

# Let's get technical

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

**Q.** How would the “management approach” as introduced by HKFRS 8 *Operating Segments*, that is, to disclose segment information based on the components of the entity that management monitors in making decisions about operating matters, be implemented in the identification of operating segments?

**A.** HKFRS 8 *Operating Segments* applies primarily to those entities whose debt or equity instruments are traded in a public market, or those entities that file or are in the process of filing their financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instrument in a public market. For those entities that fall within its scope, the standard will be effective for reporting periods beginning on or after 1 January 2009, with early adoption permitted.

The core principle of this standard is to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. Unlike the approach contained in HKAS 14 *Segment Reporting*, there is no longer a primary and secondary segment reporting format.

An operating segment is defined in paragraph 5 of the standard as a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses,
- (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

Consequently, the standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the management approach). Such components (operating segments) are identified on the basis of internal reports that are regularly reviewed by the entity’s CODM in order to allocate resources to the segment and assess its performance.

By adopting the management approach, entities will report segments that correspond to internal management reports and will be more consistent with other parts of their annual reports. In that way, financial statement users are able to see the entity through the eyes of management.

In identifying the CODM, paragraph 7 of the standard states that it refers to a function but not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the CODM of an entity is its chief executive officer or chief operating officer, but it may be a group of executive directors or others.

Regardless of the operating segments being identified under the management approach, an entity shall disclose factors used to identify the entity's reportable segments in accordance with paragraph 22(a) and provide reconciliations of totals of segment revenue, segment profit or loss, segment assets and liabilities, and any other material segment items to corresponding totals within the financial statements to comply with paragraph 28 of the standard.

**Q. I understand that a large number of HKFRSs/IFRSs have been issued to take effect in 2009. Is there a list which sets out:**

- i) new and amended standards and interpretations issued that are applicable to December 2008 year-end,**
- ii) new and amended standards and interpretations issued that are applicable to December 2009 year-end, but may be adopted early, and**
- iii) new and amended standards and interpretations issued that are effective subsequent to December 2009 year-end, but may be adopted early?**

**A.** The standard setting department has posted such a list on the Institute's website and TechWatch in January 2009. It is attached on the following page for members' reference.

*Here is the answer to the question we asked members to help with in the December 2008 edition 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 applicable?**

**A.** Section 133 (1)(b) of the Companies Ordinance imposes a duty on a holding company incorporated in Hong Kong to obtain from its overseas subsidiary such information and explanation as the principal auditors may reasonably require to perform their duty. The holding company is required to take all such steps as are reasonably open to it to fulfil this obligation if it is required by its principal auditors to do so.

The Institute has issued SAS 510 "Principal Auditors and Other Auditors," which can be found in Volume III of the members' handbook. The purpose of SAS 510 is to establish standards and provide guidance when the principal auditors, reporting on the financial statements of an entity, use the work of the other auditors on the financial information of one or more components included in the financial statements of the entity.

Paragraph 8 of SAS 510 states that "the principal auditors are required to express an opinion on the group financial statements and have sole responsibility for this opinion even where those group financial statements include amounts derived from accounts, which have not been audited by

them. As a result, they cannot discharge this responsibility to report on the group financial statements by an uninformed acceptance of components' financial statements, whether audited or not. However, the principal auditors can take account of the extent of work and the report of the other auditors through carrying out certain procedures. The extent of these procedures is determined by the materiality of the amounts derived from financial statements of components and the level of risk that the principal auditors are willing to accept that such statements contain material errors."

*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.*

Technical Q&A

**Hong Kong Financial Reporting Standards update**

**Section I. New and amended standards and interpretations issued that are applicable to December 2008 year-end**

		Effective date
HKAS 39 and HKFRS 7 amendments	Reclassification of Financial Assets	1 July 2008
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	Accounting periods beginning on or after 1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	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	Accounting periods beginning on or after 1 January 2008

**Section II. New and amended standards and interpretations issued that are applicable to December 2009 year-end, but may be adopted early**

		Effective date
HKFRS 2 amendments	Vesting Conditions and Cancellations	Accounting periods beginning on or after 1 January 2009
HKFRS 8	Operating Segments	Accounting periods beginning on or after 1 January 2009
HKAS 1 (revised)	Presentation of Financial Statements	Accounting periods beginning on or after 1 January 2009
HKAS 23 (revised)	Borrowing Costs	Accounting periods beginning on or after 1 January 2009
HKFRS 1 and HKAS 27 amendments	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Accounting periods beginning on or after 1 January 2009
HKAS 32 and HKAS 1 amendments	Puttable Financial Instruments and Obligations Arising on Liquidation	Accounting periods beginning on or after 1 January 2009
HK(IFRIC) – Int 13	Customer Loyalty Programmes	Accounting periods beginning on or after 1 July 2008
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate	Accounting periods beginning on or after 1 January 2009
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation	Accounting periods beginning on or after 1 October 2008
Annual Improvements Project	Improvements to HKFRSs	Accounting periods beginning on or after 1 January 2009 (unless otherwise specified)

**Section III. New and amended standards and interpretations issued that are effective subsequent to December 2009 year-end, but may be adopted early**

		Effective date
HKFRS 1 (revised)	First-time Adoption of HKFRS	Accounting periods beginning on or after 1 July 2009
HKFRS 3 (revised) and HKAS 27 (revised)	Business Combinations and Consolidated and Separate Financial Statements	Accounting periods beginning on or after 1 July 2009
HKAS 39 Amendment	Eligible Hedged Items	Accounting periods beginning on or after 1 July 2009
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners	Accounting periods beginning on or after 1 July 2009

**References on the above new and amended standards and interpretations**

1. PwC – A practical guide to new IFRSs for 2009 [www.pwc.com/gx/en/labour/svcs/corporatereporting/NewIFRSs2009.pdf](http://www.pwc.com/gx/en/labour/svcs/corporatereporting/NewIFRSs2009.pdf)
2. Ernst & Young – 2008 International Financial Reporting Standards Update [www.ey.com/Global/assets.nsf/International/IFRS\\_2008\\_Update/\\$file/2008\\_IFRS\\_Update.pdf](http://www.ey.com/Global/assets.nsf/International/IFRS_2008_Update/$file/2008_IFRS_Update.pdf)
3. Deloitte – IAS Plus Update – Closing out 2008 [www.iasplus.com/iasplus/0812closingout2008.pdf](http://www.iasplus.com/iasplus/0812closingout2008.pdf)