

## Accounting Reference Period

We sometimes hear people saying that the statutory audited financial statements prepared under the requirements of the Hong Kong Companies Ordinance cannot cover a period over 18 months. Is that the exact requirement of the Ordinance? This Update tries to summarise the requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) and the new Hong Kong Companies Ordinance (Cap. 622) in relation to the accounting reference period of a set of statutory audited financial statements. Accounting reference period is the term used in the new Hong Kong Companies Ordinance (Cap. 622) for the reporting period covered by the financial statements.

### Requirements of the Predecessor Hong Kong Companies Ordinance (Cap. 32)

There is actually no explicit requirement in the old Ordinance about the accounting reference period of a set of statutory audited financial statements. The determination of the accounting reference period is indirectly by reference to the frequency of the annual general meetings ("AGMs").

Section 111 requires every company to hold an AGM each year. The period between 2 AGMs shall not be more than 15 months. If the company holds its first AGM within 18 months of its incorporation, it need not hold it in the year of its incorporation or in the following year.

Section 122 requires the directors to lay before the company at its AGM a set of audited financial statements. For private companies, the financial statements shall be made up to a date falling not more than 9 months before the date of the AGM.



Since a company is required to hold its first AGM within 18 months of its incorporation, it is true that the first set of statutory audited financial statements cannot cover a period over 18 months in order to have this first set of statutory audited financial statements to be laid before the company at its first AGM.

However, it is possible that the subsequent sets of statutory audited financial statements cover periods over 18 months. For example, the audited statutory financial statements for the year ended 31 December 2000 were approved in the AGM on 30 September 2001. The next AGM date is 15 months later i.e. 31 December 2002. The next set of statutory audited financial statements could, in an extreme case, cover a period of 24 months from 1 January 2001 to 31 December 2002. To meet the requirements of Section 122, the end of the reporting period, the AGM date and the date of the auditor's report will be the same i.e. 31 December 2012.



## Requirements of the New Hong Kong Companies Ordinance (Cap. 622)

There are now explicit requirements in the new Ordinance about the accounting reference period of a set of statutory audited financial statements.

Sections 368 and 370 in general require the accounting reference periods to be 12 months.

Section 369(6) requires that the accounting reference period of the first set of statutory audited financial statements to be within 18 months of incorporation.

Section 371(5) requires that the change of the accounting reference period cannot extend the accounting reference period to be longer than 18 months.

It is now correct to say that the statutory audited financial statements cannot cover a period over 18 months under the requirements of the New Hong Kong Companies Ordinance (Cap. 622).



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