

Let's get

This column is dedicated to answering questions submitted by members regarding Institute standards. You can submit questions on technical issues by sending an email to hkipca@hkicpa.org.hk. The standard setting team will answer these questions in accordance with the policy on handling members' technical questions which is posted on our website.

Q. I am responsible for the preparation of the financial statements of a not-for-profit organization that was previously exempted from compliance with SSAP 17 *Property, Plant and Equipment* because its long-term financial objective does not include achieving operating profits.

In the past I have not been providing depreciation for the plant and equipment owned by the not-for-profit organization. The current financial year commenced on 1 September 2005 and the organization will be applying HKFRSs for the first time. I intend to continue with the existing accounting policy for depreciation.

I understand that the exemptions previously included in SSAP 17 are no longer available in HKAS 16 *Property, Plant and Equipment*, which is effective for accounting periods beginning on or after 1 January 2005. What type of audit report will my auditors be proposing if I insist on

continuing with the accounting policy and not provide depreciation for the financial statements of the current year?

A. SAS 600 *Auditors' reports on financial statements* requires that when the auditors conclude that the effect of the matter giving rise to disagreement is so material or pervasive that the financial statements are seriously misleading, they should issue an adverse opinion (for example, the financial statements do not give a true and fair view). In the case of other material disagreements, the auditors should issue a qualified (except for disagreement) opinion indicating that it is expressed except for the effects of the matter giving rise to the disagreement.

The audit opinion should include an explanation of factors giving rise to the disagreement (for example, an accounting standard has been departed from), including quantification of the effect on the financial statements (for example, the amount of missing depreciation).

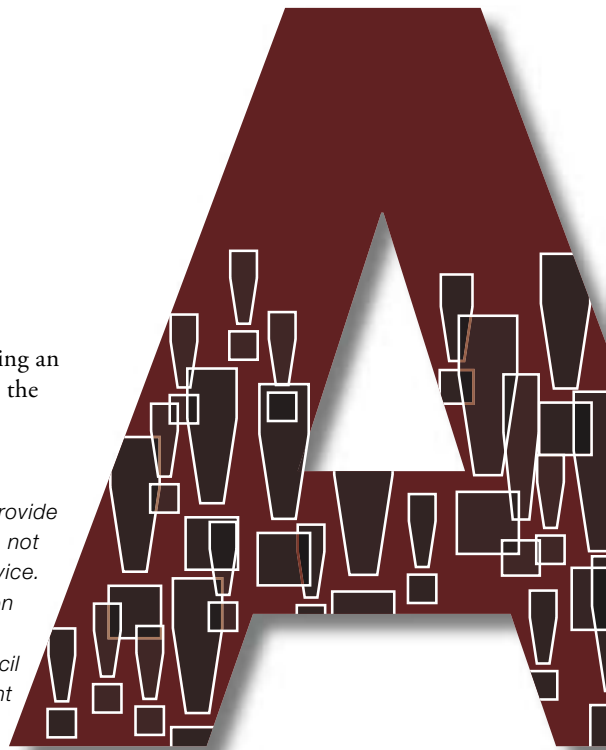
Given that HKAS 16, which is the applicable standard for the current year, requires plant and equipment

technical

to be carried at cost less accumulated depreciation and accumulated impairment losses, the accounting policy of not providing depreciation on those assets would be a departure from HKAS 16. It is likely that your auditors will propose issuing a qualified (except for disagreement) opinion unless they believe that the effect is so material or pervasive that the financial statements are seriously misleading. Where your auditors consider that the effect of the accounting policy is seriously

misleading, they will propose issuing an adverse opinion in their report on the financial statements.

Please note that the answers only address general issues and provide general guidance. The answers do not constitute professional or legal advice. You need to base your decisions on frameworks, standards and other documents approved by the Council of the Institute, after taking account of your specific circumstances.



Members helping members

Do you want to help your fellow members? Try answering this question from a member and send an email to hkicpa@hkicpa.org.hk. Answers received by 20 October will be considered for inclusion in the December issue of A Plus.

This month's question:

Q. I often use materials from Volume II of the *Members' Handbook*, which contains financial reporting pronouncements. I wonder what sort of materials are in Volumes I and III. Are they relevant to all members of the Institute or only to certain groups of members?

Here is the answer to the question we asked members to help with in the August edition of *A Plus*.

Q. Since Hong Kong has no requirement to file financial statements with a regulator, does it mean that the "available for public use" condition in HKAS

27 Consolidated and Separate Financial Statements, paragraph 10 that permits a parent not to prepare consolidated financial statements can never be met as far as the ultimate Hong Kong parent or any intermediate Hong Kong parent of the parent that produces consolidated financial statements is concerned?

A. No. The "available for public use" condition does not mean that the financial statements of the parent have to be in the public domain in order to take advantage of the exemption under HKAS 27. The condition can be interpreted in the broadest sense. The condition would generally be satisfied if the consolidated financial statements of the parent are placed on the parent's website or will be made available whenever requested by a member of the public (including a competitor). Accordingly, a Hong Kong parent can satisfy the condition in HKAS 27 by making its financial statements publicly available on a voluntary basis, even though Hong Kong has no filing requirement.



TechWatch 46

The latest standards
and regulatory
announcements

► Financial reporting

The Institute invites comments on IASB consultation documents

(a) ED of proposed amendments to IAS 32 and IAS 1

The Institute has issued an **invitation to comment** on IASB exposure draft (ED) of proposed amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation* with comments requested by **6 October 2006**.

IAS 32 requires an instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. That straightforward principle works well in most situations. However, many instruments that would usually be considered equity, including some ordinary shares and partnership interests, include provisions that allow the holder to “put” the instrument (to require the issuer to redeem it) for cash. The instruments are therefore considered liabilities, rather than equity, under the existing provisions of IAS 32.

Under the proposed amendments, the following types of financial instruments would be classified as equity, provided that specified criteria are met:

- Ordinary shares that are puttable to (i.e. redeemable from) the issuer at fair value
- Ordinary shares of limited life entities
- Partners’ interests in a partnership that must liquidate upon exit of a partner (e.g. on retirement or death)

(b) Discussion paper on *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*

The Institute has issued an **invitation to comment** on the above IASB discussion paper with comments requested by **6 October 2006**.

This discussion paper contains the first results from the IASB joint project with the U.S. FASB on the conceptual framework. It sets out their preliminary views on the first two chapters of an enhanced conceptual framework. The preliminary views restate the existing frameworks’ definition of the objective of general purpose external financial reporting as providing information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions. The document also identifies relevance, faithful representation, comparability (including consistency) and understandability among the characteristics of financial information that make it decision useful.

IASB takes steps to assist adoption of IFRSs and reinforce consultation – no new IFRSs effective until 2009

The IASB has announced a number of steps taken as a result of ongoing review of its work programme and of market practices, including the following:

- **Increased lead-time to prepare for new standards:** The IASB recognizes that many countries require time for translations and implementation of new standards into practice and, where IFRSs are legally binding, into law. To accommodate the time required, the IASB intends to allow a minimum of one year between the date of the publication of wholly new IFRSs or major amendments to existing IFRSs and the date when implementation is required.
- **Increased opportunity for input on conceptual issues:** The IASB and the U.S. FASB have agreed to publish discussion papers, rather than moving directly to exposure drafts, on the individual sections of their Conceptual Framework project. The IASB announced that it would also publish a discussion paper as the next step of its Fair Value Measurement project, which is aimed at providing consistency in the application of existing fair value requirements. The decision to use discussion papers as part of these projects means that there will be at least two opportunities for public comment.
- **Public round tables on key topics:** The IASB will hold public round table discussions in the near future on two key topics on which constituents have expressed particular interest. The first is on proposed amendments to the recognition and measurement principles in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. These round tables will be held in November and December. The second is on measurement phase of the Conceptual Framework project. Discussions will focus on the range of possible measurement attributes, including cost and fair value that could be used both at initial and subsequent recognition. The round tables will be held in the first quarter of 2007.

Consistent with the steps described above, the IASB will not require the application of new IFRSs under development or major amendments to existing standards before 1 January 2009. The establishment of 2009 as the first date of required implementation of new standards will also provide countries yet to adopt IFRSs with a clear target date for adoption.

By refraining from requiring new standards to be applied before 2009, the IASB will also be providing four years of stability in the IFRS platform of standards for those companies that adopted IFRSs in 2005. The establishment of this approach does not preclude the publication of new standards before that date, and companies would be permitted to adopt a new standard on a voluntary basis before its effective date. Interpretations and minor amendments to deal with potential issues identified during implementation would not be subject to this approach.

► Government legislation and other initiatives

The Institute issues updated technical bulletin on anti-money laundering and anti-terrorist financing

The Institute has issued an updated technical bulletin, which provides information to members on the current requirements on anti-money laundering and anti-terrorist financing, in particular on dealing with the proceeds of crime and reporting suspicious transactions.

Among other things, the new bulletin alerts members to revised Forty Recommendations (40Rs) issued by the Financial Action Task Force on Money Laundering and their implications for the future regulatory regime. Legislation to fully implement the revised 40Rs in Hong Kong has not yet been introduced and it is envisaged that the bulletin will require some further revision when the law is introduced.

Extracts from TechWatch 46. The entire publication is available as a PDF on the Institute's website.

Quick link

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