures in interim financial reports
HKAS 40 *Investment Property*	Consistency of terminology with HKAS 8
	Investment property held under lease
HKAS 41 *Agriculture*	Examples of agricultural produce and products
	Point-of-sale costs

PART I

Amendments to Hong Kong Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 8A, 36A and 44C are added.

Classification of non-current assets (or disposal groups) as held for sale

8A An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6–8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Presenting discontinued operations

36A An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required in paragraphs 33–36 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32.

Effective date

44C Paragraphs 8A and 36A were added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity shall not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies HKAS 27 (as amended in October 2008). If an entity applies the amendments before 1 July 2009 it shall disclose that fact. An entity shall apply the amendments prospectively from the date at which it first applied HKFRS 5, subject to the transitional provisions in paragraph 45 of HKAS 27 (amended October 2008).

Appendix to Amendments to HKFRS 5
Amendments to HKFRS 1

Entities shall apply these amendments to HKFRS 1 when they apply the related amendments to HKFRS 5.

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

Paragraph 34C(c) is amended and paragraph 47L is added (new text is underlined and deleted text is struck through).

Recognition and measurement

Exceptions to retrospective application of other HKFRSs

Non-controlling interests

34C A first-time adopter shall apply the following requirements of HKAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) prospectively from the date of transition to HKFRSs:

(a) ...

(c) the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of HKFRS 5.

...

Effective date

47L Paragraph 34C was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.

Amendments to the Basis for Conclusions on HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

After paragraph BC24, a heading, a footnote and paragraphs BC24A-BC24E are added. Paragraphs BC77A and BC79A are added.

Classification of non-current assets to be disposed of as held for sale

Plan to sell the controlling interest in a subsidiary*

* This section and paragraphs BC77A and BC79A were added as a consequence of amendments to IFRS 5 by *Improvements to IFRSs* issued in May 2008.

BC24A In 2007 the Board considered situations in which an entity is committed to a plan to sell the controlling interest in a subsidiary and, after the sale, retains a non-controlling interest in its former subsidiary, taking the form of an investment in an associate, an investment in a joint venture or a financial asset. The Board considered how the classification as held for sale applies to the subsidiary in the consolidated financial statements of the entity.

BC24B The Board noted that paragraph 6 states that 'An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.' The Board also noted that IAS 27 *Consolidated and Separate Financial Statements* (as amended in January 2008) defines control and requires a parent to consolidate a subsidiary until control is lost. At the date control is lost, all the subsidiary's assets and liabilities are derecognised and any investment retained in the former subsidiary is recognised. Loss of control is a significant economic event that changes the nature of an investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. Therefore, the new investor-investee relationship is recognised and measured initially at the date when control is lost.

BC24C The Board concluded that, under the sale plan described above, the controlling interest in the subsidiary is, in substance, exchanged for a non-controlling interest. Therefore, in the Board's view, being committed to a plan involving loss of control of a subsidiary should trigger classification as held for sale. The Board also noted that this conclusion is consistent with IAS 27.

BC24D The Board noted that the subsidiary's assets and liabilities meet the definition of a disposal group in accordance with paragraph 4. Therefore, the Board concluded that all the subsidiary's assets and liabilities should be classified as held for sale, not only the portion of the interest to be disposed of, regardless of whether the entity will retain a non-controlling interest.

BC24E The Board considered the comments received on the proposal set out in its exposure draft of October 2007. In response to comments from some respondents, the Board clarified in the amendment that the criteria for classification as held for sale need to be met.

Presentation of discontinued operations

BC77A The Board considered the comments received on the draft amendments in the 2007 exposure draft of proposed *Improvements to IFRSs*. Some respondents asked the Board to clarify the effects of the proposed amendment on the income statement when the disposal group meets the definition of a discontinued operation. The Board concluded that when a subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32, an entity that is committed to a sale plan involving loss of control of the subsidiary should disclose the information required by paragraphs 33–36. The Board agreed with respondents that presentation should not differ simply because of the form of the disposal group.

Transitional arrangements

BC79A The Board concluded that the effective date of the amendments in paragraphs 8A and 36A for presentation purposes should be 1 July 2009 to be consistent with the effective date of the amendments to IAS 27 (as amended in January 2008) for measurement purposes. Because paragraph 45(c) of IAS 27 provides an exception to retrospective application of the amendments relating to the loss of control of a subsidiary for measurement purposes, the Board required an entity to consider the applicable transitional provisions in IAS 27 when implementing the amendments in paragraphs 8A and 36A.

Amendments to Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (as revised in 2007)

Paragraphs 68 and 71 are amended (new text is underlined and deleted text is struck through). Paragraph 139C is added.

Statement of financial position

Current assets

68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (<u>examples include some</u> financial assets ~~within this category are~~ classified as held for trading in accordance with HKAS 39) and the current portion of non-current financial assets.

Current liabilities

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are <u>some</u> financial liabilities classified as held for trading in accordance with HKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

Transition and effective date

139C Paragraphs 68 and 71 were amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on HKAS 1 *Presentation of Financial Statements*

A subheading and paragraphs BC38A-BC38D are added after the heading 'Statement of financial position' before paragraph BC39.

Current assets and current liabilities (paragraphs 68 and 71)

BC38A As part of its improvements project in 2007, the Board identified inconsistent guidance regarding the current/non-current classification of derivatives. Some might read the guidance included in paragraph 71 as implying that financial liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are always required to be presented as current.

BC38B The Board expects the criteria set out in paragraph 69 to be used to assess whether a financial liability should be presented as current or non-current. The 'held for trading' category in paragraph 9 of IAS 39 is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.

BC38C The Board reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is not held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non-current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities.

BC38D Therefore, the Board decided to remove the identified inconsistency by amending the examples of current liabilities in paragraph 71. The Board also amended paragraph 68 in respect of current assets to remove a similar inconsistency.

Amendments to Hong Kong Accounting Standard 16
Property, Plant and Equipment

Paragraphs 6 and 69 are amended (new text is underlined and deleted text is struck through). Paragraphs 68A and 81D are added.

Definitions

6 **The following terms are used in this Standard with the meanings specified:**

...

Recoverable amount **is the higher of an asset's ~~net selling price~~ <u>fair value less costs to sell</u> and its value in use.**

...

Derecognition

68A However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with HKAS 18 *Revenue*. HKFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in HKAS 18 ~~*Revenue*~~ for recognising revenue from the sale of goods. HKAS 17 applies to disposal by a sale and leaseback.

Effective date

81D Paragraphs 6 and 69 were amended and paragraph 68A was added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the related amendments to HKAS 7 *Statement of Cash Flows*.

Appendix to Amendments to HKAS 16
Amendments to HKAS 7

Entities shall apply these amendments to HKAS 7 when they apply the related amendments to HKAS 16.

HKAS 7 *Statement of Cash Flows*

Paragraph 14 is amended (new text is underlined and deleted text is struck through). Paragraph 55 is added.

14 Cash flows …

…

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss ~~which~~ that is included in ~~the determination of~~ recognised profit or loss. ~~However,~~ ~~t~~The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of HKAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective date

55 Paragraph 14 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply paragraph 68A of HKAS 16.

Amendments to Basis for Conclusions on HKAS 16 *Property, Plant and Equipment*

After paragraph BC35, a heading, a footnote and paragraphs BC35A-BC35F are added.

Assets held for rental to others*

* Paragraphs BC35A–BC35F were added as a consequence of amendments to IAS 16 by *Improvements to IFRSs* issued in May 2008. At the same time, the Board also amended paragraph 6 by replacing the term 'net selling price' in the definition of 'recoverable amount' with 'fair value less costs to sell' for consistency with the wording used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*.

BC35A The Board identified that, in some industries, entities are in the business of renting and subsequently selling the same assets.

BC35B The Board noted that the Standard prohibits classification as revenue of gains arising from derecognition of items of property, plant and equipment. The Board also noted that paragraph BC35 states the reason for this is 'users of financial statements would consider these gains and the proceeds from an entity's sale of goods in the course of its ordinary activities differently in their evaluation of an entity's past results and their projections of future cash flows.'

BC35C Consistently with that reason, the Board concluded that entities whose ordinary activities include renting and subsequently selling the same assets should recognise revenue from both renting and selling the assets. In the Board's view, the presentation of gross selling revenue, rather than a net gain or loss on the sale of the assets, would better reflect the ordinary activities of such entities.

BC35D The Board concluded that the disclosure requirements of IAS 16, IAS 2 and IAS 18 would lead an entity to disclose relevant information for users.

BC36E The Board also concluded that paragraph 14 of IAS 7 *Statement of Cash Flows* should be amended to present within operating activities cash payments to manufacture or acquire such assets and cash receipts from rents and sales of such assets.

BC36F The Board discussed the comments received in response to its exposure draft of proposed *Improvements to IFRSs* published in 2007 and noted that a few respondents would prefer the issue to be included in one of the Board's major projects such as the revenue recognition project or the financial statement presentation project. However, the Board noted that the proposed amendment would improve financial statement presentation before those projects could be completed and decided to add paragraph 68A as previously exposed. A few respondents raised the concern that the term 'held for sale' in the amendment could be confused with the notion of held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Consequently, the Board clarified in the amendment that IFRS 5 should not be applied in those circumstances.

Amendments to Hong Kong Accounting Standard 19 *Employee Benefits*

Paragraphs 7, 8(b), 32B, 97, 98, 111 and 160 are amended (new text is underlined and deleted text is struck through). Paragraphs 111A and 159D are added.

Definitions

7 **...**

***Short-term employee benefits* are employee benefits (other than termination benefits) ~~which fall due wholly~~ <u>that are due to be settled</u> within twelve months after the end of the period in which the employees render the related service.**

…

***Other long-term employee benefits* are employee benefits (other than post-employment benefits and termination benefits) ~~which do not fall due wholly~~ <u>that are not due to be settled</u> within twelve months after the end of the period in which the employees render the related service.**

...

The *return on plan assets* is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan <u>(other than those included in the actuarial assumptions used to measure the defined benefit obligation)</u> and less any tax payable by the plan itself.

...

***Past service cost* is the ~~increase~~ <u>change</u> in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (~~where~~ <u>when</u> benefits are introduced or ~~improved~~ <u>changed so that the present value of the defined benefit obligation increases</u>) or negative (~~where~~ <u>when</u> existing benefits are ~~reduced~~ <u>changed so that the present value of the defined benefit obligation decreases</u>).**

Short-term employee benefits

8 Short-term employee benefits include items such as:

(b) short-term compensated absences (such as paid annual leave and paid sick leave) where the <u>compensation for the</u> absences ~~are expected to occur~~ <u>is due to be settled</u> within twelve months after the end of the period in which the employees render the related employee service;

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

Multi-employer plans

32B HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to ~~recognise, or~~ disclose information about~~, certain~~ some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

(a) ...

Post-employment benefits: defined benefit plans

Past service cost

97 Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost ~~is recognised~~ over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures p~~P~~ast service cost ~~is measured~~ as the change in the liability resulting from the amendment (see paragraph 64). Negative past service cost arises when an entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.

98 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases ~~where~~ when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains that have ~~already~~ been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits ~~was recognised~~ as current service cost as the service was rendered); and

(e) the effect of plan amendments that reduce benefits for future service (a curtailment).

Curtailment and settlements

111 A curtailment occurs when an entity either:

(a) is demonstrably committed to make a ~~material~~ significant reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan ~~such~~ so that a ~~material~~ significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. ~~An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.~~ Curtailments are often linked with a restructuring. When this is the case ~~Therefore~~, an entity accounts for a curtailment at the same time as for a related restructuring.

111A When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

Effective date

159D Paragraphs 7, 8(b), 32B, 97, 98 and 111 were amended and paragraph 111A was added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply the amendments in paragraphs 7, 8(b) and 32B for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. An entity shall apply the amendments in paragraphs 97, 98, 111 and 111A to changes in benefits that occur on or after 1 January 2009.

160 HKAS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159–159~~C~~D. In applying those changes retrospectively, as required by HKAS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard~~, except~~. The exception is that an entity may disclose the amounts required by paragraph 120A(p) as the amounts are determined for each annual period prospectively from the first annual period presented in the financial statements in which the entity first applies the amendments in paragraph 120A.

Amendments to Basis for Conclusions on HKAS 19 *Employee Benefits*

The rubric and paragraphs BC62 and BC75 are amended and a footnote added (new text is underlined and deleted text is struck through). A heading and paragraphs BC4A-BC4C, BC62A, BC62B and BC97 are added.

The original text has been marked up to reflect the revision of IAS 39 Financial Instruments: Recognition and Measurement *in 2003 and ~~subsequently~~ the issue of IFRS 2* Share-based Payment *in 2004* <u>*and* Improvements to IFRSs *in May 2008*</u>*; new text is underlined and deleted text is struck through. The terminology has not been amended to reflect the changes made by IAS 1* Presentation of Financial Statements *(as revised in 2007).*

For greater clarity and for consistency with other IFRSs, paragraph numbers have been prefixed BC.

This appendix gives the Board's reasons for rejecting certain alternative solutions. Individual Board members gave greater weight to some factors than to others. Paragraphs BC9A–BC9D, BC10A–BC10K, BC48A–BC48EE and BC85A–BC85E ~~are~~ <u>*were*</u> *added in relation to the amendment to IAS 19 issued in December 2004.* <u>*Paragraphs BC4A–BC4C, BC62A, BC62B and BC97 were added by* Improvements to IFRSs *issued in May 2008.*</u>

Definitions

BC4A The IASB identified a perceived inconsistency in the definitions when a compensated absence that is due to the employee but is not expected to occur for more than twelve months is neither an 'other long-term employee benefit' nor a 'short-term compensated absence' as previously defined in paragraphs 7 and 8(b). The IASB decided to amend those definitions and replace the term 'fall due' to remove this potential gap as part of the *Improvements to IFRSs* issued in May 2008.

BC4B Noting respondents' comments on the exposure draft of *Improvements to IFRSs* published in 2007, the IASB concluded that the critical factor in distinguishing between long-term and short-term benefits is the timing of the expected settlement. Therefore, the IASB clarified that other long-term benefits are those that are not *due to be settled* within twelve months after the end of the period in which the employees rendered the service.

BC4C The IASB noted that this distinction between short-term and long-term benefits is consistent with the current/non-current liability distinction in IAS 1 *Presentation of Financial Statements*. However, the fact that for presentation purposes a long-term benefit may be split into current and non-current portions does not change how the entire long-term benefit would be measured.

Past service cost (paragraphs 96–101 of the Standard)

BC62 The distinction between negative past service cost and curtailments would be important if:

(a) a material amount of negative past service cost were amortised over a long period (this is unlikely, as the new IAS 19 requires that negative past service cost should be amortised until the time when those (reduced) benefits that relate to prior service are vested); or

(b) unrecognised past service cost or actuarial gains exist. For a curtailment these would be recognised immediately, whereas they would not be affected directly by negative past service cost.

~~The Board believes that the distinction between negative past service cost and curtailments is unlikely to have any significant effect in practice and that any attempt to deal with exceptional cases would result in excessive complexity.~~*

* Text deleted as a consequence of amendments by *Improvements to IFRSs* issued in May 2008.

BC62A In 2007 the IFRIC reported that practices differ for the recognition of gains or losses on plan amendments that reduce existing benefits, and that such differences in practices can lead to substantial differences in amounts that entities recognise in profit or loss. The IFRIC asked the IASB to clarify when entities should account for those plan amendments as a curtailment instead of as negative past service costs.

BC62B As part of *Improvements to IFRSs* issued in May 2008, the IASB made the distinction between curtailments and negative past service costs clearer. In particular, the Board clarified how a reduction in the extent to which future salary increases are linked to the benefits payable for past service should be treated. The Board noted that an employee is entitled to future salary increases after the reporting date only as a result of future service. Therefore, if a change to a benefit plan affects the extent to which future salary increases after the reporting date are linked to benefits payable for past service, all of the effect of that change on the present value of the defined benefit obligation should be treated as a curtailment, not a negative past service cost. This is consistent with the treatment of a change related to future service.

Plan assets (paragraphs 102–107 of the Standard)

Plan assets: measurement

BC75 In response to comments on E54, the Board decided that all plan administration costs (not just investment administration costs, as proposed in E54), should be deducted in determining the return on plan assets. <u>The IASB concluded that if the actuarial assumptions used to measure the defined benefit obligation include an allowance for plan administration costs, the deduction of such costs in calculating the return on plan assets would result in double-counting them. Therefore, as part of *Improvements to IFRSs* issued in May 2008, the IASB amended the definition of the return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.</u>

Transition and effective date (paragraphs 153–158 of the Standard)

BC97 The IASB concluded that the amendments to paragraphs 7, 8(b) and 32B simply clarified the existing requirements and thus should be applied retrospectively. The amendments to the paragraphs concerning the distinction between negative past service costs and curtailments are to be applied prospectively. The IASB concluded that the cost of analysing past plan amendments using the clarified definitions and restating them would exceed the benefits.

Amendments to Hong Kong Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Paragraph 37 is deleted. Paragraphs 10A and 43 are added.

Government grants

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with HKAS 39 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Government assistance

37 [Deleted] ~~Loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.~~

Effective date

43 Paragraph 37 was deleted and paragraph 10A added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments prospectively to government loans received in periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Addition of Basis for Conclusions on HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

A Basis for Conclusions containing paragraphs BC1–BC5 is added.

Basis for Conclusions on HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

This Basis for Conclusions accompanies, but is not part of, HKAS 20.

HKAS 20 is based on IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. In approving HKAS 20, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 20. Accordingly, there are no significant differences between HKAS 20 and IAS 20. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 20 referred to below generally correspond with those in HKAS 20.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in amending IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* as part of *Improvements to IFRSs* issued in May 2008.

BC2 IAS 20 was developed by the International Accounting Standards Committee in 1983 and did not include a Basis for Conclusions. This Basis refers to the insertion of paragraphs 10A and 43 and the deletion of paragraph 37. Those changes require government loans with below-market rates of interest to be recognised and measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the benefit of the reduced interest to be accounted for using IAS 20.

Accounting for loans from government with a below-market rate of interest

BC3 The Board identified an apparent inconsistency between the guidance in IAS 20 and IAS 39. It related to the accounting for loans with a below-market rate of interest received from a government. IAS 20 stated that no interest should be imputed for such a loan, whereas IAS 39 required all loans to be recognised at fair value, thus requiring interest to be imputed to loans with a below-market rate of interest.

BC4 The Board decided to remove this inconsistency. It believed that the imputation of interest provides more relevant information to a user of the financial statements. Accordingly the Board amended IAS 20 to require that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with IAS 39. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position. This benefit is accounted for in accordance with IAS 20.

BC5 Noting that applying IAS 39 to loans retrospectively may require entities to measure the fair value of loans at a past date, the Board decided that the amendment should be applied prospectively to new loans.

Amendment to Hong Kong Accounting Standard 23 *Borrowing Costs* (as revised in 2007)

> Paragraph 6 is amended (new text is underlined and deleted text is struck through). Paragraph 29A is added.

Definitions

6 Borrowing costs may include:

(a) interest expense calculated using the effective interest rate method as described in HKAS 39 *Financial Instruments: Recognition and Measurement* ~~interest on bank overdrafts and short-term and long-term borrowings~~;

(b) [deleted] ~~amortisation of discounts or premiums relating to borrowings;~~

(c) [deleted] ~~amortisation of ancillary costs incurred in connection with the arrangement of borrowings;~~

(d) finance charges in respect of finance leases recognised in accordance with HKAS 17 *Leases*; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Effective date

29A Paragraph 6 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to Basis for Conclusions on HKAS 23 *Borrowing Costs*

Paragraph BC20 is amended (new text is underlined and deleted text is struck through). A footnote is added.

Definition of borrowing costs

BC20 IAS 23 uses the term 'borrowing costs' whereas SFAS 34 uses the term 'interest costs'. 'Borrowing costs' reflects the broader definition in IAS 23, which encompasses interest and other costs, such as ~~:~~

~~(a)~~ exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs~~;~~.* ~~and~~

~~(b)~~ ~~amortisation of ancillary costs incurred in connection with the arrangement of borrowings.~~

* In 2007 the Board was advised that some of the components of borrowing costs in paragraph 6 are broadly equivalent to the components of interest expense calculated using the effective interest rate method in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Therefore, the Board amended paragraph 6 to refer to the relevant guidance in IAS 39 when describing the components of borrowing costs.

Amendment to Hong Kong Accounting Standard 27 *Consolidated and Separate Financial Statements* (as amended in March 2008)

Paragraph 38 is amended (new text is underlined and deleted text is struck through). Paragraph 45A is added.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38 **When entity prepares separate financial statements ~~are prepared~~, it shall account for investments in subsidiaries, jointly controlled entities and associates ~~that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* shall be accounted for~~ either:**

(a) at cost, or

(b) in accordance with HKAS 39.

The entity shall apply the same accounting ~~shall be applied~~ for each category of investments. Investments ~~in subsidiaries, jointly controlled entities and associates that~~ accounted for at cost shall be accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 ~~shall be accounted for in accordance with that HKFRS~~. The measurement of investments accounted for in accordance with HKAS 39 is not changed in such circumstances.

Effective date and transition

45A Paragraph 38 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009, prospectively from the date at which it first applied HKFRS 5. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to Basis for Conclusions on HKAS 27 *Consolidated and Separate Financial Statements*

Paragraphs BC66A–BC66C are added.

Measurement of investments in subsidiaries, jointly controlled entities and associates in separate financial statements (2003 revision)

BC66A As part of its annual improvements project begun in 2007, the Board identified an apparent inconsistency with IFRS 5. The inconsistency relates to the accounting by a parent in its separate financial statements when investments it accounts for in accordance with IAS 39 are classified as held for sale in accordance with IFRS 5. Paragraph 38 requires an entity that prepares separate financial statements to account for such investments that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5. However, financial assets that an entity accounts for in accordance with IAS 39 are excluded from IFRS 5's measurement requirements.

BC66B Paragraph BC13 of the Basis for Conclusions on IFRS 5 explains that the Board decided that non-current assets should be excluded from the measurement scope of IFRS 5 only 'if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell.' The Board acknowledged in the Basis for Conclusions on IFRS 5 that not all financial assets within the scope of IAS 39 are recognised at fair value with changes in fair value recognised in profit or loss, but it did not want to make any further changes to the accounting for financial assets at that time.

BC66C Therefore, the Board amended paragraph 38 by *Improvements to IFRSs* issued in May 2008 to align the accounting in separate financial statements for those investments that are accounted for in accordance with IAS 39 with the measurement exclusion that IFRS 5 provides for other assets that are accounted for in accordance with IAS 39 before classification as held for sale. Thus, an entity should continue to account for such investments in accordance with IAS 39 when they meet the held for sale criteria in IFRS 5.

Amendments to Hong Kong Accounting Standard 28 *Investments in Associates*

Paragraphs 1 and 33 and the heading above paragraph 41 are amended (new text is underlined and deleted text is struck through). Paragraph 41C is added.

Scope

1 **This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with HKAS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

Application of the equity method

Impairment losses

33 Because goodwill ~~included in~~ that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in HKAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment ~~under~~ in accordance with HKAS 36 as a single asset ~~for impairment~~, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in HKAS 39 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:

(a) ...

Effective date and transition

41C Paragraphs 1 and 33 were amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of HKFRS 7 *Financial Instruments: Disclosures*, paragraph 1 of HKAS 31 and paragraph 4 of HKAS 32 *Financial Instruments: Presentation* issued in October 2008. An entity is permitted to apply the amendments prospectively.

Amendments to Basis for Conclusions on HKAS 28 *Investments in Associates*

After paragraph BC21, headings, a footnote and paragraphs BC22–BC28 are added.

Scope (2008 amendment)*

* Paragraphs BC22–BC28 were added as a consequence of amendments to IAS 28 by *Improvements to IFRSs* issued in May 2008.

BC22 The Board identified an apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in associates at fair value in accordance with IAS 39. These investments are excluded from the scope of IAS 28 and entities are therefore not required to make the disclosures that the Standard would otherwise require. However, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* both require entities that account for investments in associates in accordance with IAS 39 to make the disclosures required by IAS 28 in addition to the disclosures they require.

BC23 The Board decided to remove this inconsistency by deleting from IAS 32 and IFRS 7 the general requirement to make the IAS 28 disclosures, and instead identifying the specific disclosures that should be made. The Board concluded that the specific disclosures it identified would be relevant because of the significant interest entities hold in such investments. The Board also decided to delete from IAS 32 and IFRS 7 the requirement to make the disclosures in IAS 27 because it duplicates the requirement in IAS 27.

Impairment losses (2008 amendment)*

BC24 The Board identified unclear guidance in IAS 28 regarding the extent to which an impairment reversal should be recognised as an adjustment to the carrying amount of an investment in an associate.

BC25 The Board noted that applying the equity method involves adjusting the investor's share of the impairment loss recognised by the associate on assets such as goodwill or property, plant and equipment to take account of the acquisition date fair values of those assets. The Board proposed in the exposure draft *Improvements to International Financial Reporting Standards* published in October 2007 that an additional impairment recorded by the investor, after applying the equity method, should not be allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Therefore, such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the investment increases.

BC26 Some respondents to the exposure draft expressed the view that the proposed amendment was not consistent with IAS 39 (regarding reversal of an impairment loss on an available-for-sale equity instrument), or with IAS 36 *Impairment of Assets*, IAS 27 and the proportionate consolidation method in IAS 31 (regarding the allocation of an impairment loss to goodwill and any reversal of an impairment loss relating to goodwill).

BC27 In its redeliberations, the Board affirmed its previous decisions but, in response to the comments made, decided to clarify the reasons for the amendments to paragraph 33. The Board decided that an investor should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in the associate because the investment is the only asset that the investor controls and recognises.

BC28 The Board also decided that any reversal of this impairment loss should be recognised as an adjustment to the investment in the associate to the extent that the recoverable amount of the investment increases. This requirement is consistent with IAS 36, which permits the reversal of impairment losses for assets other than goodwill. The Board did not propose aligning the requirements for the reversal of an impairment loss with those in IAS 39 relating to equity instruments because an entity recognises an impairment loss on an investment in an associate in accordance with IAS 36, rather than IAS 39.

Dissenting opinion (amendments 2008)

Dissent of Tatsumi Yamada

DO1 Mr Yamada voted against one of the amendments to IAS 28 *Investments in Associates* issued in *Improvements to IFRSs* in May 2008.

DO2 Mr Yamada believes it is inappropriate not to allocate any additional impairment losses to the goodwill and other assets that form part of the carrying amount of the investment in the associate. In his view, because he believes that an investor can identify attributable goodwill when it makes an investment, all impairment losses recognised with respect to the investor's investment in an associate should be allocated to the goodwill and other assets that form part of the carrying amount of the investment.

DO3 Mr Yamada also believes that all impairment losses allocated to goodwill should not be subsequently reversed. In his view the non-allocation of impairment losses to goodwill as required by the amendment and the subsequent reversal of such impairment losses in substance leads to the recognition of internally generated goodwill. He believes that the amendment to IAS 28 is not consistent with paragraphs 124 and 125 of IAS 36 *Impairment of Assets*, which prohibit the reversal of impairment losses related to goodwill.

Amendment to Hong Kong Accounting Standard 31 *Interests in Joint Ventures*

Paragraph 1 and the heading above paragraph 58 are amended (new text is underlined). Paragraph 58B is added.

Scope

1 **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with HKAS 39, with changes in fair value recognised in profit or loss in the period of the change. <u>A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.</u>

Effective date <u>and transition</u>

58B Paragraph 1 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of HKFRS 7 *Financial Instruments: Disclosures*, paragraph 1 of HKAS 28 and paragraph 4 of HKAS 32 *Financial Instruments: Presentation* issued in October 2008. An entity is permitted to apply the amendment prospectively.

Amendments to Basis for Conclusions on HKAS 31 *Interests in Joint Ventures*

A heading, paragraphs BC17 and BC18 and a footnote are added.

Scope (2008 amendment)*

* This section was added as a consequence of an amendment to IAS 31 by *Improvements to IFRSs* issued in May 2008.

BC17 The Board identified an apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for their interests in jointly controlled entities at fair value in accordance with IAS 39. Those interests are excluded from the scope of IAS 31 and the entities are therefore not required to make the disclosures that the Standard would otherwise require. However, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* both require entities that account for interests in jointly controlled entities in accordance with IAS 39 to make the disclosures required by IAS 31 in addition to the disclosures they require.

BC18 The Board decided to remove this inconsistency by deleting from IAS 32 and IFRS 7 the general requirement to make the IAS 31 disclosures, and instead identifying the specific disclosures that should be made. The Board noted that the specific disclosures identified would be relevant because of the significant interest venturers hold in such investments. The Board also decided to delete from IAS 32 and IFRS 7 the requirement to make the disclosures in IAS 27 because it duplicates the requirement in IAS 27.

Appendix to Amendments to HKAS 28 and HKAS 31
Amendments to other HKFRSs

Entities shall apply the amendments to HKFRS 7 and HKAS 32 in this appendix when they apply the related amendments to HKAS 28 and HKAS 31.

HKFRS 7 *Financial Instruments: Disclosures*

Paragraph 3(a) is amended (new text is underlined and deleted text is struck through). Paragraph 44D is added.

Scope

3 This HKFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates ~~and~~ <u>or</u> joint ventures that are accounted for in accordance with HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* or HKAS 31 *Interests in Joint Ventures*. However, in some cases, HKAS 27, HKAS 28 or HKAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using HKAS 39; in those cases, entities shall apply the ~~disclosure~~ requirements <u>of</u> ~~in HKAS 27, HKAS 28 or HKAS 31 in addition to those in~~ this HKFRS. Entities shall also apply this HKFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in HKAS 32.

Effective date and transition

44D Paragraph 3(a) was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 1 of HKAS 28, paragraph 1 of HKAS 31 and paragraph 4 of HKAS 32 issued in October 2008. An entity is permitted to apply the amendment prospectively.

HKAS 32 *Financial Instruments: Presentation*

Paragraph 4(a) and the heading above paragraph 96 are amended (new text is underlined and deleted text is struck through). Paragraph 97D is added.

Scope

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates ~~and~~ <u>or</u> joint ventures that are accounted for in accordance with HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* or HKAS 31 *Interests in Joint Ventures*. However, in some cases, HKAS 27, HKAS 28 or HKAS 31 permits an entity to account for an interest in a subsidiary,

associate or joint venture using HKAS 39; in those cases, entities shall apply the ~~disclosure~~ requirements <u>of</u> ~~in HKAS 27, HKAS 28 or HKAS 31 in addition to those in~~ this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

Effective date <u>and transition</u>

97D Paragraph 4 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of HKFRS 7, paragraph 1 of HKAS 28 and paragraph 1 of HKAS 31 issued in October 2008. An entity is permitted to apply the amendment prospectively.

Amendments to Hong Kong Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 6, 15 and 19 are amended (new text is underlined and deleted text is struck through). These amendments shall be applied for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

The restatement of financial statements

6 Entities that prepare ~~In most countries,~~ financial statements ~~are prepared~~ on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of recognised assets or liabilities ~~held~~. The exceptions to this are those assets and liabilities that the entity is required, or chooses, to measure at fair value~~,~~. For example, ~~except to the extent that~~ property, plant and equipment ~~and investments~~ may be revalued to fair value and biological assets are generally required to be measured at fair value. Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.

15 Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. ~~Hence~~For example, property, plant and equipment, ~~investments,~~ inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

19 The restated amount of a non-monetary item is reduced, in accordance with appropriate HKFRSs ~~Standards~~, when it exceeds its ~~the~~ recoverable amount ~~recoverable from the item's future use (including sale or other disposal)~~. ~~Hence~~ For example, ~~in such cases,~~ restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount~~,~~ and restated amounts of inventories are reduced to net realisable value ~~and restated amounts of current investments are reduced to market value~~.

Addition of Basis for Conclusions on HKAS 29 *Financial Reporting in Hyperinflationary Economies*

A Basis for Conclusions containing paragraphs BC1 and BC2 is added.

Basis for Conclusions on HKAS 29 *Financial Reporting in Hyperinflationary Economies*

This Basis for Conclusions accompanies, but is not part of, HKAS 29.

HKAS 29 is based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. In approving HKAS 29, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 29. Accordingly, there are no significant differences between HKAS 29 and IAS 29. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 29 referred to below generally correspond with those in HKAS 29.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 29 *Financial Reporting in Hyperinflationary Economies* in 2008. Individual Board members gave greater weight to some factors than to others.

BC2 Paragraph 6 of the previous version of the Standard did not reflect the fact that a number of assets and liabilities may or must be measured on the basis of a current value rather than a historical value. Therefore, the Board included examples rather than a definitive list of such items by *Improvements to IFRSs* issued in May 2008.

Amendment to Hong Kong Accounting Standard 36 *Impairment of Assets*

Paragraph 134(e) is amended (new text is underlined and deleted text is struck through). Paragraph 140C is added.

Disclosure

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

134 **An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) a description of management's approach to determining the value~~(s)~~ <u>(or values)</u> assigned to each key assumption, whether those value~~(s)~~ reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

<u>If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:</u>

<u>(iii) the period over which management has projected cash flows.</u>

<u>(iv) the growth rate used to extrapolate cash flow projections.</u>

<u>(v) the discount rate(s) applied to the cash flow projections.</u>

Transitional provisions and effective date

140C Paragraph 134(e) was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to Basis for Conclusions on HKAS 36 *Impairment of Assets*

A heading, a footnote and paragraph BC209A are added.

Changes as a result of *Improvements to IFRSs* (2008)*

* This heading and paragraph BC209A were added by *Improvements to IFRSs* issued in May 2008.

BC209A The Board noted that the disclosures that IAS 36 requires when value in use is used to determine recoverable amount differ from those required when fair value less costs to sell is used. These differing requirements appear inconsistent when a similar valuation methodology (discounted cash flows) has been used. Therefore, as part of *Improvements to IFRSs* issued in May 2008, the Board decided to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.

Amendments to Hong Kong Accounting Standard 38 *Intangible Assets*

Paragraphs 69, 70 and 98 are amended (new text is underlined and deleted text is struck through). Paragraphs 69A and 130D are added.

Recognition of an expense

69 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In th~~ese~~ cases~~,~~ of the supply of goods, the entity recognises such expenditure ~~is recognised~~ as an expense when ~~it is incurred.~~ it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 54), except when it is acquired as ~~forms~~ part of a business combination. Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) ...

(c) expenditure on advertising and promotional activities (including mail order catalogues).

(d) ...

69A An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver an advertisement to customers.

70 Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for ~~the delivery of~~ goods ~~or services~~ has been made in advance of the entity obtaining a right to access those goods. ~~delivery of goods or the rendering of services.~~ Similarly, paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Intangible assets with finite useful lives

Amortisation period and amortisation method

98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. ~~There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight line method.~~

Transitional provisions and effective date

130D Paragraphs 69, 70 and 98 were amended and paragraph 69A was added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on HKAS 38 *Intangible Assets*

After paragraph BCZ46 a heading, a footnote and paragraphs BC46A–BC46I are added. After paragraph BC72 a subheading, a footnote and paragraph BC72A are added.

Application of the recognition criteria for internally generated intangible assets

*2008 Amendments**

* This heading and paragraphs BC46A–BC46I were added by *Improvements to IFRSs* issued in May 2008.

BC46A Paragraph 68 states that expenditure on an internally developed intangible item shall be recognised as an expense when it is incurred. The Board noted that it was unclear to some constituents how this should be interpreted. For example, some believed that an entity should recognise expenditure on advertising and promotional activities as an expense when it received the goods or services that it would use to develop or communicate the advertisement or promotion. Others believed that an entity should recognise an expense when the advertisement or promotion was delivered to its customers or potential customers. Therefore, the Board decided to amend paragraph 69 to clarify the meaning of 'incurred'.

BC46B The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Goods or services that are acquired to be used to undertake advertising or promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods or services is to develop or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets.

BC46C The Board concluded that it would be inconsistent for an entity to recognise an asset in respect of an advertisement that it had not yet published if the economic benefits that might flow to the entity as a result of publishing the advertisement are the same as those that might flow to the entity as a result of the brand or customer relationship that it would enhance or create. Therefore, the Board concluded that an entity should not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities.

BC46D In reaching this conclusion the Board noted that, if an entity pays for advertising goods or services in advance and the other party has not yet provided those goods or services, the entity has a different asset. That asset is the right to receive those goods and services. Therefore, the Board decided to retain paragraph 70, which allows an entity to recognise as an asset the right to receive those goods or services. However, the Board did not believe that this paragraph should be used as a justification for recognising an asset beyond the point at which the entity gained a right to access the related goods or received the related services. Therefore, the Board decided to amend the paragraph to make clear that a prepayment may be recognised by an entity only until that entity has gained a right to access to the related goods or has received the related services.

BC46E The Board noted that when the entity has received the related goods or services, it ceases to have the right to receive them. Because the entity no longer has an asset that it can recognise, it recognises an expense. However, the Board was concerned that the timing of delivery of goods should not be the determinant of when an expense should be recognised. The date on which physical delivery is obtained could be altered without affecting the commercial substance of the arrangement with the supplier. Therefore, the Board decided that an entity should recognise an expense for goods when they have been completed by the supplier in accordance with a contract to supply them and the entity could ask for delivery in return for payment—in other words, when the entity had gained a right to access the related goods.

BC46F A number of commentators on the exposure draft of *Improvements to IFRSs* published in 2007 thought that it was unclear when the Board intended an expense to be recognised. In response to those comments, the Board added paragraph 69A to clarify when entities would gain a right to access goods or receive services.

BC46G The Board also received a number of comments arguing that mail order catalogues are not a form of advertising and promotion but instead give rise to a distribution network. The Board rejected these arguments, believing that the primary objective of mail order catalogues is to advertise goods to customers. To avoid confusion, the Board decided to include mail order catalogues in the Standard as an example of advertising activities.

BC46H Some respondents who argued that the cost of mail order catalogues should be capitalised suggested that making an analogy to web site costs in SIC-32 *Intangible Assets—Web Site Costs* would be appropriate. The Board agreed and concluded that its proposed amendments would result in accounting that is almost identical to that resulting from the application of SIC-32. In particular, SIC-32 requires the cost of content (to the extent that it is developed to advertise and promote products and services) to be recognised as an expense as it is incurred. The Board concluded that in the case of a mail order catalogue, the majority of the content is intended to advertise and promote products and services. Therefore, permitting the cost of catalogues to be capitalised while at the same time requiring the cost of developing and uploading web site content used to advertise and promote an entity's products to be recognised as an expense would base the accounting on the nature of the media (paper or electronic) used to deliver the content rather than the nature of the expenditure.

BC46I The Board also noted that SIC-32 permits expenditure on an internally developed web site to be capitalised only in the 'application and infrastructure development stage'. It requires costs associated with developing the functionality and infrastructure that make a web site operate to be capitalised. In the Board's view, the electronic infrastructure capitalised in accordance with SIC-32 is analogous to the property, plant and equipment infrastructure—for example, a sign—that permits advertising to be displayed to the public not the content that is displayed on that sign.

Intangible assets with finite useful lives (paragraph 98)*

* This heading and paragraph BC72A were added by *Improvements to IFRSs* issued in May 2008.

BC72A The last sentence of paragraph 98 previously stated, 'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight line method.' In practice, this wording was perceived as preventing an entity from using the unit of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 38.

Dissenting opinion (amendments 2008)

Dissent of James J Leisenring

DO1 Mr Leisenring dissents from the amendments to IAS 38 *Intangible Assets* made by *Improvements to IFRSs* issued in May 2008.

DO2 Mr Leisenring believes that the Board's amendments introduce a logical flaw into IAS 38. Paragraph 68 states that 'expenditure on an intangible item shall be recognised as an expense when it is incurred unless' specific conditions apply. The amendments to paragraph 69 include guidance on the accounting for expenditure on a tangible rather than an intangible item and therefore the amendment to paragraph 69 is inconsistent with paragraph 68.

DO3 Extending the application of IAS 38 to tangible assets used for advertising also raises application concerns. Are signs constructed by a restaurant chain at their location an advertising expense in the period of construction? Would the costs of putting an entity's name on trucks, airplanes and buildings be an advertising expense in the year incurred? The logic of this amendment would suggest an affirmative answer to these questions even though the result of the expenditure benefits several periods.

DO4 Mr Leisenring believes that if an entity acquires goods, including items such as catalogues, film strips or other materials, the entity should determine whether those goods meet the definition of an asset. In his view, IAS 38 is not relevant for determining whether goods acquired by an entity and which may be used for advertising should be recognised as an asset.

DO5 Mr Leisenring agrees that the potential benefit that might result from having advertised should not be recognised as an intangible asset in accordance with IAS 38.

Amendments to Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 9, 73 and AG8 are amended (new text is underlined and deleted text is struck through). Paragraphs 50A and 108C are added.

Definitions

9 **The following terms are used in this Standard with the meanings specified:**

…

Definitions of four categories of financial instruments

A *financial asset or financial liability at fair value through profit or loss* is a financial asset or financial liability that meets either of the following conditions.

(a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if ~~it is~~:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) ...

Measurement

Reclassifications

50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:

(a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

(b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;

(c) financial assets are reclassified when an insurance company changes its accounting policies in accordance with paragraph 45 of HKFRS 4.

Hedging

Hedging instruments

Qualifying instruments

73 For hedge accounting purposes, only instruments that involve a party external to the reporting entity (ie external to the group~~, segment~~ or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group ~~or in segment reporting~~ provided that they are external to the individual entity ~~or segment~~ that is being reported on.

Effective date and transition

108C Paragraphs 9, 73 and AG8 were amended and paragraph 50A added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. An entity shall apply the amendments in paragraphs 9 and 50A as of the date and in the manner it applied the 2005 amendments described in paragraph 105A. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendment to application guidance on HKAS 39 *Financial Instruments: Recognition and Measurement*

Definitions (paragraphs 8 and 9)

Effective interest rate

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense ~~in profit or loss~~.

Amendments to Basis for Conclusions on HKAS 39 *Financial Instruments: Recognition and Measurement*

After paragraph BC35, paragraph BC35A is added. After paragraph BC70, a heading and paragraphs BC70A and BC70B are added. Paragraph BC172A is added.

Definitions

Effective interest rate (paragraphs 9 and AG5–AG8)

BC35A The Board identified an apparent inconsistency in the guidance in the revised IAS 39. It related to whether the revised or the original effective interest rate of a debt instrument should be applied when remeasuring the instrument's carrying amount on the cessation of fair value hedge accounting. A revised effective interest rate is calculated when fair value hedge accounting ceases. The Board removed this inconsistency as part of *Improvements to IFRSs* issued in May 2008 by clarifying that the remeasurement of an instrument in accordance with paragraph AG8 is based on the revised effective interest rate calculated in accordance with paragraph 92, when applicable, rather than the original effective interest rate.

Measurement

Definitions (paragraph 9)

BC70A The definition of a financial asset or financial liability at fair value through profit or loss excludes derivatives that are designated and effective hedging instruments. Paragraph 50 of IAS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The Board noted that the prohibition on reclassification in paragraph 50 might be read as preventing a derivative financial instrument that becomes a designated and effective hedging instrument from being excluded from the fair value through profit or loss category in accordance with the definition. Similarly, it might be read as preventing a derivative that ceases to be a designated and effective hedging instrument from being accounted for at fair value through profit or loss.

BC70B The Board decided that the prohibition on reclassification in paragraph 50 should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa. Therefore, in *Improvements to IFRSs* issued in May 2008, the Board amended the definitions in paragraph 9(a) and added paragraph 50A to address this point.

Hedging

Hedging using internal contracts

BC172A Previously, paragraph 73 referred to the need for hedging instruments to involve a party external to the reporting entity. In doing so, it used a segment as an example of a reporting entity. However, IFRS 8 *Operating Segments* requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-IFRS basis. Therefore, the two IFRSs appeared to conflict. In *Improvements to IFRSs* issued in May 2008, the Board removed from paragraph 73 references to the designation of hedging instruments at the segment level.

Amendments to Hong Kong Accounting Standard 40 *Investment Property*

Paragraphs 8, 9, 48, 53, 54 and 57 are amended (new text is underlined and deleted text is struck through). Paragraph 22 is deleted and paragraphs 53A, 53B and 85B are added.

Definitions

8 The following are examples of investment property:

(a) …

(e) property that is being constructed or developed for future use as investment property.

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) ...

(d) [deleted] ~~property that is being constructed or developed for future use as investment property. HKAS 16 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard applies to existing investment property that is being redeveloped for continued future use as investment property (see paragraph 58).~~

(e) ...

Measurement at recognition

22 [Deleted] ~~The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies HKAS 16. At that date, the property becomes investment property and this Standard applies (see paragraphs 57(e) and 65).~~

Fair value model

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property ~~following the completion of construction or development, or~~ after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 53).

Inability to determine fair value reliably

53 There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property ~~following the completion of construction or development, or~~ after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market

transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). ~~In such cases, an~~If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model in HKAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply HKAS 16 until disposal of the investment property.

53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with HKAS 16.

53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be determined reliably.

54 In the exceptional cases when an entity is compelled, for the reason given in ~~the previous~~ paragraph 53, to measure an investment property using the cost model in accordance with HKAS 16, it measures at fair value all its other investment property, including investment property under construction ~~at fair value~~. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

Transfers

57 Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) ...

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(d) commencement of an operating lease to another party, for a transfer from inventories to investment property~~; or~~.

(e) [deleted] **~~end of construction or development, for a transfer from property in the course of construction or development (covered by HKAS 16) to investment property.~~**

Effective date

85B Paragraphs 8, 9, 48, 53, 54 and 57 were amended, paragraph 22 was deleted and paragraphs 53A and 53B were added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were determined at those dates. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to paragraphs 5 and 81E of HKAS 16 *Property, Plant and Equipment*.

Appendix to Amendments to HKAS 40
Amendment to HKAS 16

Entities shall apply the amendment to HKAS 16 in this appendix when they apply the related amendments to HKAS 40.

HKAS 16 *Property, Plant and Equipment*

Paragraph 5 is amended (new text is underlined and deleted text is struck through). Paragraph 81E is added.

5 ~~An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in HKAS 40 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply HKAS 40. HKAS 40 also applies to investment property that is being redeveloped for continued future use as investment property.~~ An entity using the cost model for investment property in accordance with HKAS 40 <u>*Investment Property*</u> shall use the cost model in this Standard.

Effective date

81E Paragraph 5 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted if an entity also applies the amendments to paragraphs 8, 9, 22, 48, 53, 53A, 53B, 54, 57 and 85B of HKAS 40 at the same time. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on HKAS 40 *Investment Property*

A heading and paragraphs BC15–BC17 are added.

Scope

Investment property under construction

BC15 In response to requests for guidance, the Board revisited the exclusion of investment property under construction from the scope of IAS 40. The Board noted that investment property being redeveloped remained in the scope of this Standard and that the exclusion of investment property under construction gave rise to a perceived inconsistency. In addition, the Board concluded that with increasing experience with the use of fair value measures since this Standard was issued, entities were more able to measure reliably the fair value of investment property under construction. Therefore, in the exposure draft of *Improvements to IFRSs* published in 2007 the Board proposed amending the scope of the Standard to include investment property under construction.

BC16 Many respondents supported the Board's proposal. However, many expressed concern that including in IAS 40 investment property under construction might result in fewer entities measuring investment property at fair value. This was because the fair value model in the Standard requires an entity to establish whether fair value can be determined reliably when a property first becomes an investment property. If not, the property is accounted for using the cost model until it is disposed of. In some situations, the fair value of investment property under construction cannot be measured reliably but the fair value of the completed investment property can. In these cases, including in the Standard investment property under construction would have required the properties to be accounted for using the cost model even after construction had been completed.

BC17 Therefore, the Board concluded that, in addition to including investment property under construction within the scope of the Standard, it would also amend the Standard to allow investment property under construction to be measured at cost if fair value cannot be measured reliably until such time as the fair value becomes reliably measurable or construction is completed (whichever comes earlier).

Amendments to Basis for Conclusions on HKAS 40 (2000) *Investment Property*

In the rubric ‘paragraphs B10–B15’ is amended to ‘paragraphs B10–B20’. Paragraphs B10–B20, B25 and B26 are shown as deleted.

Amendments to Hong Kong Accounting Standard 41 *Agriculture*

Paragraphs 5, 6, 17, 20 and 21 are amended (new text is underlined and deleted text is struck through). Paragraph 60 is added.

Definitions

Agriculture-related definitions

5 **The following terms are used in this Standard with the meanings specified:**

Agricultural activity **is the management by an entity of the biological transformation and harvest of biological assets for sale~~,~~ or for conversion into agricultural produce~~,~~ or into additional biological assets.**

...

6 Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture~~,~~ and aquaculture (including fish farming). Certain common features exist within this diversity:

(a) …

(c) *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

Recognition and measurement

17 If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.

20 In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined ~~pre-tax~~ rate in determining fair value.

21 The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. ~~The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.~~

Effective date and transition

60 Paragraphs 5, 6, 17, 20 and 21 were amended and paragraph 14 deleted by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Addition of Basis for Conclusions on HKAS 41 *Agriculture*

An IASB Basis for Conclusions containing paragraphs BC1, BC2 and BC5–BC10 is added.

Basis for Conclusions on HKAS 41 *Agriculture*

This Basis for Conclusions accompanies, but is not part of, HKAS 41.

HKAS 41 is based on IAS 41 *Agriculture*. In approving HKAS 41, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 41. Accordingly, there are no significant differences between HKAS 41 and IAS 41. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 41 referred to below generally correspond with those in HKAS 41.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 41 *Agriculture* by *Improvements to IFRSs* in May 2008. Individual Board members gave greater weight to some factors than to others.

BC2 Because the Board's intention was not reconsider the fundamental approach to the accounting for agriculture established by IAS 41, this Basis for Conclusions does not discuss requirements in IAS 41 that the Board has not reconsidered. The IASC Basis for Conclusions on IAS 41 follows this Basis.

Recognition and measurement

Discount rate (paragraph 20)

BC5 As part of the annual improvements project begun in 2007, the Board reconsidered whether it is appropriate to require a pre-tax discount rate in paragraph 20 when measuring fair value. The Board noted that a fair value measurement should take into account the attributes, including tax attributes, that a market participant would consider when pricing an asset or liability.

BC6 The Board noted that a willing buyer would factor into the amount that it would be willing to pay the seller to acquire an asset (or would receive to assume a liability) all incremental cash flows that would benefit that buyer. Those incremental cash flows would be reduced by expected income tax payments using appropriate tax rates (ie the tax rate of a market participant buyer). Accordingly, fair value takes into account future income taxes that a market participant purchasing the asset (or assuming the liability) would be expected to pay (or to receive), without regard to an entity's specific tax situation.

BC7 Therefore, the Board decided to keep the requirement to use a current market-based discount rate but in *Improvements to IFRSs* issued in May 2008 removed the reference to a pre-tax discount rate in paragraph 20.

Additional biological transformation (paragraph 21)

BC8 Sometimes the fair value of an asset in its current location and condition is estimated using discounted cash flows. Paragraph 21 could be read to exclude from such calculations increases in cash flows arising from 'additional biological transformation'. Diversity in practice had developed from different interpretations of this requirement. The Board decided that not including these cash flows resulted in a carrying amount that is not representative of the asset's fair value. The Board noted that an entity should consider the risks associated with cash flows from 'additional biological transformation' in determining the expected cash flows, the discount rate, or some combination of the two. Therefore, the Board decided to amend IAS 41 to remove the prohibition on an entity taking into account the cash flows resulting from 'additional biological transformation' when estimating the fair value of a biological asset.

BC9 In its exposure draft of *Improvements to IFRSs* published in 2007, the Board proposed changing the definition of biological transformation to include harvest. This was because the Board wished to make clear that harvest altered the condition of a biological asset. Some commentators objected to this change on the basis that harvest is a human activity rather than a biological transformation. The Board agreed with this argument and decided not to include the harvest in the definition of biological transformation. Instead, the Board amended the Standard to refer to biological transformation or harvest when applicable to make clear that harvest changes the condition of an asset.

BC10 Because applying the changes discussed in paragraphs BC8 and BC9 retrospectively might require some entities to remeasure the fair value of biological assets at a past date, the Board decided that these amendments should be applied prospectively.

Amendments to Basis for Conclusions on HKAS 41 *Agriculture*

A footnote is added to paragraph B27 (new text is underlined and deleted text is struck through).

Measurement

Biological assets

Hierarchy in fair value measurement

B27 The Standard requires that, if an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses market-determined prices or values (such as the most recent market transaction price) when available. However, in some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, the Standard indicates that an entity uses the present value of expected net cash flows* from the asset.

* Paragraph 20 of the previous version of IAS 41 required entities to use a pre-tax discount rate when measuring fair value. The IASB decided to maintain the requirement to use a current market-based discount rate but removed the reference to a pre-tax discount rate by *Improvements to IFRSs* issued in May 2008.

PART II

The amendments in Part II shall be applied for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

Amendment to guidance on implementing HKFRS 7 *Financial Instruments: Disclosures*

After paragraph IG12 the heading and paragraph IG13 are amended (new text is underlined and deleted text is struck through), and a footnote is added.

Total ~~interest income and total~~ interest expense (paragraph 20(b))*

IG13 ~~The total interest income and t~~<u>T</u>otal interest expense disclosed in accordance with paragraph 20(b) is a component of ~~the~~ finance costs, which paragraph 82(b) of HKAS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts <u>associated with</u> ~~that arise on non-financial assets or~~ non-financial liabilities.

* In *Improvements to HKFRSs* issued in October 2008, the HKICPA amended paragraph IG13 and removed 'total interest income' as a component of finance costs. This amendment removed an inconsistency with paragraph 32 of HKAS 1 *Presentation of Financial Statements*, which precludes the offsetting of income and expenses (except when required or permitted by a HKFRS).

Amendments to Hong Kong Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 7, 9 and 11 are amended (new text is underlined and deleted text is struck through).

Accounting policies

Selection and application of accounting policies

7 **When a HKFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the HKFRS. ~~and considering any relevant Implementation Guidance issued by the HKICPA for the HKFRS.~~**

9 HKFRSs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of HKFRSs. ~~Implementation~~ Guidance that is an integral part of HKFRSs is mandatory. ~~for Standards issued by the HKICPA does not form part of those Standards, and therefore~~ Guidance that is not an integral part of HKFRSs does not contain requirements for financial statements.

11 **In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:**

(a) **the requirements ~~and guidance~~ in HKFRSs dealing with similar and related issues; and**

(b) **the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.**

Amendment to Basis for Conclusions on HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

A footnote is added to paragraph BC15, after the term 'Implementation Guidance'.

* In 2007 the Board was advised that paragraphs 7 and 9 may appear to conflict, and may be misinterpreted to require mandatory consideration of Implementation Guidance. The Board amended paragraphs 7, 9 and 11 by *Improvements to IFRSs* issued in May 2008 to state that only guidance that is identified as an integral part of IFRSs is mandatory.

Amendment to Hong Kong Accounting Standard 10 *Events after the Reporting Period*

Paragraph 13 is amended (new text is underlined and deleted text is struck through).

13 If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because <u>no obligation exists at that time</u> ~~they do not meet the criteria of a present obligation in HKAS 37~~. Such dividends are disclosed in the notes in accordance with HKAS 1 *Presentation of Financial Statements*.

Amendment to Basis for Conclusions on HKAS 10 *Events after the Reporting Period*

A footnote is added at the end of paragraph BC4.

* In 2007 the Board was advised that paragraph 13, taken in isolation, could be read to imply that a liability should be recognised in some circumstances on the basis that a constructive obligation exists, such as when there is an established pattern of paying a dividend. Therefore, the Board amended paragraph 13 by *Improvements to IFRSs* issued in May 2008 to state that no such obligation exists.

Amendment to Appendix of Hong Kong Accounting Standard 18 *Revenue*

Paragraph 14(a) is amended (new text is underlined and deleted text is struck through) and a footnote is added.

Rendering of services

14 *Financial service fees.*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under HKAS 39 is classified as a financial asset 'at fair value through profit or loss'.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related ~~direct~~ transaction costs* (as defined in HKAS 39), are deferred and recognised as an adjustment to the effective interest rate.

(ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of HKAS 39.*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of HKAS 39, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related ~~direct~~ transaction costs (as defined in HKAS 39), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of HKAS 39 are accounted for as derivatives and measured at fair value.

(iii) *Origination fees received on issuing financial liabilities measured at amortised cost.*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as 'at fair value through profit or loss', the origination fees received are included, with the related transaction costs <u>(as defined in HKAS 39)</u> incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

* In *Improvements to HKFRSs* issued in October 2008, the HKICPA replaced the term 'direct costs' with 'transaction costs' as defined in paragraph 9 of HKAS 39. This amendment removed an inconsistency for costs incurred in originating financial assets and liabilities that should be deferred and recognised as an adjustment to the underlying effective interest rate. 'Direct costs', as previously defined, did not require such costs to be incremental.

Amendments to Hong Kong Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance*

A footnote is added to the title of the Standard above paragraph 1, and paragraphs 2, 12–18, 20–22, 26, 27 and 32 are amended (new text is underlined and deleted text is struck through).

Footnote to title

* As part of *Improvements to HKFRSs* issued in October 2008 the HKICPA amended terminology used in this Standard to be consistent with other HKFRSs as follows:

(a) ‘taxable income’ was amended to ‘taxable profit or tax loss’,

(b) ‘recognised as income/expense’ was amended to ‘recognised in profit or loss’,

(c) ‘credited directly to shareholders’ interests/equity’ was amended to ‘recognised outside profit or loss’, and

(d) ‘revision to an accounting estimate’ was amended to ‘change in accounting estimate’.

Scope

2 This Standard does not deal with:

(a) the special problems ... similiar nature~~;~~<u>.</u>

(b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable ~~income~~ <u>profit or tax loss</u>, or are determined or limited on the basis of income tax liability<u>. Examples of such benefits are</u> ~~(such as~~ income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates~~);~~<u>.</u>

(c) government ... the entity~~;~~<u>.</u>

(d) ...

Government grants

12 Government grants shall be recognised ~~as income~~ <u>in profit or loss on a systematic basis</u> over the periods ~~necessary to match them with~~ <u>in which the entity recognises as expenses</u> the related costs <u>for</u> which ~~they~~ <u>the grants</u> are intended to compensate<u>.</u>~~, on a systematic basis. They shall not be credited directly to shareholders’ interests.~~

13 There are two broad approaches ~~may be found~~ to the accounting ~~treatment of~~ for government grants: the capital approach, under which a grant is recognised outside profit or loss ~~credited directly to shareholders' interests~~, and the income approach, under which a grant is ~~taken to income~~ recognised in profit or loss over one or more periods.

14 Those in support of the capital approach argue as follows:

(a) government grants are a financing device and should be dealt with as such in the statement of financial position rather than be ~~passed through~~ recognised in profit or loss to offset the items of expense ~~which~~ that they finance. ~~Since~~ Because no repayment is expected, ~~they~~ such grants should be ~~credited directly to shareholders' interests~~ recognised outside profit or loss~~; and~~.

(b) it is inappropriate to recognise government grants in profit or loss, ~~since~~ because they are not earned but represent an incentive provided by government without related costs.

15 Arguments in support of the income approach are as follows:

(a) ~~since~~ because government grants are receipts from a source other than shareholders, they should not be ~~credited directly to shareholders' interests~~ recognised directly in equity but should be recognised ~~as income~~ in profit or loss in appropriate periods~~;~~.

(b) government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised ~~as income~~ in profit or loss over the periods in which the entity recognises as expenses the related ~~and matched with the associated~~ costs for which the grant is intended to compensate~~; and~~.

(c) ~~as~~ because income and other taxes are ~~charges against income~~ expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss.

16 It is fundamental to the income approach that government grants should be recognised ~~as income~~ in profit or loss on a systematic ~~and rational~~ basis over the periods in which the entity recognises as expenses the ~~necessary to match them with the~~ related costs for which the grant is intended to compensate. ~~Income r~~Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see HKAS 1 *Presentation of Financial Statements*) and would ~~only~~ be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.

17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. ~~and t~~Thus grants in recognition of specific expenses are recognised ~~as income~~ in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised ~~as income~~ in profit or loss over the periods and in the proportions in which depreciation expense on those assets is ~~charged~~recognised.

18 Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised ~~as income~~ in profit or loss over the periods that ~~which~~ bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise ~~it~~ the grant ~~as income~~ in profit or loss over the life of the building.

20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised ~~as income~~ in profit or loss of the period in which it becomes receivable.

21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to ~~an individual~~ a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant ~~as income~~ in profit or loss of ~~in~~ the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised ~~as income~~ in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

Presentation of grants related to assets

26 One method ~~sets up~~ recognises the grant as deferred income that ~~which~~ is recognised ~~as income~~ in profit or loss on a systematic ~~and rational~~ basis over the useful life of the asset.

27 The other method deducts the grant in ~~arriving at~~ calculating the carrying amount of the asset. The grant is recognised ~~as income~~ in profit or loss over the life of a depreciable asset ~~by way of~~ as a reduced depreciation ~~charge~~ expense.

Repayment of government grants

32 A government grant that becomes repayable shall be accounted for as a ~~revision to an~~ change in accounting estimate (see HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit ~~set up~~ recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when ~~where~~ no deferred credit exists, the repayment shall be recognised immediately ~~as an expense~~ in profit or loss. Repayment of a grant related to an asset shall be ~~recorded~~ recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date ~~as an expense~~ in the absence of the grant shall be recognised immediately ~~as an expense~~ in profit or loss.

Appendix to Amendments to HKAS 20
Amendments to HKAS 41

Entities shall apply the amendments to HKAS 41 in this appendix when they apply the related amendments to terminology used in HKAS 20.

HKAS 41 *Agriculture*

Paragraphs 34–36 are amended (new text is underlined and deleted text is struck through).

Government grants

34 **An unconditional government grant related to a biological asset measured at its fair value less ~~estimated point-of-sale costs~~ <u>costs to sell</u> shall be recognised <u>in profit or loss</u> ~~as income~~ when, and only when, the government grant becomes receivable.**

35 **If a government grant related to a biological asset measured at its fair value less ~~estimated point-of-sale costs~~ <u>costs to sell</u> is conditional, including <u>when</u> ~~where~~ a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant <u>in profit or loss</u> ~~as income~~ when, and only when, the conditions attaching to the government grant are met.**

36 Terms and conditions of government grants vary. For example, a ~~government~~ grant may require an entity to farm in a particular location for five years and require the entity to return all of the ~~government~~ grant if it farms for ~~less~~ <u>a period shorter</u> than five years. In this case, the ~~government~~ grant is not recognised <u>in profit or loss</u> ~~as income~~ until the five years have passed. However, if <u>the terms of</u> the ~~government~~ grant allow~~s~~ part of <u>it</u> ~~the government grant~~ to be retained <u>according to the time that has elapsed</u> ~~based on the passage of time~~, the entity recognises <u>that part in profit or loss</u> ~~the government grant as income on a time proportion basis~~ <u>as time passes</u>.

Amendments to Hong Kong Accounting Standard 29
Financial Reporting in Hyperinflationary Economies

A footnote is added to the title of the Standard above paragraph 1, and paragraphs 8, 14, 20, 28 and 34 are amended (new text is underlined and deleted text is struck through).

Footnote to title

* As part of *Improvements to HKFRSs* issued in October 2008, the HKICPA changed terms used in HKAS 29 to be consistent with other HKFRSs as follows: (a) 'market value' was amended to 'fair value', and (b) 'results of operations' and 'net income' were amended to 'profit or loss'.

The restatement of financial statements

8 **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period required by HKAS 1 *Presentation of Financial Statements* <u>(as revised in 2007)</u> and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of HKAS 21 *The Effects of Changes in Foreign Exchange Rate* apply.**

Historical cost financial statements

Statement of financial position

14 All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and ~~market~~ <u>fair</u> value, so they are not restated. All other non-monetary assets and liabilities are restated.

20 An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of comprehensive income of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and ~~results of operations~~ <u>profit or loss</u>. Whe<u>n</u>~~re~~ the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

Gain or loss on net monetary position

28 The gain or loss on the net monetary position is included in ~~net income~~ <u>profit or loss</u>. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of comprehensive income.

Corresponding figures

34 Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of HKAS 21 apply.

Amendment to Hong Kong Accounting Standard 34 *Interim Financial Reporting*

Paragraph 11 is amended (new text is underlined) and a footnote is added.

Form and content of interim financial statements

11 **In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period <u>when the entity is within the scope of HKAS 33 *Earnings per Share*.*</u>**

* This paragraph was amended by *Improvements to HKFRSs* issued in October 2008 to clarify the scope of HKAS 34.

Amendments to Hong Kong Accounting Standard 40 *Investment Property*

Paragraphs 31 and 50 are amended (new text is underlined and deleted text is struck through).

Measurement after recognition

Accounting policy

31 HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change <u>results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows</u> ~~will result in a more appropriate presentation of transactions, other events or conditions in the entity's financial statements~~. It is highly unlikely that a change from the fair value model to the cost model will result in a more ~~appropriate~~ <u>relevant</u> presentation.

Fair value model

50 In determining the <u>carrying amount of investment property under the fair value model</u> ~~fair value of investment property~~, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

(a) ...

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the ~~fair value~~ <u>carrying amount</u> of the investment property <u>using the fair value model</u> ~~for accounting purposes~~.

Amendments to Basis for Conclusions on HKAS 40 *Investment Property*

A footnote is added to the end of paragraph BC10 and in the Basis for IASC's Conclusions a footnote is added to paragraph B50 after the word 'transactions'.

Scope

Property interests held under an operating lease

BC10 Finally, the Board noted that the methodology described in paragraphs 40 and 50(d) of IAS 40, whereby a fair valuation of the property that takes all lease obligations into account is adjusted by adding back any liability that is recognised for these obligations, would, in practice, enable entities to ensure that net assets in respect of the leased interest are not affected by the use of different measurement bases.*

* Subsequently, the Board concluded that the drafting of paragraph 50(d) was misleading because it implied that the fair value of an investment property asset held under a lease was equal to the net fair value plus the carrying amount of any recognised lease liability. Therefore, in *Improvements to IFRSs* issued in May 2008 the Board amended paragraph 50(d) to clarify the intended meaning.

Basis for IASC's Conclusions on IAS 40 (2000) *Investment Property*

B50 Under IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*,* a change in accounting policies from one model to the other model should be made only if the change will result in a more appropriate presentation of events or transactions.† The Board concluded that this is highly unlikely to be the case for a change from the fair value model to the cost model and paragraph ~~25~~ 31 of the Standard reflects this conclusion.

* revised by the IASB in 2003 as IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

† The IASB conformed the terminology used in paragraph 31 to the terminology used in IAS 8 by *Improvements to IFRSs* issued in May 2008.

Amendments to Hong Kong Accounting Standard 41 *Agriculture*

Paragraphs 4 and 5 are amended (new text is underlined and deleted text is struck through) and paragraph 14 is deleted. The terms ‘estimated point-of-sale costs’ and ‘point-of-sale costs’ are replaced by ‘costs to sell’ where they appear as follows:

- Standard (paragraphs 12, 13, 26–28, 30–32, 34, 35, 38, 40, 48, 50 and 51)
- Appendix (paragraph A1 and Examples 1 and 2)

Scope

4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	**Agricultural produce**	**Products that are the result of processing after harvest**
...		
Trees in a plantation forest	~~Logs~~ Felled trees	Logs, lumber
...		

Definitions

Agriculture-related definitions

5 The following terms are used in this Standard with the meanings specified:

...

Costs to sell **are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.**

...

Recognition and measurement

14 [Deleted] ~~Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.~~

Appendix to Amendments to HKAS 41
Amendments to other HKFRSs

Entities shall apply these amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, HKAS 2* Inventories*, and HKAS 36* Impairment of Assets *when they apply the related amendments to HKAS 41.*

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 is amended (new text is underlined and deleted text is struck through).

Scope

5 The measurement provisions of this HKFRS* do not apply to the following assets, which are covered by the ~~Standards~~ HKFRSs listed, either as individual assets or as part of a disposal group:

(a) …

(e) non-current assets that are measured at fair value less ~~estimated point of sale~~ costs to sell in accordance with HKAS 41 *Agriculture*.

(f) …

* Other than paragraphs 18 and 19 which require the assets in question to be measured in accordance with other applicable HKFRSs.

HKAS 2 *Inventories*

Paragraph 20 is amended (new text is underlined and deleted text is struck through).

20 In accordance with HKAS 41 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less ~~estimated point-of sale~~ costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

HKAS 36 *Impairment of Assets*

Paragraphs 2 and 5 are amended (new text is underlined and deleted text is struck through).

Scope

2 This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) …

(g) **biological assets related to agricultural activity that are measured at fair value less ~~estimated point-of-sale~~ costs to sell (see HKAS 41 *Agriculture*);**

(h) **...**

5 This Standard does not apply to financial assets within the scope of HKAS 39, investment property measured at fair value in accordance with HKAS 40, or biological assets related to agricultural activity measured at fair value less ~~estimated point-of-sale~~ costs to sell in accordance with HKAS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value) in accordance with other ~~Standards~~ HKFRSs, such as the revaluation model in HKAS 16 *Property, Plant and Equipment*. Identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:

(a) …

Addition of Basis for Conclusions on HKAS 41 *Agriculture*

Paragraphs BC3 and BC4 are added.

Scope

Costs to sell (paragraph 5)

BC3 Before the *Improvements to IFRSs* issued in May 2008, IAS 41 used the term 'point-of-sale costs'. This term was not used elsewhere in IFRSs. The term 'costs to sell' is used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*. The Board decided that 'point-of-sale costs' and 'costs to sell' meant the same thing in the context of IAS 41. The word 'incremental' in the definition of 'costs to sell' excludes costs that are included in the fair value measurement of a biological asset, such as transport costs. It includes costs that are necessary for a sale to occur but that would not otherwise arise, such as commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Both terms relate to transaction costs arising at the point of sale.

BC4 Therefore, the Board decided to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell' to make IAS 41 consistent with IFRS 5 and IAS 36.

Amendments to Basis for IASC's Conclusions on HKAS 41 *Agriculture*

In paragraph B8 a footnote is added after the word 'logs'.

Scope

B8 …The processing after harvest is accounted for under IAS 2 or another applicable International Accounting Standard (for example, if an entity harvests logs* and decides to use them for constructing its own building, IAS 16 *Property, Plant and Equipment* is applied in accounting for the logs).

* As the result of an amendment by the IASB, contained in *Improvements to IFRSs* issued in May 2008, 'logs' is an example of produce that has been processed rather than an example of unprocessed produce.

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Government Assistance — No Specific Relation to Operating Activities

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HK(SIC)-Int 12
Issued March 2004

Effective for annual periods
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Hong Kong (SIC) Interpretation 12

Consolidation — Special Purpose Entities

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HK(SIC)-Int 13
Issued December 2004

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Hong Kong (SIC) Interpretation 13

Jointly Controlled Entities — Non-Monetary Contributions by Venturers

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HK(SIC)-Int 15
Issued December 2004

Effective for lease terms
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 15

Operating Leases — Incentives

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HK(SIC)-Int 21
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Hong Kong (SIC) Interpretation 21

Income Taxes – Recovery of Revalued Non-Depreciable Assets

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Hong Kong (SIC) Interpretation 25

Income Taxes — Changes in the Tax Status of an Entity or its Shareholders

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HK(SIC)-Int 27
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Hong Kong (SIC) Interpretation 27

Evaluating the Substance of Transactions Involving the Legal Form of a Lease

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HK(SIC)-Int 29
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Hong Kong (SIC) Interpretation 29

Service Concession Arrangements: Disclosures

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HK(SIC)-Int 31
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Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 31

Revenue — Barter Transactions Involving Advertising Services

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HK(SIC)-Int 32
Issued December 2004

Effective for annual periods
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Hong Kong (SIC) Interpretation 32

Intangible Assets — Web Site Costs

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SME-FRF and SME-FRS should be read in the context of the *Preface to Hong Kong Financial Reporting Standards*. SME-FRS should also be read in the context of the SME-FRF.

AG 1
Issued March 1984

Accounting Guideline 1

Preparation and Presentation of Accounts from Incomplete Records

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AB 1
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Disclosure of Loans to Officers

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AB 3
Issued January 2000

Accounting Bulletin 3

Guidance on Disclosure of Directors' Remuneration

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