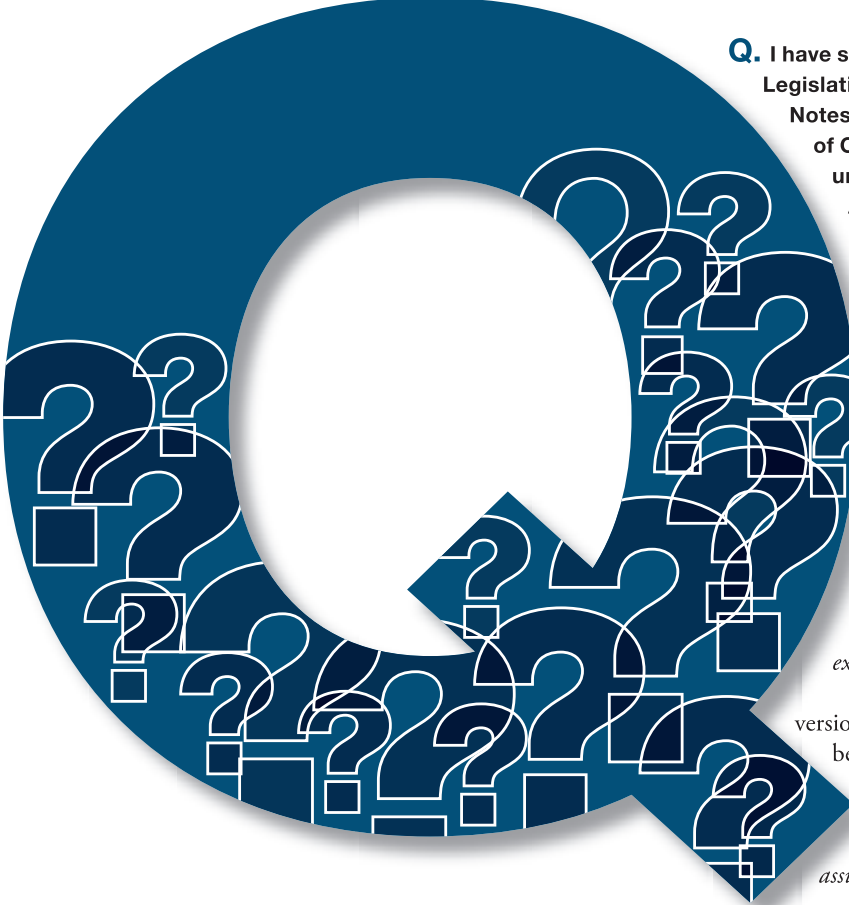


Let's get technical

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



Q. I have some questions on auditing. For the 2008 Legislative Council election, are there any updated Notes for Candidate and Independent Auditor of Candidate of Legislative Council Elections under the Legislative Council Election Financial Assistance Scheme since 2007? Where can I obtain a Chinese version sample of the unqualified assurance report in relation to the circular on Reporting on General Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department (Other than Flag Days)?

A. The revised notes, issued in July 2008 and prepared by the Registration and Electoral Office in consultation with the Institute for the September 2008 LegCo election, are posted on the Institute's website at www.hkicpa.org.hk/professionaltechnical/assurance/example_auditors/FAS_ENG_CHI.pdf. In relation to the circular, a suggested Chinese version of the sample unqualified assurance report has been developed. The updated circular including the Chinese version of the sample report is posted on the Institute's website at www.hkicpa.org.hk/professionaltechnical/assurance/rm/GCFA_0711.pdf.

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 October will be considered for inclusion in the December issue of A Plus.

Q. I am working in a newly established company engaged in airline operation. We have recently acquired an airline route authority between two Asian cities. However, I am not sure whether I should amortize the cost incurred for acquiring that route authority or not. Could you provide some guidance to me, given that the airline route authority qualifies to be recognized as an intangible asset in accordance with HKAS 38 *Intangible Assets*?

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

Q. My company invests in an equity security of a listed company, which is classified as fair value through profit or loss in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. In preparing the financial statements of my company, which price should I use for the purpose of measuring that equity security as at the balance sheet date?

A. Paragraph AG71 of HKAS 39 *Financial Instruments: Recognition and Measurement* states the existence of published price quotations in an active market is the best evidence of fair value. The objective of determining fair value for a financial instrument traded in an active market is to arrive at the price at which a transaction would occur at the balance sheet date in that instrument (i.e. without modifying or repackaging it) in the most advantageous active market to which the entity has immediate access.

Moreover, exchange markets provide the most reliable estimate of fair value since closing prices and volumes are readily and regularly available. Thus, the fair value is the closing price at the end of the last trading day of the

reporting period for an instrument identical to the one being measured.

Paragraph AG72 states that the appropriate quoted market price for an asset held is usually the current bid price. When current bid price is unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction, the fair value reflects the change in conditions by reference to current prices for similar financial instruments, as appropriate.

Similarly, if the entity can demonstrate that the last transaction price is not fair value, that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active market exists for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If the market for the financial instrument is not active, an entity establishes fair value by using a valuation technique. Paragraphs AG74 to AG82 provide guidance in this respect.

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.