



# Let's get technical

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

**Q. In view of the large number of Hong Kong Financial Reporting Standards that have been issued recently, I would like to know what are the new standards that I have to consider for financial statements for the year ending 31 December 2008?**

**A.** The Institute has issued the following interpretations that are applicable to 2008 December year-end:

- HK(IFRIC) – Int 11 *Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007)
- HK(IFRIC) – Int 12 *Service*

*Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008)

- HK(IFRIC) – Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008)

Other than the above-mentioned amendments to interpretations, the Institute has issued in October amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*, which is effective from 1 July 2008. The amendments introduced the possibility of reclassifications of

financial assets for entities applying IFRSs/HKFRSs, which were already permitted under U.S. GAAP in rare circumstances. The Institute has also issued a set of technical Q&As, which provide further guidance on these amendments and is available at the Institute's website at [www.hkicpa.org.hk/professionaltechnical/accounting/rm/reclassify\\_q&a.pdf](http://www.hkicpa.org.hk/professionaltechnical/accounting/rm/reclassify_q&a.pdf).

In addition, you are reminded that in accordance with paragraph 30 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when an entity has not applied a new HKFRS (including standard and interpretation) that has been issued but

is not yet effective, an entity is required to disclose that fact and other known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS will have on the entity's financial statements in the period of initial application.

Paragraph 31 further requires that in complying with paragraph 30, an entity shall consider disclosing:

- a. The title of the new standard or interpretation
- b. The nature of the impending change or changes in accounting policy
- c. The date by which application of the standard or interpretation is required

d. The date when it plans to apply the standard or interpretation initially, and either:

- A discussion of the impact that initial application of the standard or interpretation is expected to have on the entity's financial statements; or
- If that impact is not known or reasonably estimable, a statement to that effect.

As part of the Institute's international convergence programme with the International Financial Reporting Standards, the following new or revised standards and interpretations

## 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](mailto:hkicpa@hkicpa.org.hk). Answers received by 18 December will be considered for inclusion in the February 2009 issue of A Plus.*

**Q. For the purpose of auditing consolidated financial statements, are overseas subsidiaries required to submit audited financial statements to their parent company and, if applicable, which auditing standard would be applied?**

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

**Q. I am working in a newly established company engaged in airline operation. Recently, we have**

**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 on that issue, given that the airline route authority qualifies to be recognized as an intangible asset in accordance with HKAS 38 *Intangible Assets*?**

**A.** An entity is required under paragraph 88 of HKAS 38 *Intangible Assets* to assess whether the useful life of an intangible asset is finite or indefinite. If finite, the entity is required to consider the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Paragraph 89 states that the accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized, and an intangible asset with an indefinite useful life is not. Thus, the assessment as to whether an intangible asset has a finite useful life or an indefinite useful life is clearly crucial for the purposes of the subsequent accounting treatment of that route authority acquired. Paragraph 90 provides a list of factors to consider in determining the useful life of an intangible asset and it requires professional judgment.

Moreover, the useful lives of certain intangible assets are also restricted by the period for which contractual or other legal rights are held. Paragraphs 94 and 95 further state that economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. Under

have been issued by the Institute but have yet to be effective:

- a. New HK(IFRIC) – Interpretation (effective for annual periods on or after 1 July 2008)
  - HK(IFRIC) – Int 13 *Customer Loyalty Programmes*
- b. New HK(IFRIC) – Interpretation (effective for annual periods on or after 1 October 2008)
  - HK(IFRIC) – Int 16 *Hedges of a Net Investment in a Foreign Operation*
- c. New/revised HKFRSs and HK(IFRIC) – Interpretations (effective for annual periods on or after 1 January 2009)
  - Amendments to HKFRS 1 *First-time*

*Adoption of HKFRSs and HKAS 27 (Revised) Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

- Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- HKFRS 8 *Operating Segments*
- HKAS 1 (Revised) *Presentation of Financial Statements*
- HKAS 23 (Revised) *Borrowing Costs*
- Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 (Revised) *Presentation of Financial Statements – Puttable*

Financial Instruments and Obligations Arising on Liquidation

- *Improvements to HKFRSs* (effective on or after 1 January 2009, unless otherwise specified)
  - HK(IFRIC) – Int 15 *Agreements for the Construction of Real Estate*
- d. Amendments to HKFRSs (effective for annual periods on or after 1 July 2009)
    - HKFRS 3 (Revised) *Business Combinations*
    - HKAS 27 (Revised) *Consolidated and Separate Financial Statements*
    - Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

most circumstances, the estimated useful life of the intangible asset is the shorter of the period of the legal rights and the period over which economic benefits are expected to be generated and should also include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

The existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

- There is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent.
- There is evidence that any conditions necessary to obtain renewal will be satisfied.
- The cost to the entity of renewal is not significant when compared with the

future economic benefits expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the renewal cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Furthermore, you are to note that paragraph 91 states that the term “indefinite” does not mean “infinite” (that is, the cash inflows generated by the asset need not go on forever). In accordance with paragraphs 107 and 108, an intangible asset with an indefinite useful life shall not be amortized and instead, it should be subject to regular impairment testing.

Illustrative examples accompanying HKAS 38 provide guidance on determining the useful life of an intangible asset.

*You can submit questions on technical issues by sending an email to [hkicpa@hkicpa.org.hk](mailto: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.*

