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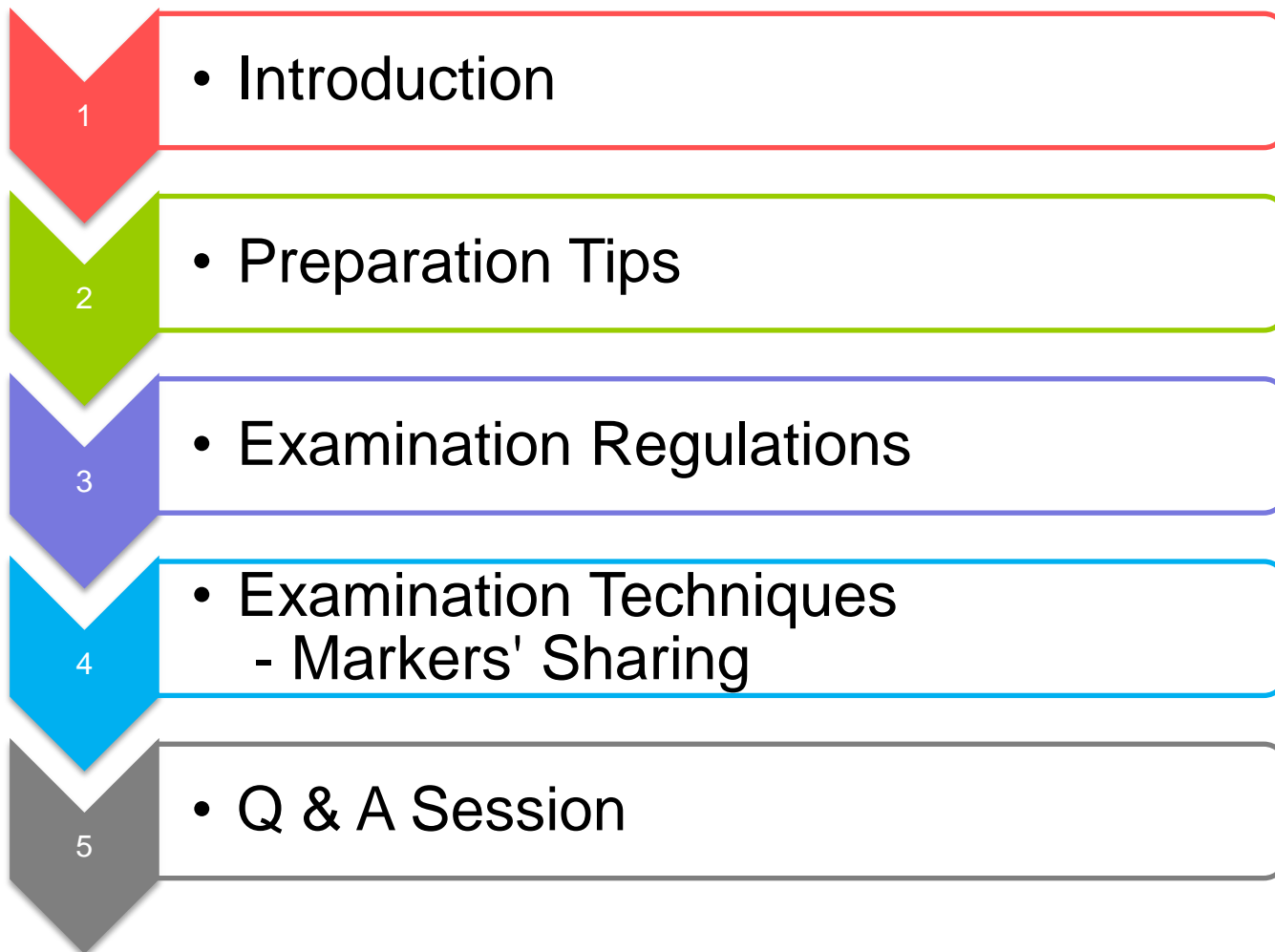
# Examination Techniques Seminar on QP Module Examinations

## Module A (December 2018 Session)

Date: 30 October 2018



# Agenda





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# Part 1: Introduction



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**Today's objective:**  
***Finding ways to pass the  
Module Examination!***



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# HKICPA QP Module Examinations

## Examination Format:

- Section A - Case Questions (50%)
- Section B - Essay / Short Questions (50%)
- 3 hours duration for each Module
- All compulsory questions



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# Part 2: Preparation Tips



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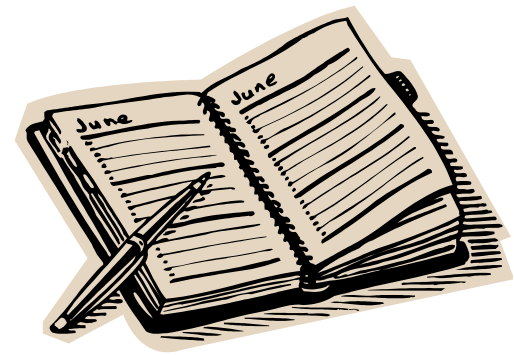


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# Commit to your Study Plan

## Advantages:

- Schedule ahead
- Build long term memories → maximize efficiency
- Avoid last minute work and minimize impact of unpredicted events...







## Prepare Critical File

### How to prepare:

- Use different colour post-it for different standards / topics
- Organise materials by different standards / topics
- Understand theories behind each standards / topics
- Get familiar with this file

### Advantages:

- Colour coding for standards / topics allows easy identification (same file used in examination - time saving!)
- Build up long term memories
- Avoid indexing without understanding

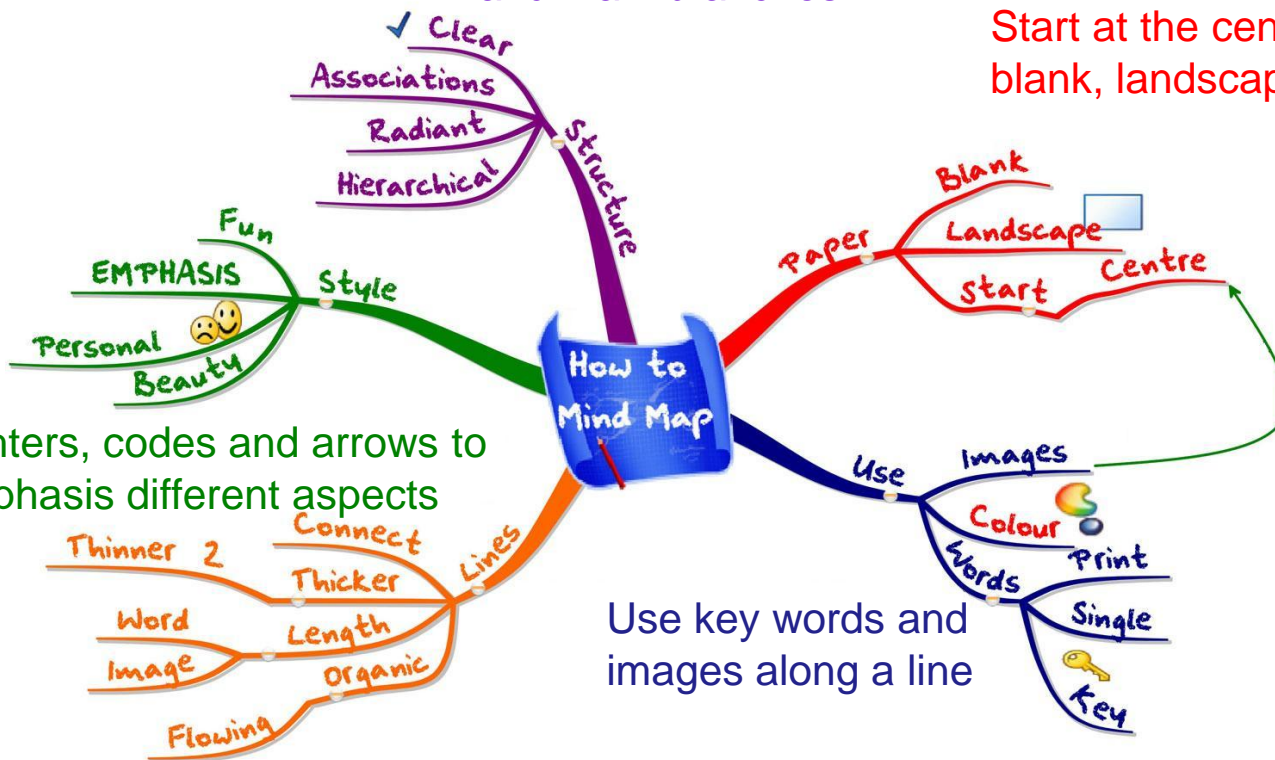


# Mind Map

Radiate the ideas out  
from the central theme  
and main branches

Start at the centre of a  
blank, landscape paper

Use highlighters, codes and arrows to  
link and emphasize different aspects



Use key words and  
images along a line

Make the lines associate  
as clear as possible



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## Other Preparation Tips

- Cover beyond LP
- Form Study Group with fellow students
- Visit QP Learning Centre
  - Past papers and Examiners' reports;
  - Special topics and/or Important notice; and
  - Module preparation seminar archives



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# Part 3: Examination Regulations



## Examination Regulations (highlights)

- Bring HKID card and Examination Attendance Docket ("EAD")
- Be aware of the **examination regulations** printed on the EAD which will be posted to students two weeks before the examination
- Arrive 45 minutes before the examination start
- Turn off your mobile phone or other electronic communication devices
- Don't write on the script booklet during the reading time (FE only)
- Don't write your name or personal information on anywhere of your script booklets
- Use blue or black ink pen
- Use appropriate script booklet to answer each section
- Stop writing immediately once the end of examination is announced

**Failure to follow any of the examination regulations may result in marks penalty or even disqualification from the entire examination!**

Noticeboard

Module A

Module B

Module C

Module D

Final Examination

**Examination Support**

Technical Articles

Webcasted Video

Audio Archives

Download

**I'M INTERESTED IN**

[Help for students](#)

[QP timetable](#)

[CPA recruitment - A-List](#)

[Becoming a Hong Kong CPA](#)



## Examination guidelines

This [video](#) provides guidance on preparing for your upcoming examinations. Make sure you are familiar with these guidelines.

*If you are unable to open the video by Internet Explorer, try opening it in a different browser (e.g. Chrome).*

## Examination assistance

Here are some study tips to help QP students to get through their examinations (please click [here](#)).

To help QP students prepare for the four module examinations, the Institute organizes a series of examination assistance functions for each examination session. For more details, please click [here](#).



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# Part 4:

## Examination Techniques

### - Markers' Sharing



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## Exam Technique - General

- Read ALL questions before answering
- Make note on key dates, key facts and key figures
- Summarise key facts on a time line
- Draw a simple group structure chart
- Beware of the numbers written in words (e.g. three years vs 3 years)





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## Exam Technique - General

- Attempt ALL questions
- Stick to the suggested time (+ 5 mins) for each question
- Go back to the unfinished answer if time allows
- Answer easy questions first to build confidence



## Exam Technique - Specific

- Highlight question requirement  
(e.g. Calculate/Advise/Explain, etc)
- Aware of specific presentation format  
(e.g. draft a memorandum)
- Memo: opening, introduction and closing - easy marks!!!
- Calculation: step by step / show formula (easy for self-checking and marking)



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## June 2018 Session - Section A

	<u>Marks</u>
Q.1: Classification of Cash Flow Items	11
Q.2: Segment Reporting	10
Q.3: Consolidated Cash Flows Statement	19
Q.4: Investment Entity & Change from Associate to Subsidiary	10
	<hr/>
	50
	<hr/>



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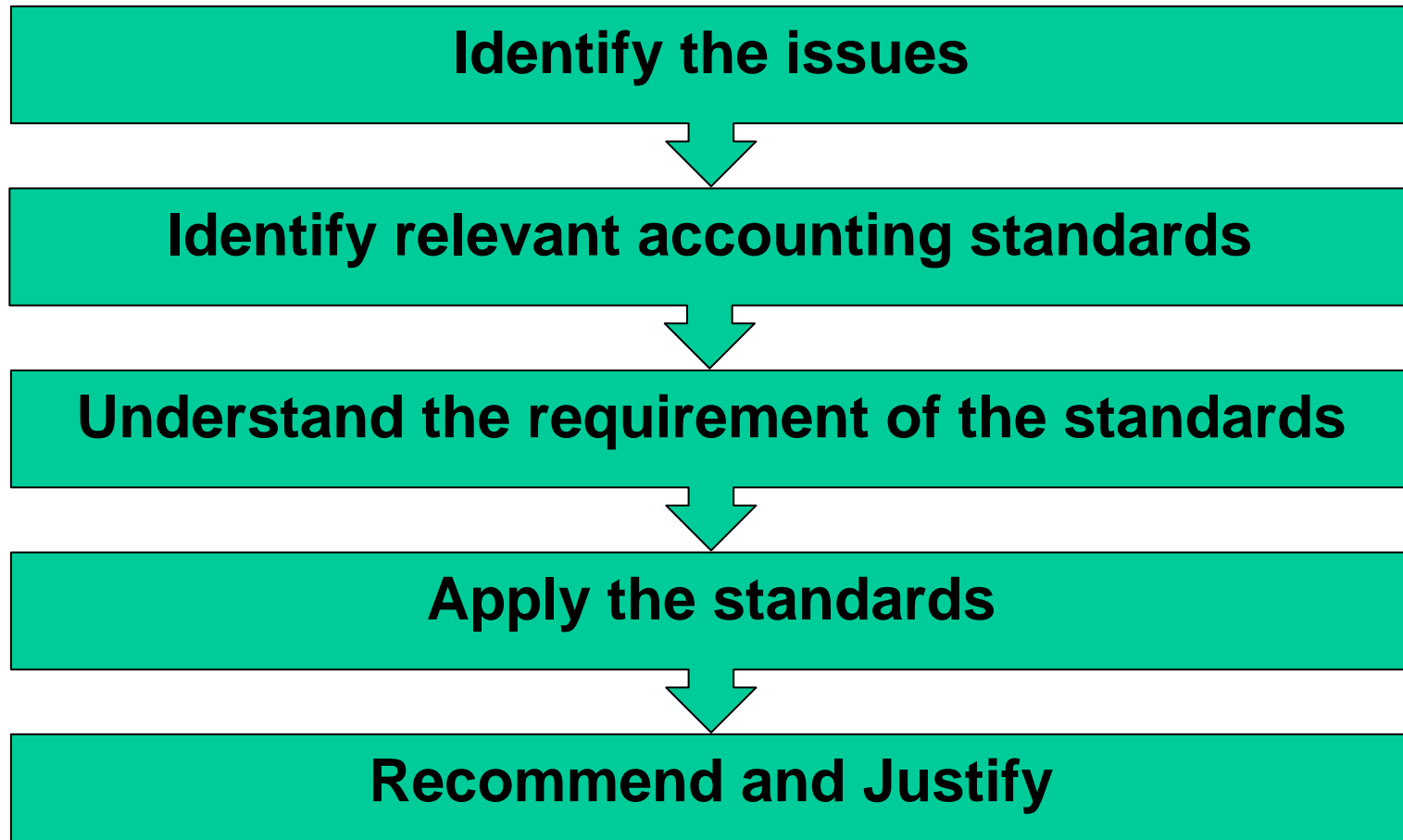
## June 2018 Session - Section A

### Panelists' General Comments

- Able to advise the classification of various cash flow items (Q.1)
- Able to advise the quantitative thresholds of segment reporting (Q.2)
- Able to prepare a proper consolidated statement of cash flows (Q.3)
- NOT able to advise the accounting treatment of increase in ownership and cessation of being an investment entity (Q.4)



## 5 Steps Thinking Process





## June 2018 Session - Section A - Q1

Assume that you are Philip Chan, the accounting manager of PJJ.



### Required:

**Draft a memorandum** in response to the questions raised by Jody Wong in relation to the draft consolidated statement of cash flows of PJJ for the year ended 31 December 2017.

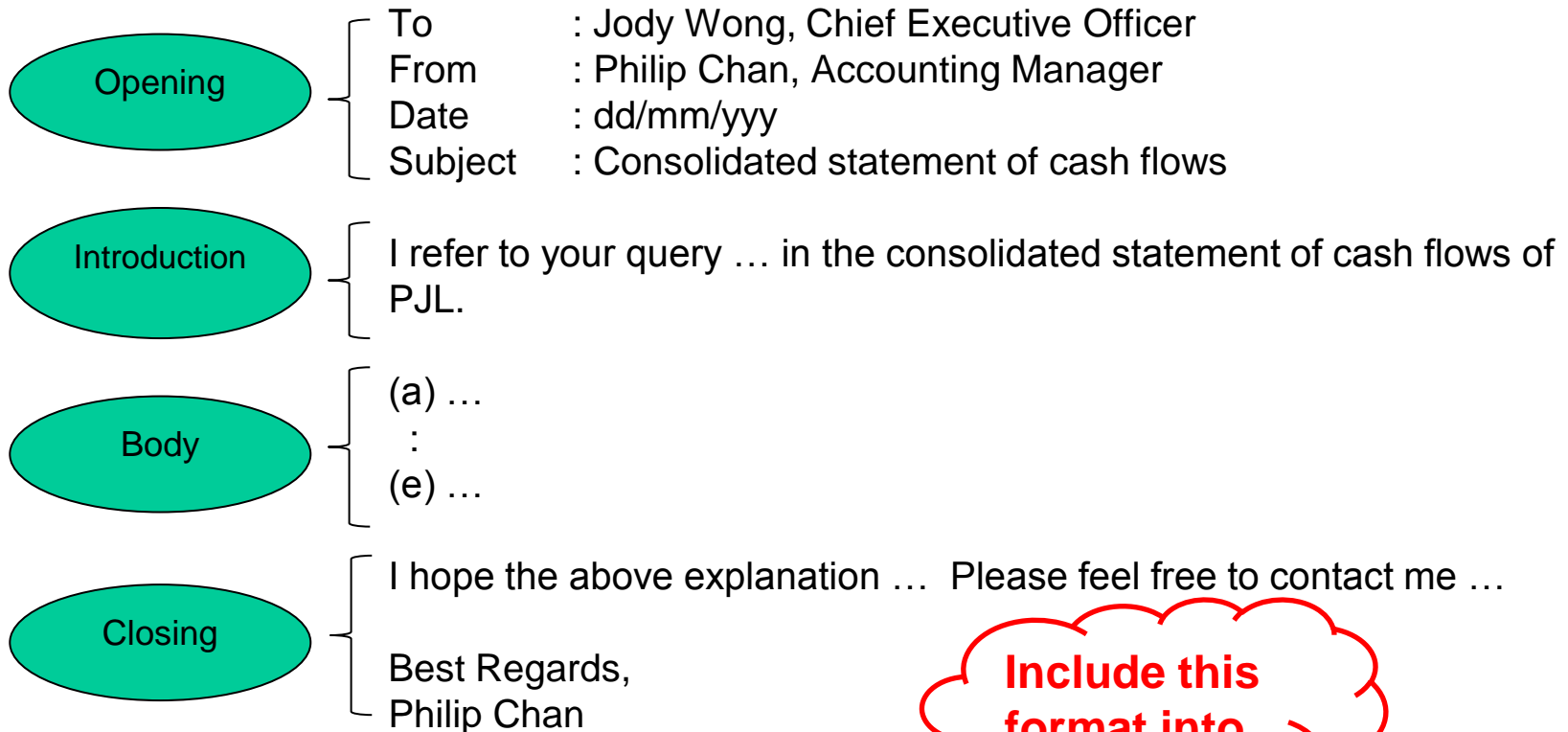
Note: Mark(s) will be awarded for proper format used with logical presentation.

(11 marks)



# June 2018 Session - Section A - Q1

## Memorandum Format



**Include this  
format into  
critical file**



## June 2018 Session - Section A - Q1

### Questions raised by Jody Wong, CEO of PJJ

- (a) Bank deposits pledged for a long term loan were not included in cash and cash equivalents
- Cash equivalents are short-term, highly liquid investments ... insignificant risk of changes in value (HKAS 7.6)
  - Has a short maturity of three months or less (HKAS 7.7)
  - Pledged deposits have restrictions in use → should not be included in cash and cash equivalents
  - Should be disclosed as financing or investing activities

Other than explaining the incorrect treatment,  
also worth to discuss the correct treatment.





## **June 2018 Session - Section A - Q1**

### Questions raised by Jody Wong, CEO of PJJ

- (b) Cash consideration received from disposal of shares in subsidiary not result in loss of control were not included under the investing activities
- Should be classified as cash flows from financing activities (HKAS 7.42A)
  - Unless subsidiary is held by investment entity, as defined in HKFRS 10 → FVTPL (HKAS 7.42A)
  - Account for as equity transactions, same way as other transactions with owners (HKAS 7.42B)



## June 2018 Session - Section A - Q2

PJL has identified three operating units as operating segments. Relevant information for the year ended 31 December 2017 is provided as follows:

	Revenue HK\$'million	Profit / (Loss) HK\$'million	Assets HK\$'million
Gold	410	118	1,335
Silver	210	78	339
Diamond	710	219	1,637
Total for the three segments	1,330	415	3,311
Headquarters	-	(50)	400
Other businesses	470	59	438
Total	1,800	424	4,149
Intra-group (Silver earned from Diamond)	(170)	(20)	-
Consolidated	1,630	404	4,149



## June 2018 Session - Section A - Q2

HKFRS 8

### Required:

1 Advise P<sub>JL</sub> as to whether the three operating units meet the quantitative thresholds of segment reporting

2 and whether P<sub>JL</sub> has to identify additional operating segments as reportable segments.

Note: Calculations should be made to two decimal places.

(10 marks)



## June 2018 Session - Section A - Q2

### Meet Quantitative Thresholds of Segment Reporting?

**HKFRS 8** - meet **any one** quantitative thresholds:

- (a) Revenue test: segment revenue  $\geq$  10% of combined revenue (i.e. internal and external) of all operating segments
  
- (b) Profit test: segment absolute P/L  $\geq$  10% of the *greater* of combined profit (of profitable segments) and combined loss (of loss segments)
  
- (a) Asset test: segment assets  $\geq$  10% combined assets of all operating segments



## June 2018 Session - Section A - Q2

### Meet Quantitative Thresholds of Segment Reporting?

- Operating Segments not meeting any quantitative thresholds may be reportable if management believes that the segment information would be useful to users of financial statements
- Quantitative thresholds are based on totals of operating segments, NOT total for the company (i.e. PJL)

Worth to mention the special requirements  
which are related to the case.



## June 2018 Session - Section A - Q2

### Meet Quantitative Thresholds of Segment Reporting?

	Revenue HK\$'million	Profit / (Loss) HK\$'million	Assets HK\$'million
Gold	410	118	1,335
Silver	210	78	339
Diamond	710	219	1,637
Total for the three segments	1,330	415	3,311

	Revenue % of total	Profit / (Loss) % of total	Assets % of total
Gold	30.83	28.43	40.32
Silver	15.79	18.80	10.24
Diamond	53.38	52.77	49.44
Total for the three segments	100.00	100.00	100.00



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## June 2018 Session - Section A - Q2

### Meet Quantitative Thresholds of Segment Reporting?

- Meet any one of the three quantitative thresholds to be reportable segment
- ALL three operating units MEET ALL three quantitative thresholds
- Conclusion: ALL three operating units are reportable segments



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## June 2018 Session - Section A - Q2

### Has to Identify Additional Reportable Segments?

- Reportable segments' revenue  $\geq$  75% of consolidated revenue
- Apply to **EXTERNAL REVENUE** of the reportable segments
- If less than 75%, identify additional reportable segment(s)





## June 2018 Session - Section A - Q2

	Revenue HK\$'million	Profit / (Loss) HK\$'million	Assets HK\$'million
Gold	410	118	1,335
Silver	210	78	339
Diamond	710	219	1,637
Total for the three segments	1,330	415	3,311
Headquarters	-	(50)	400
Other businesses	470	59	438
Total	1,800	424	4,149
Intra-group (Silver earned from Diamond)	(170)	(20)	-
Consolidated	1,630	404	4,149



## June 2018 Session - Section A - Q2

Has to Identify Additional Reportable Segments?

	Revenue HK\$'million	Intra- group	External Revenue HK\$'million
Gold	410		410
Silver	210	(170)	40
Diamond	710		710
<b>Total for the three segments</b>	<b>1,330</b>		<b>1,160</b>
Headquarters	-		
Other businesses	470		
<b>Total</b>	<b>1,800</b>		
Intra-group (Silver earned from Diamond)	(170)		
<b>Consolidated</b>	<b>1,630</b>		

$$\frac{1,160}{1,630} = 71.17\%$$



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## June 2018 Session - Section A - Q2

### Has to Identify Additional Reportable Segments?

- Since revenue of reportable segments  $< 75\%$  of consolidated revenue, need to identify additional reportable segments
- Analyse the other businesses to identify another reportable segment



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# June 2018 Session - Section A - Q3

## Consolidation - Tips

### Critical file

- Prepare templates for each component of consolidated financial statements
  - Consolidated Statement of Financial Position
  - Consolidated Statement of Profit or Loss and Other Comprehensive Income
  - Consolidated Statement of Changes in Equity
  - Consolidated Statement of Cash Flows



# June 2018 Session - Section A - Q3 Consolidation - Tips (Cont'd)

## Critical file

- List and categorise all possible consolidation journal entries (with debit and credit entries)
- Save time in choosing the appropriate journals during consolidation process
- Check the completeness of consolidation journals
- Examples include:
  - Eliminate investment in subsidiary
  - Subsidiary's post-acquisition profit or loss to NCI
  - Eliminate gain/loss on inter-com disposal of fixed assets, adjust related depreciation



## June 2018 Session - Section A - Q3 Consolidation - Tips (Cont'd)

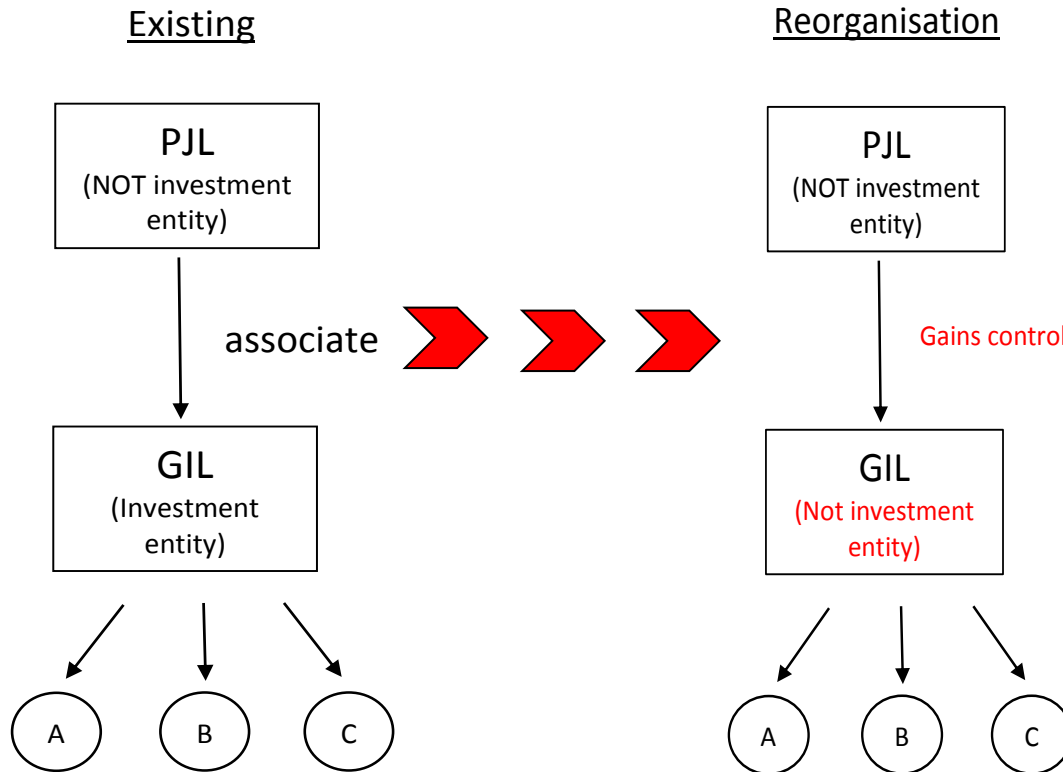
### During consolidation process

- Write heading of each journal on consolidation worksheet

	<u>Parent</u>	<u>Sub</u>	<u>J1</u>	<u>J2</u>
			Elim invest. in Sub	Share of post- acq reserves
Non-current assets	890.00	276.00		
Investment in Subsidiary	190.00		(190.00)	
Investment in Associate	7.00			
<b>Goodwill</b>			50.00	
Current assets	193.00	52.00		
Total assets	1,280.00	328.00	(140.00)	-

- One journal for one transaction
- Show workings or formula
- Easy for self-checking and marking

# June 2018 Session - Section A - Q4



**PJL gains control of GIL**

**GIL no longer an investment entity**



## June 2018 Session - Section A - Q4

### Required:

Advise the accounting implication of the planned group reorganization in

- (i) the financial statements of GIL and
- (i) the financial statements of PJL

**Mainly ENTITY  
level financial  
statements**



(10 marks)





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## June 2018 Session - Section A - Q4

### Investment Entity (HKFRS 10)

- Obtain funds from investors
- Provide investment management services
- Invest funds solely for capital appreciation, investment income
- Measures and evaluates the performance of investments on fair value basis
- **Exempted from preparing consolidated financial statements**



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## **June 2018 Session - Section A - Q4**

### **GIL - Implications in Financial Statements**

#### GIL as an investment entity

- Investments in subsidiaries at fair value through profit or loss (HKFRS 10)



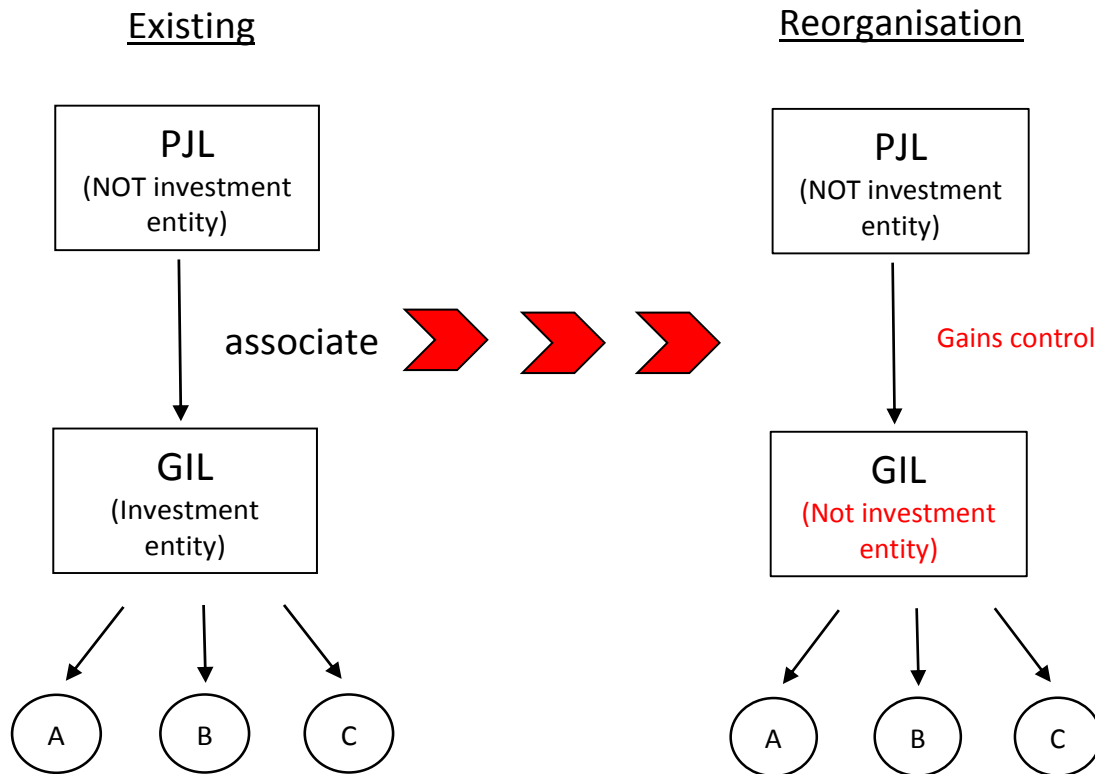
## June 2018 Session - Section A - Q4

### GIL - Implications in Financial Statements

GIL **ceased** to be an investment entity

- *Date of change* of status:
  - a) Is the deemed acquisition date
  - b) FV of subsidiary = transferred deemed consideration
  
- HKAS 27 NOT specifically require application of HKFRS 3
  
- Based on (a) & (b) above, the investment is deemed to be an acquisition of subsidiary → **apply HKFRS 3**

# June 2018 Session - Section A - Q4



**PJL gains control of GIL**

**GIL no longer an investment entity**



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## **June 2018 Session - Section A - Q4**

### **PJL - Implications in Financial Statements**

Prior to control (GIL is an associate)

- Account for either as financial asset, associate or joint venture

After gaining control (from associate to subsidiary)

- Account for either at cost or according to HKFRS 9
- Identify acquisition date, i.e. date of obtaining control
- Business combination in stages
  - Re-measure previously held equity interest at FV on acquisition date
  - Recognise resulting gain or loss in profit or loss



## June 2018 Session - Section B

	<u>Marks</u>
Q.5(a): Restructuring Provision	11
(b): Professional Ethics	4
Q.6(a): Properties	12
(b): Deferred Tax	7
Q.7(a): Lease	4
(b): Lease - Journal Entries	8
(c): Change in Accounting Policy	4
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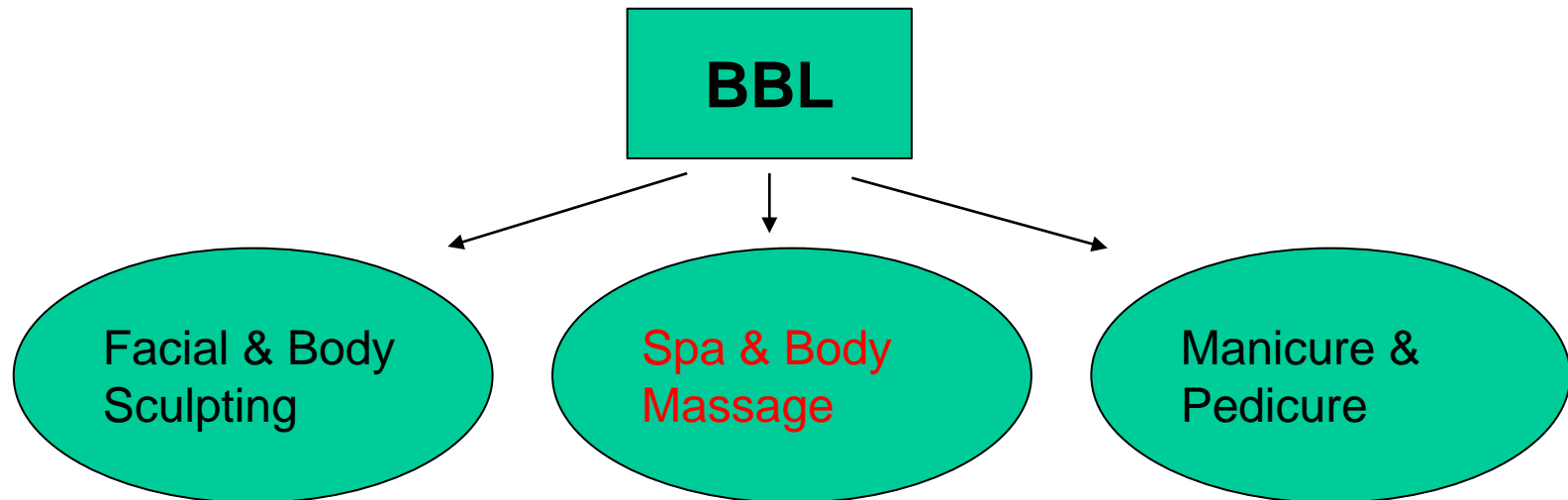
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## June 2018 Session - Section B

### Panelists' General Comments

- Many candidates go straight to conclusions **WITHOUT** elaborating the **technical rationale** behind
- The candidates who scored full or high marks
  - Present their answers to what was required
  - **Supported** with relevant requirements **from specific financial reporting standards** with precision

## June 2018 Session - Section B - Q5(a)



- Board approved to wind up in 2018
- Reallocate resources to Facial & Body Sculpting
- Communicated wind-up plan to customers & masseurs





## June 2018 Session - Section B - Q5(a)

There are SIX action items under the wind-up plan

HKAS 37

### Required:

1

For each of the items, determine and explain the amount of provisions that should or should not be provided at 31 Dec 2017 as a result of the wind-up plan, and for those that should not be recorded in 31 Dec 2017, the appropriate timing of recognising the respective item.

2

(11 marks)



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## June 2018 Session - Section B - Q5(a)

A **provision** shall be recognised when:

- (a) Present obligation (legal or constructive) as a result of past event;
- (b) Probable outflow of resources; and
- (c) Reliable estimate



## June 2018 Session - Section B - Q5(a)

Is the wind-up plan a “Restructuring” under HKAS 37?

Restructuring is:

- A programme planned and controlled by management
- Materially changes either:
  - (a) Scope of the entity’s business; or
  - (b) The manner in which that business is conducted

BBL’s plan to wind up Spa & Body Massage which is a line of business →  
**within the scope of restructuring**



## June 2018 Session - Section B - Q5(a)

Any specific requirement in relation to  
“Restructuring Provision” under HKAS 37?

(a) Present obligation (legal or constructive)

Constructive obligation arises only when

- (i) started to implement the restructuring plan; **OR**
- (ii) announced the main features of the plan to raise a valid expectation

BBL communicated the plan on 1 Dec 2017 ... and started to implement the plan raising a valid expectation in them ...



## June 2018 Session - Section B - Q5(a)

Any specific requirement in relation to  
“Restructuring Provision” under HKAS 37?

(b) Probable outflow of resources and (c) reliable estimate

- Include **only the direct expenditures** arising from the restructuring, which are those that are **BOTH**:
  - (i) Necessarily entailed by the restructuring; AND
  - (ii) Not associated with ongoing activities of the entity



## June 2018 Session - Section B - Q5(a)

(A) Transfer 6 masseurs to do nail art if attend a 3-month nail art course. BBL will bear the course fee (HK\$140,000)

- Not be recognized as a provision
- Because retraining related to their future employment, i.e. ongoing activities
- Expensed as incurred



## June 2018 Session - Section B - Q5(a)

(B) Employment of another 3 masseurs will be terminated. Payment in lieu of notice (HK\$120,000) will be paid to each masseurs

- Total of HK\$360,000 should be recognized as a provision
- Because it is a present obligation as a result of the communication of the decision to wind up the line of business



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## **June 2018 Session - Section B - Q5(a)**

(C) Retain the last 3 masseurs up to 31 Dec 2018 to complete the remaining packages sold to customers.

(Total salaries for year 2017: HK\$720,000, if stay till Dec 2018, receive an extra 20% bonus of 2017 salaries)

- Should be recognized over the period when the services are provided





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## June 2018 Session - Section B - Q5(a)

(D) Share of rental and overhead costs for maintaining the spa and massage business for year 2018 (HK\$468,000)

- Not be recognized as a provision UNLESS relate to an onerous contract
- Recognised as incurred



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## June 2018 Session - Section B - Q5(a)

(E) Cost of dismantling the jacuzzi in the spa room  
(HK\$110,000)

- Not be recognized as a provision
- Associated with ongoing activities
- Recognised as incurred



## June 2018 Session - Section B - Q5(a)

(F) Customers can opt for a refund of the unused spa and massage package (HK\$560,000)

- Not be recognized as a provision
- Relates to future revenue yet to be earned
- Amount should have been recognized as deferred revenue

Where the effect of time value of money is material, the amount of provision shall be the present value of the expenditures required to settle the obligation.



## June 2018 Session - Section B - Q5(b)

- Keith Ong, accounting manager, joined BBL in Dec 2017
- In preparing the financial statements for year 2017, Keith noticed a long outstanding receivable
- Keith considered the receivable impaired and reported to the financial controller
- Financial controller will consider writing off the receivable next year with the planned expansion
- Because bonus plan is linked to BBL's performance



## June 2018 Session - Section B - Q5(b)

### Required:

1

Analyse the ethical issues involved ... with reference to the relevant fundamental principles for professional accountants as provided in the Code of Ethics for Professional Accountants.

2

Identify and explain the potential threats Keith may face in complying with the fundamental principles

(4 marks)



## June 2018 Session - Section B - Q5(b)

### Sample answer

Keith has breached the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Keith faces self-interest threat and intimidation threat.



Not link up  
case fact with  
specific  
principle



No explanation



## June 2018 Session - Section B - Q5(b)

### Ethical Issues

- Should be straightforward and honest. Keith should not knowingly be associated ... contain information ... materially false or misleading
- Must not allow bias, conflict of interest or undue influence of others. The bonus should not affect Keith's judgement in making allowance for bad debts
- Should maintain adequate professional knowledge and skills. Credit loss should be provided according to HKFRS 9
- Should act diligently, carefully, timely and in accordance with applicable professional standards



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## June 2018 Session - Section B - Q5(b)

### Potential Threats

- **Self-interest threat:** the financial interest, i.e. annual bonus payment would inappropriately influence a professional accountant's judgement or behaviour
- **Intimidation threat:** to deter from acting objectively because of actual or perceived pressures from others

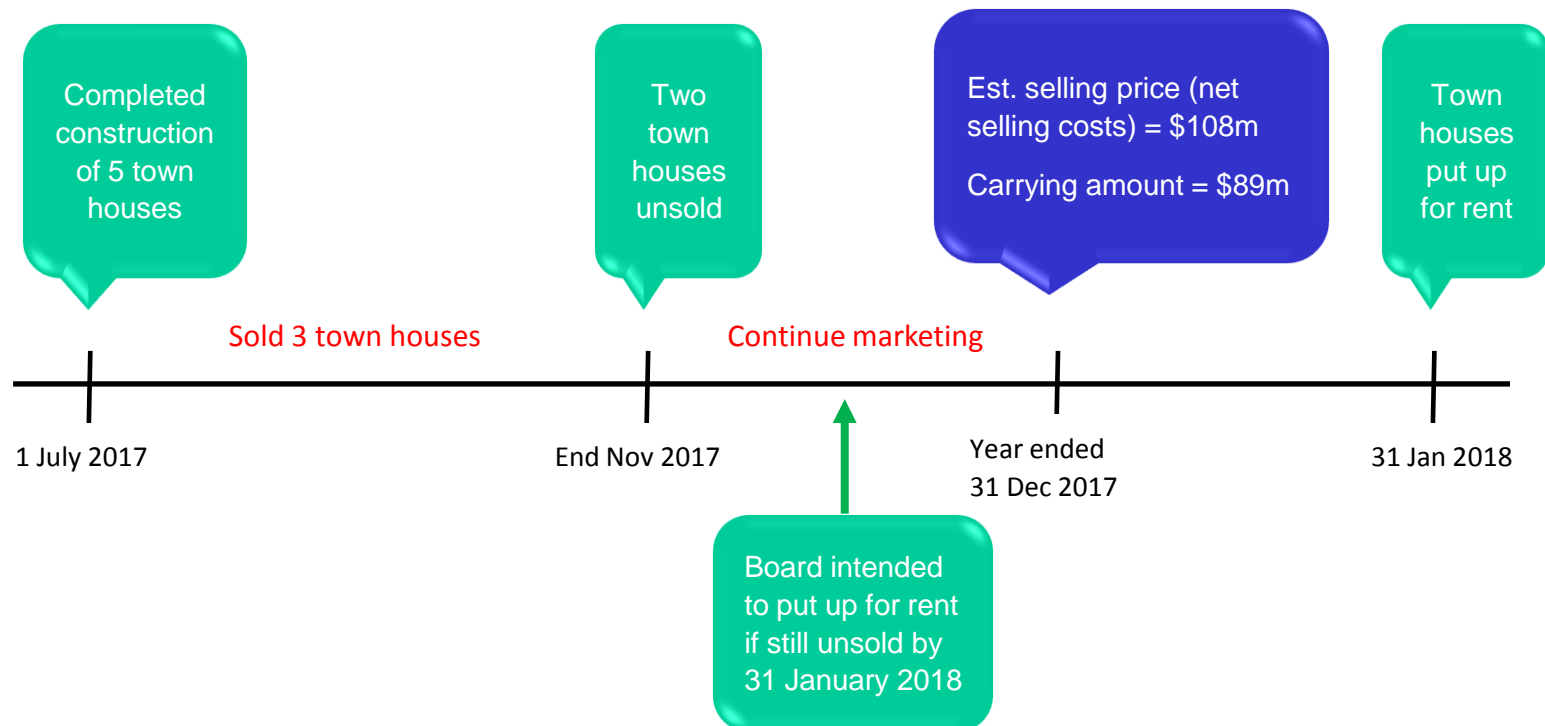




## June 2018 Session - Section B - Q5(b)

UDL business: properties development, selling and investments

### Residential Estate





## June 2018 Session - Section B - Q5(b)

### Residential Estate

Required:

Consider and **advise as to the accounting implications** of the property interest of UDL

- at 31 December 2017 AND
- for the year ended 31 December 2017.

- ✓ Recognition / De-recognition
- ✓ Measurement
- ✓ Disclosure

HKAS 16  
HKAS 40

HKAS ??



## June 2018 Session - Section B - Q6(a)

### Residential Estate [*Recognition*]

- The unsold town houses should be inventory at 31 Dec 2017 [i.e. HKAS 2]
- UDL is engaged in property development and selling business
- Town houses are constructed for sale
- Objective is to sell the properties in the ordinary course of business

Some candidates applied HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations which is irrelevant



## June 2018 Session - Section B - Q6(a)

### Residential Estate [*Recognition*]

- Board intended to put up for rent
- Transfer from inventories to investment properties
- Management's intentions (board meeting on 15 Dec) alone are not sufficient evidence of change in use
- Inventories as at 31 December 2017
- HKAS 40: change in use is evidenced by commencement of operating lease to another party
- At 31 Dec 2017, none of the town houses are leased or held with the immediate intention to rent out



## June 2018 Session - Section B - Q6(a)

### Residential Estate

- Net realisable value (i.e. estimated net selling price) as at 31 Dec 2017 is higher than the carrying amount ( \$108m vs \$89m) → no write down is necessary
- Record inventories of HK\$89,000,000 as current assets in the statement of financial position

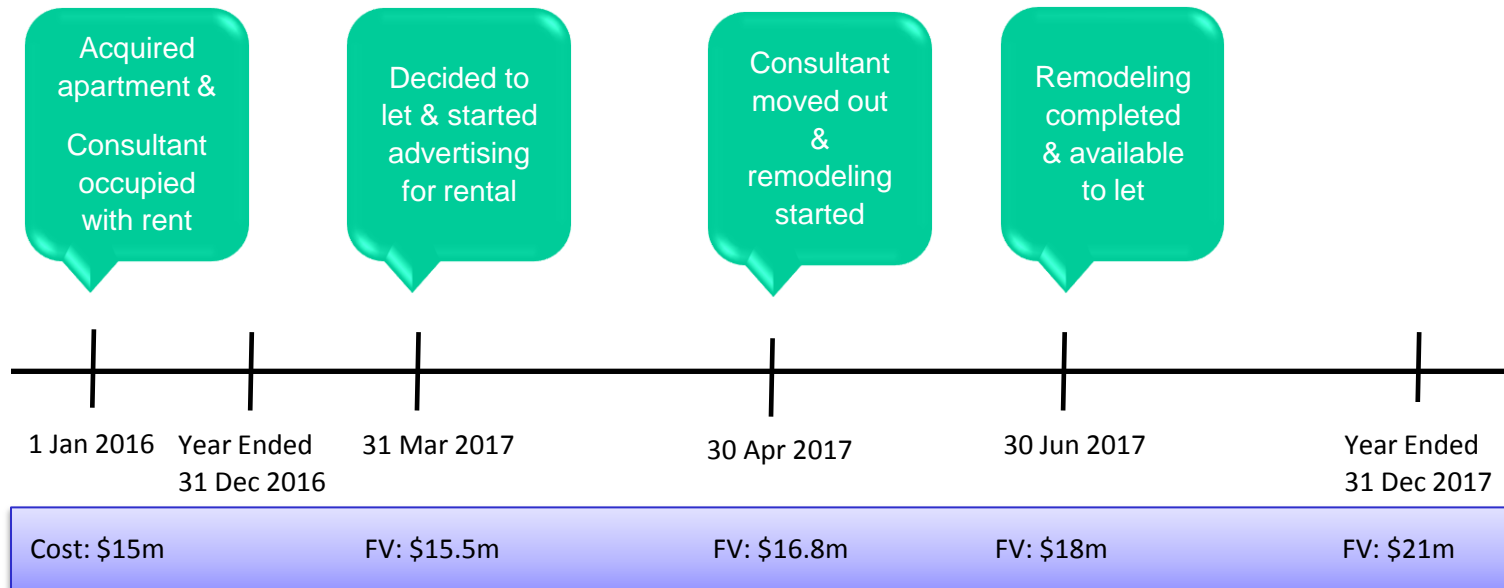
*measurement*

*disclosure*



## June 2018 Session - Section B - Q6(a)

### Apartment Unit



Accounting policies: Investment property: Fair value model  
Owner-occupied property: Cost model



## June 2018 Session - Section B - Q6(a)

### Apartment Unit

Required:

Consider and **advise as to the accounting implications** of the property interest of UDL

- at 31 December 2017 AND
- for the year ended 31 December 2017.

- ✓ Recognition / De-recognition
- ✓ Measurement
- ✓ Disclosure





## June 2018 Session - Section B - Q6(a)

### Apartment Unit [*Recognition*]

- Occupied by consultant (i.e. employee) → owner-occupied, NOT investment property
- No matter employees pay rent at market rates or not
- Meets the definition of Property, Plant and Equipment under HKAS 16
- During the year, change in use (ceased to be used by employee and offered for rent)





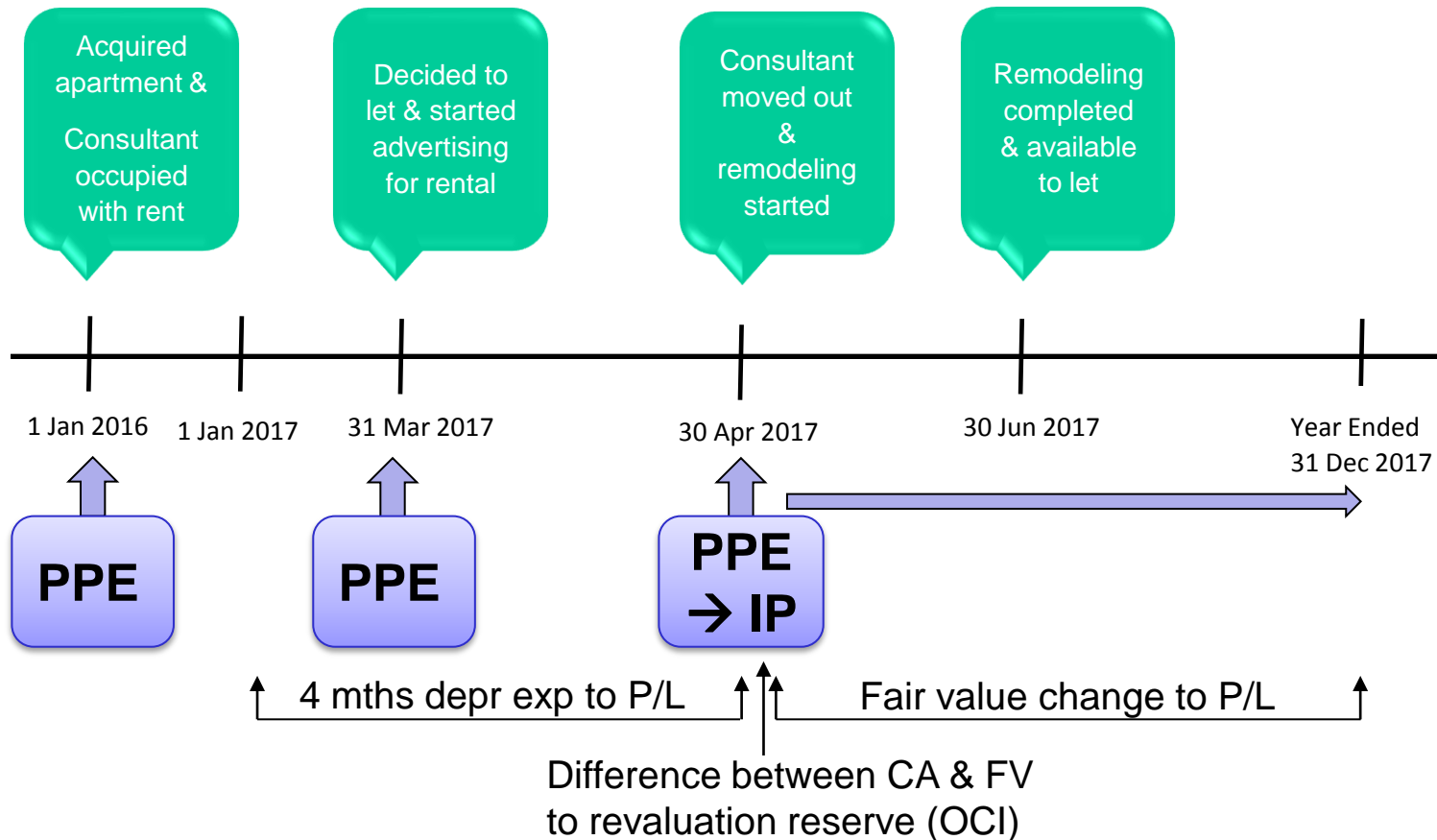
## June 2018 Session - Section B - Q6(a)

### Apartment Unit [*Recognition*]

- **31 Mar 2017** - advertising for rent but owner occupation not ended  
→ PPE
- **30 Apr 2017** - consultant moved out → end of owner occupation
- **30 Apr 2017** - started remodeling → constructed or developed for future use as IP
- **30 Apr 2017** = the date of change in use from PPE to IP

# June 2018 Session - Section B - Q6(a)

## Apartment Unit





## June 2018 Session - Section B - Q6(a)

Apartment Unit (Reminder: Advise the accounting implication, DO NOT put formula only)

- Recognise depreciation expense of HK\$100,000 in statement of profit or loss from 1 Jan to 30 Apr 2017
- Recognise the difference between carrying amount and fair value of HK\$2.2m as a revaluation reserve in OCI at 30 Apr 2017
- Recognise fair value gain of IP of HK\$4.2m in the statement of profit or loss for year ended 31 Dec 2017
- Recognise IP of HK\$21m as at 31 Dec 2017

*measurement*

*disclosure*



## June 2018 Session - Section B - Q6(b)

### Required:

1

Explain the underlying principles behind deferred tax accounting and

2

determine the deferred tax position of UDL in respect of the apartment unit at 31 December 2016 and 2017, respectively.

(7 marks)

HKAS 12



## June 2018 Session - Section B - Q6(b)

### Underlying Principles of Deferred Tax Accounting

- Account for the current and future tax consequences of the future recovery (settlement) ...
- Probable that recovery (settlement) of that carrying amount will make future tax payments ...
- Temporary differences between carrying amount and tax base
- Definitions of taxable temporary difference, deductible temporary difference & tax base



## June 2018 Session - Section B - Q6(b)

### Deferred Tax Position of UDL for 2016 & 2017

- Rebuttable presumption: in case of IP measured at FV, deferred tax is measured based on recovery through sale rather than use
- As no capital gain tax in HK, on the sale of IP at a price in excess of cost, the only tax effect on IP is the claw back of capital allowances claimed
  - There is deferred tax impact
  - Year 2017:  $(\text{cost} - \text{tax base}) \times \text{tax rate}$
- Tax base = cost minus 4% annual tax allowance



## June 2018 Session - Section B - Q6(b)

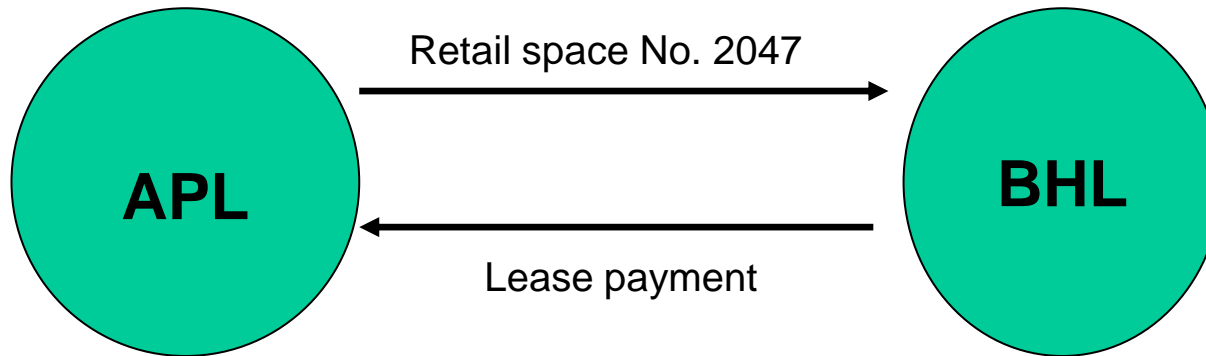
### Deferred Tax Position of UDL for 2016 & 2017

#### ***Panelists' comments***

- Small number of candidates are able to mention the rebuttable presumption of IP being measured at FV
- Mistakenly assumed that no deferred tax when no capital gain tax is charged
- Struggled to calculate the tax base



## June 2018 Session - Section B - Q7(a)



1 Oct 2016: entered into a 4-year lease contract

1 Jan 2017: retail space available for use by BHL

Required:

**Explain** whether the lease contract that BHL entered into with APL contains a lease under HKFRS 16 Leases.

(4 marks)





## June 2018 Session - Section B - Q7(a)

### Clauses of the lease agreement

- Lease payment (\$60k p.a.) payable on 1 Jan each year
- BHL has an option to extend the lease for another 2 years at market rate
- At inception of the lease, BHL believes it will decide at a later time whether to exercise the option
- Conveys exclusive use of the retail space
- APL can require BHL to move to another retail space but unlikely for APL to find another tenant to rent the original retail space
- BHL has full discretion to use the retail space



## June 2018 Session - Section B - Q7(a)

- At inception on 1 Oct 2016, BHL should assess whether the contract contains a lease
- A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration
- The lease conveys exclusive use and BHL has full discretion on the usage of the retail space
  - BHL would obtain substantially all economic benefits from use of the retail space [**right to control**]
- The lease specified that it is the lease of retail space No. 2047 [**an identified asset**]



## June 2018 Session - Section B - Q7(a)

- However, not an identified asset if supplier has substantive right to substitute the asset
- Substantive right to substitute the asset if BOTH conditions exist:
  - Supplier has practical ability to substitute alternative assets
  - Supplier would benefit economically from the substitution
- In this case, substitution right is not substantive as the owner benefits only if there is a new tenant that pays a certain rate and it is unlikely to find the new tenant
- **Conclusion:** the lease contract that BHL entered contains a lease



## June 2018 Session - Section B - Q7(c)

### Required:

Assuming HKFRS 16 *Leases* already became effective for financial periods beginning <sup>2</sup> on or after 1 January 2017, advise BHL as to the accounting and disclosure requirements for a change in accounting policy in its financial statements for the year ended 31 December 2017 under **HKAS 8**, ignoring the specific transitional provisions required by HKFRS 16.



## **June 2018 Session - Section B - Q7(c)**

### Accounting Requirement for Change in Accounting Policy

- Apply retrospectively
- Report as an adjustment to the opening balance of each affected component of equity
- Comparative information should be restated ... reflected in an adjustment to opening reserves of the earliest period presented



## June 2018 Session - Section B - Q7(c)

### Disclosure Requirement for Change in Accounting Policy

- Disclosures are required when the change has a material effect on current period, any prior period presented, or in subsequent periods
- Disclosures include:
  - (a) Reasons for the change
  - (b) Amount of adjustment for current period and each period presented
  - (c) Amount of adjustment relating to periods prior to those included in comparative information
  - (d) The fact that comparative information has been restated or that it is impracticable to do so



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# Summary of Examination Techniques

- Don't panic
- Manage your time (1.8 mins./mark)
- Attempt all questions and review your answers at last
- Read question requirements and identify the issues carefully
  - Highlight key words (e.g. Calculate / Advise / Propose etc...)
- Pay attention to specific format requirement (e.g. Memo)
- Give relevant answers
- Write clearly and check for careless mistakes
- Apply technical knowledge and don't copy from LP



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# Part 5: Q & A Session