



TechWatch 39

The following items are highlights from TechWatch, the Institute's monthly summary of regulatory and legislative developments affecting the profession.

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▶ **TechWatch:**
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▶ Financial reporting

IASB proposes amendments to four standards: The International Accounting Standards Board has proposed the following amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*:

- To measure 100 percent of the fair value of the acquiree, even if the business combination is less than 100 percent
- To recognise goodwill as the difference between the fair value of the acquiree, as a whole, and the fair value of the identifiable assets acquired and liabilities assumed
- In a business combination achieved in stages, to remeasure the acquirer's non-controlling equity investment in the acquiree at fair value as of the acquisition date and recognise any gain or loss in profit or loss
- To account for acquisitions or reductions of additional non-controlling equity interests after the business combination as equity transactions rather than by using acquisition accounting
- To include in gain or loss arising on loss of control the parent's share of gains or losses related to the former subsidiary that were previously recognised in equity and remeasure any remaining non-controlling interest to fair value

The IASB has also proposed the following amendments to IAS 37 *Non-financial Liabilities*:

- To eliminate the terms "contingent liabilities" and "contingent assets" and use the term "contingency" to refer to uncertainty about the amount of a liability or an asset
- When the amount that will be required to settle a liability (unconditional obligation) is contingent on one or more uncertain future events, to recognise the liability independently of the probability that the uncertain future event will occur, or fail to occur. The uncertainty is incorporated in the measurement
- To include items previously described as contingent assets that satisfy the definition of an asset within the scope of IAS 38 *Intangible Assets* rather than IAS 37 (except for the rights to reimbursement)

The IASB has also proposed the following amendments to IAS 19 *Employee Benefits*:

- To recognise voluntary termination benefits when employees accept the entity's offer of those benefits
- To recognise involuntary termination benefits when the entity has communicated

its plan of termination to the affected employees and the plan meets specified criteria, unless they are provided in exchange for employees' future services. In such cases, to recognise the liability for those benefits over the future service period

Responding to the IASB, the Institute considers that the proposed amendments in these exposure drafts are technically sound, but it is concerned about the practicability of some of the proposals, in particular their measurement aspects.

IASB proposed policy on Technical Corrections: In response to the concerns identified by the Institute, and many other commentators, the IASB decided at its recent meeting not to pursue its proposed technical correction policy and to amend standards through its usual exposure draft process.

▶ Audit and assurance

IAASB submission: The Institute has made a submission to the IAASB on the EDs of proposed ISA 701 *The Independent Auditor's Report on Other Historical Financial Information* and ISA 800 *The Independent Auditor's Report on Summary Audited Financial Statements*:

- In relation to the proposed ISA 701, the Institute believes that further debate among a wide range of stakeholders is needed as to whether it is possible or, indeed, right to give a "true and fair/fairly presents" opinion on anything other than full financial statements
- In relation to the proposed ISA 800, the Institute questions whether the auditor is in a position to comment on the appropriateness of either the summary financial information or of the summarisation process in the absence of an accounting standard or appropriate regulation

Institute invites comments on improving the clarity of IAASB standards: The IAASB has issued an exposure draft on improving the clarity of IAASB standards, with comments requested by 10 February 2006. This draft is important to all those interested in auditing standards because it sets the style and format for future auditing standards.

▶ Taxation

Revenue (Abolition of Estate Duty) Ordinance 2005: Under the Revenue (Abolition of Estate Duty) Ordinance 2005, which was gazetted on 11 November 2005, no estate duty will be charged on the estates of persons dying on or after 11 February 2006. The amount of estate duty payable by the estates of those persons dying on or after 15 July 2005 and before 11 February 2006 will be reduced to HK\$100 where the principal value of those estates exceeds the estate duty threshold of HK\$7.5 million.

Accounting definitions

Q: Is there any difference between the terms "financial accounts" and "financial statements?"

A: "Financial statements" is the term used in Hong Kong Financial Reporting Standards. The Institute generally considers "financial accounts" and "financial statements" to be equivalent terms.

Q: Can CPAs prepare and issue auditors' reports on financial statements in Chinese instead of English?

A: The Institute has not issued any specific guidance on this subject. Legally, Chinese and English are both official languages of Hong Kong and it is very common to prepare financial statements in both.

Q: What is the difference between "true and fair" and "true and correct?"

A: All companies incorporated under the Hong Kong Companies Ordinance, except those that satisfy S141D, are required to lay before their annual general meetings accounts that show a "true and fair" view of the profit and loss and state of affairs of the company. They should satisfy all the requirements of Hong Kong Financial Reporting Standards. Those companies that satisfy S141D can choose to prepare accounts that show a "true and correct" view instead. True and correct accounts involve less disclosure as compared with true and fair accounts. In order for the financial statements to show a true and correct view, they should comply with the framework and standard for small and medium sized entities.