



Let's get technical

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

Q. My company is planning to acquire an “advertising business.” But I am not sure whether my company is really acquiring a business so that I have to account for the transaction in accordance with HKFRS 3 *Business Combinations*, or indeed my company is only acquiring a group of assets, where HKFRS 3 does not apply.

A. Appendix A of HKFRS 3 *Business Combinations* defines a business as an integrated set of activities and assets conducted and managed for the purpose of providing:

- (a) A return to investors; or
- (b) Lower costs or other economic benefits directly and proportionately to policyholders or participants.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If **goodwill** is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

In respect of the above-mentioned definition, a feature that can distinguish a business from a group of assets is the presence of goodwill, that is, the possibility that

the fair value of the acquired activities and assets may be different from the sum of the fair values of the underlying net assets. The definition of goodwill in HKFRS 3 is future economic benefits arising from assets that are not capable of being individually identified and separately recognized.

If the “advertising business” that your company is planning to acquire fulfills the definition of a business in HKFRS 3, it should be accounted for as a business combination by applying the purchase method and any goodwill is recognized as a separate asset. Basis for conclusions paragraphs BC10 to BC15 further explain the definition of a business so as to specify situations where the purchase method of accounting is required in accordance with HKFRS 3.

If the “advertising business” is nothing more than a collection of net assets, then your company should recognize the acquisition of those assets and liabilities in accordance with the relevant standard(s). It then allocates the total cost of the net assets between the individual identifiable assets and liabilities based on their relative fair values at the acquisition date.

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 May will be considered for inclusion in the July issue of A Plus.

Q. HKAS 39 requires that transaction costs are included in the initial measurement of financial assets and financial liabilities other than those at fair value through profit or loss. How should this requirement be applied in practice?

Here is the answer to the question we asked members to help with in the March 2008 edition of A Plus:

Q. My company has issued some share options to its employees and we have accounted for it in accordance with HKFRS 2 *Share-based Payment*. However, we now note that some of these vested share options have not been exercised and have lapsed. Can we reverse the amount previously recognized in this year's profit and loss account?

A. Once employee's services have been received with a corresponding increase in equity, paragraph 23 of HKFRS 2 prohibits any subsequent adjustment to total equity after vesting date. For example, the entity does not subsequently reverse the amount recognized in equity if the vested share options are not exercised. Accordingly, you should not reverse the amount recognized before vesting date in this year's income statement. This aligns the treatment of share options granted to employees with share options issued to other parties.

The above requirement does not preclude the entity from recognizing a transfer within equity, that is, a transfer from one component of equity to another.

HKFRS 2 basis for conclusions paragraphs BC218 to BC221 provide further guidance on share options that are forfeited or lapse after the end of the vesting period.

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.

