

Annual Improvements to HKFRSs 2011-2013 Cycle

INTRODUCTION

Annual Improvements to HKFRSs 2011-2013 Cycle sets out a collection of amendments to HKFRSs in response to the International Accounting Standards Board's ("IASB") annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in the form of a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned.

The amendments consist of 4 changes to 4 HKFRSs and are in general effective from 1 July 2014. Earlier application is permitted. If an entity applies any amendment for an earlier period, it shall disclose that fact. Specific effective dates and transitional requirements are set out in the following sections.

HKFRS 1 "First-time Adoption of HKFRSs"

Meaning of 'effective HKFRSs'



Paragraph 7 of HKFRS 1 requires an entity to use the HKFRSs that are effective at the end of its first HKFRS reporting period. Paragraph 8 of HKFRS 1 allows a first-time adopter to apply a new HKFRS that is not yet mandatory if that HKFRS permits early application.

The Basis for Conclusions to HKFRS 1 is now amended to clarify that an entity is permitted to use either the HKFRS that is currently mandatory or the new HKFRS that is not yet mandatory, if that new HKFRS permits early application.

An entity is required to apply the same version of the HKFRS throughout the periods covered by the entity's first HKFRS financial statements. Consequently, if a first-time adopter chooses to early apply a new HKFRS, that new HKFRS will be applied throughout all the periods presented in its first HKFRS financial statements on a retrospective basis, unless HKFRS 1 provides an exemption or an exception that permits or requires otherwise.

This amendment only affects the Basis for Conclusions and is therefore effective immediately.

HKFRS 3 “Business Combinations”

Scope exceptions for joint ventures

Previously, HKFRS 3 excluded the formation of joint ventures from the scope of HKFRS 3. The term ‘joint venture’ had a general meaning that included ‘jointly controlled operations’, ‘jointly controlled assets’ and ‘jointly controlled entities’ under HKAS 31 “Interests in Joint Ventures”. HKAS 31 is now replaced by HKFRS 11 “Joint Arrangements” and the term ‘joint venture’ now means a specific type of joint arrangement, which does not include ‘joint operations’. Nevertheless, the term ‘joint venture’ in the scope exclusion paragraph of HKFRS 3 was not amended.

HKFRS 3 is amended to clarify that HKFRS 3 does not apply to the accounting for the formation of every type of joint arrangement (i.e. joint ventures and joint operations). In addition, it is clarified that the only scope exclusion needed from the scope of HKFRS 3 is the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.



The amendment is effective prospectively for annual periods beginning on or after 1 July 2014.

HKFRS 13 “Fair Value Measurement”

Scope of paragraph 52 (portfolio exception)

Paragraph 48 of HKFRS 13 contains an exception to permit an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis under certain conditions. Paragraph 52 of HKFRS 13 states that this exception in paragraph 48 applies only to financial assets and financial liabilities within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” or HKFRS 9 “Financial Instruments”.

Some contracts are accounted for as if they were financial instruments, but they do not meet the definitions of financial assets or financial liabilities. Examples of such a situation would be some contracts to buy or sell a non-financial item that can be settled net in cash by another financial instrument or by exchanging financial instruments as if the contracts were financial instruments within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9. It was not clear whether the scope of the exception in paragraph 52 also includes these contracts.

The amendment clarifies that the references to financial assets and financial liabilities should be read as applying to all contracts within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities.

The amendment is effective for annual periods beginning on or after 1 July 2014. The amendment is to be applied prospectively from the beginning of the annual period in which HKFRS 13 is initially applied.



HKAS 40 “Investment Property”

Clarifying the interrelationship between HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property

The amendment clarifies that paragraphs 7 to 14 of HKAS 40 relates to whether or not a property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination.

Judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of HKFRS 3. Reference should be made to HKFRS 3 to determine whether it is a business combination.

Determining whether a specific transaction meets the definition of a business combination and includes an investment property requires the separate application of both HKFRS 3 and HKAS 40.

The amendment is effective for annual periods beginning on or after 1 July 2014. The amendment is to be applied prospectively for acquisitions of investment property from the beginning of the first period for which the amendment is adopted. Accounting for acquisitions of investment property in prior periods shall not be adjusted. However, an entity may choose to apply the amendment to individual acquisitions of investment property in prior periods if, and only if, information needed to apply the amendment to those earlier transactions is available to the entity.



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