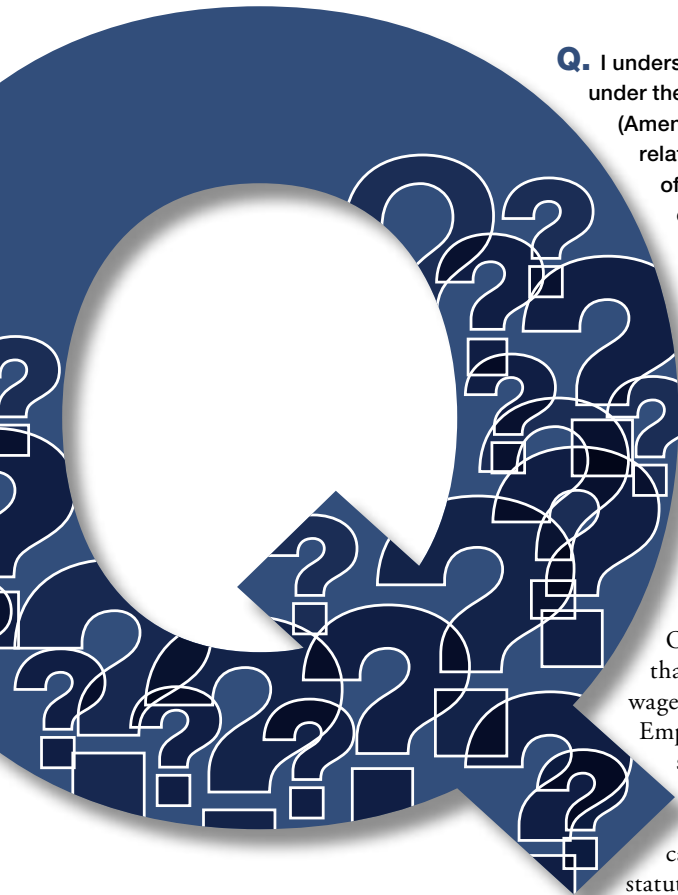


Let's get technical

This column is dedicated to answering questions submitted by members regarding Institute standards



Q. I understand that the provisions under the Employment (Amendment) Ordinance 2007 relating to the calculation of relevant statutory entitlements became effective on 13 July 2007 and the provision that extends the period of keeping wage and employment records came into operation on 13 January 2008. What are the key issues that we should look for?

A. The main objective of the Amendment Ordinance is to ensure that all components of wages as defined under the Employment Ordinance, such as commissions and allowances, are included in the calculation of relevant statutory entitlements. Regardless of whether an

employee is paid monthly, daily or by a piece rate, his relevant statutory entitlements shall be calculated on the basis of his 12-month average wages, while any periods and wages that fall under the “disregarding provisions” shall be excluded.

This amendment may substantially affect the way in which an employer calculates statutory entitlements and thus affects the liability recognized in the financial statements in respect of such statutory entitlements under HKAS 19 *Employees Benefits*, especially the calculation of short term liabilities, such as holiday pay, annual leave pay, sickness allowance, etc., and long term liabilities where applicable.

The period of keeping wage and employment records has been extended from six to 12 months since 13 January 2008.

The key amendments made under the Amendment Ordinance are summarized in the publication by the Labour Department, *A Concise Guide to the Employment (Amendment) Ordinance 2007*, which can be accessed from its website: www.labour.gov.hk.

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 18 April will be considered for inclusion in the June issue of A Plus.

Q. I am carrying out an audit of financial statements of an owners' corporation of a building and understand that section 27 "Accounts of Corporation" of the Building Management Ordinance (Chapter 344) has been updated since 1 August 2007 to require specifically a "true and fair view" audit report instead of a "present fairly" audit report. Has the Institute updated its circular "Audit of Accounts of Owners' Corporations of Buildings – Audit Issues Q&A" issued in December 2006 to provide a new example audit report?

Here is the answer to the question we asked members to help with in the February edition of A Plus:

Q. Our company is going to issue redeemable preference shares. The shares are redeemed at the option of the holders and the dividends on such shares are payable at the issuer's discretion. Should the instrument be classified as liability or equity in the financial statements?

A. HKAS 32 *Financial Instruments: Presentation* defines a financial liability as any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share. A preference share that provides for redemption at the option of the holder with dividend payments made at the

issuer's discretion contains both a liability component (issuer's contractual obligation to deliver cash or another financial asset for payment of the redemption amount) and an equity component (the holder's right to receive dividends, if declared).

The liability and the equity components must be presented separately on the balance sheet, with the liability component being the present value of the redemption amount without any consideration of the possible dividends. The unwinding of the discount on this component is recognized in profit or loss and classified as interest expense. The equity component is equal to proceeds less liability component as stated in paragraph 31 of HKAS 32 and explained further in paragraph AG 37. Any dividends paid relate to the equity component and, accordingly, are recognized as a distribution of profit or loss.

However, if any unpaid dividends are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends are classified as interest expense.

You can submit questions on technical issues by sending an email to hkicpa@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 the Institute's website.

