

HKFRS / IFRS UPDATE 2012/06

ANNUAL IMPROVEMENTS TO HKFRS 2009 – 2011 CYCLE



Background

On 6 June 2012 the Hong Kong Institute of Certified Public Accountants (HKICPA) issued "Annual Improvements to HKFRS 2009 – 2011 Cycle" in response to the International Accounting Standards Board's (IASB) annual improvements project which deals with non-urgent but necessary improvements to IFRS. This update is also a summary of the key amendments to HKFRS therefore.

The improvements make amendments to the following five standards:

- HKFRS 1 *First-time Adoption of International Financial Reporting Standards*
- HKAS 1 *Presentation of Financial Statements*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 32 *Financial Instruments: Presentation*
- HKAS 34 *Interim Financial Reporting*

The effective date for each of the proposed amendments is annual periods beginning on or after 1 January 2013, with earlier adoption permitted. The amendments should be applied retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amendments

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

Issue: Repeated application of HKFRS 1

The amendment applies to entities that have applied HKFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with HKFRS.

Preparers in this situation are granted two options:

- Prepare financial statements in accordance with HKFRS 1 (repeat application).
- Apply HKFRS retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Estimates and Errors* as if the entity had never stopped applying HKFRS.

An entity that does elect to not apply HKFRS 1 is required to disclose why it has elected to apply HKFRS retrospectively as if it had never stopped applying HKFRS. Under both options an entity is required to disclose both the reason why it stopped applying HKFRS and why it resumed applying HKFRS.

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013

ACCOUNTING IMPACT

May be significant

Issue: Borrowing costs

The improvement clarifies that an entity that capitalised borrowing costs in accordance with its previous GAAP before the date of transition to HKFRS may carry forward, without adjustment, the amount previously capitalised in the opening statement of financial position at the date of transition.

It also states that borrowing costs incurred after the date of transition that relate to qualifying assets that are already under construction at the date of transition are accounted for (that is, capitalised) in accordance with HKAS 23 and not in accordance with previous GAAP.

In addition to the clarifications stated above, the improvement is clear that a first-time adopter can elect to apply HKAS 23 "Borrowing Costs" either from the date of transition or from an earlier date. The implication is that where an entity elects to apply HKAS 23 from a date earlier than the date of transition to HKFRS, the clarifications as stated in the two paragraphs above also apply from the elected date.

HKAS 1 Presentation of Financial Statements

Issue: Clarification of requirements for comparative information

The amendment clarifies the HKAS 1 requirements for comparative information when an entity prepares financial statements that include more than the minimum comparative information requirements.

The amendment also clarifies the requirement for presentation of a third Statement of Financial Position as a result of a change in accounting policy, retrospective restatement or reclassification.

Voluntary additional information

An entity is permitted to present comparative information that exceeds the minimum requirements as long as that information is prepared in accordance with HKFRS. An entity can choose only to present one or more additional statements as set out in HKAS 1.10 and not a complete set of financial statements. Related notes are required for all additional statements that are presented.

For example, an entity may present a third statement of profit or loss and other comprehensive income (thereby presenting the current period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to present, in the notes to the financial statements, the comparative information related to that additional statement of profit or loss and other comprehensive income.

Change in accounting policy, retrospective restatement or reclassification

The amendment addresses two aspects where an entity changes accounting policies, or makes retrospective restatements or reclassifications. They are that:

- The additional statement of financial position (or referred to as the third statement of financial position) should be presented as at the beginning of the immediately preceding comparative period required by HKAS 1 (and not, as at present, at the beginning of the earliest comparative period). For example, if an entity has a reporting date of 31 December 2011 and is required to present a third statement of financial position, this will be as at 1 January 2010; and
- Related notes are not required to accompany this additional/third statement of financial position other than as required by HKAS 1.41-44 (which deal with comparative information for reclassified amounts) and HKAS 8.

The amendment also clarifies that a third statement of financial position is not required if the retrospective application, retrospective restatement or reclassification does not have a material effect on the information in the statement of financial position at the beginning of the preceding period.

A consequential amendment has been made to HKAS 34 for the purposes of interim financial reporting.

In addition a consequential amendment has been made to HKFRS 1 that requires a first-time adopter to provide related notes to all presented financial statements.

HKAS 16 Property, Plant and Equipment

Issue: Classification of servicing equipment

The amendment clarifies that items such as spare parts, stand-by or servicing equipment are required to be classified as property, plant and equipment (PPE) when they meet the definition of PPE, and are classified as inventory when the definition is not met.

HKAS 32 Financial Instruments: Presentation

Issue: Tax effect of distribution to holders of equity instruments

The amendments clarifies that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction are required to be accounted for in accordance with HKAS 12 *Income Taxes*. As a result, depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

A consequential amendment has been made to HK(IFRIC)-Int 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

HKAS 34 Interim Financial Reporting

Issue: Interim financial reporting and segment information for total assets and liabilities

The amendment clarifies that a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements. Currently there is no reference to the amounts being regularly provided to the chief operating decision maker.

BDO's support and assistance on HKFRS/IFRS

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