

# Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

The Institute has issued *Annual Improvements to HKFRSs 2010-2012 Cycle* and *Annual Improvements to HKFRSs 2011-2013 Cycle*. This article addresses some of the amendments that are likely to be of interest by preparers of financial statements.

The objective in issuing these two annual improvements to HKFRSs is to make necessary, but non-urgent, amendments to HKFRSs that will not be included as part of any other project.

Table A and B list the HKFRSs and topics addressed by both annual improvements. They are effective for annual periods beginning on or after 1 July 2014.

## HKFRS 2 *Share-based Payment* - Definition of vesting condition

The amendment separates the definitions of a "performance condition" and a "service condition" from the definition of a "vesting condition" so as to make the description of each condition clearer. In particular:

- The period of achieving a performance condition shall not extend beyond the end of the related service period;
- In the context of a share-based payment transaction that involves entities in the same group, a performance target can be defined by the price (or value) of the equity instruments of another entity in that group;
- A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee;
- A performance condition needs to contain a service condition;
- A market condition is a type of performance condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

**Table A – Annual Improvements to HKFRSs 2010-2012 Cycle**

Standard	Subject of amendment
HKFRS 2 <i>Share-based Payment</i>	Definition of vesting condition
HKFRS 3 <i>Business Combinations</i>	Accounting for contingent consideration in a business combination
HKFRS 8 <i>Operating Segments</i>	Aggregation of operating segments
	Reconciliation of the total of the reportable segments' assets to the entity's assets
HKFRS 13 <i>Fair Value Measurement</i>	Short-term receivables and payables
HKAS 16 <i>Property, Plant and Equipment</i>	Revaluation method – proportionate restatement of accumulated depreciation
HKAS 24 <i>Related Party Disclosures</i>	Key management personnel
HKAS 38 <i>Intangible Assets</i>	Revaluation method – proportionate restatement of accumulated amortization

**Table B – Annual Improvements to HKFRSs 2011-2013 Cycle**

Standard	Subject of amendment
HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards</i>	Meaning of "effective HKFRSs"
HKFRS 3 <i>Business Combinations</i>	Scope exceptions for joint ventures
HKFRS 13 <i>Fair Value Measurement</i>	Scope of paragraph 52 (portfolio exception)
HKAS 40 <i>Investment Property</i>	Clarifying the interrelationship between HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property



**HKAS 16 Property, Plant and Equipment and HKAS 38 Intangible Assets - Revaluation method: proportionate restatement of accumulated depreciation or amortization**

The amendment clarifies the requirements for the revaluation method in HKAS 16 and HKAS 38 about the calculation of the accumulated depreciation or amortization at the date of the revaluation.

Both paragraph 35(a) of HKAS 16 and paragraph 80(a) of HKAS 38 currently require that, when revaluing using that option, the revalued accumulated depreciation or amortization results from applying the same proportionate factor as for the change in the gross carrying amount.

However, divergence in practice has been noted in the calculation of accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases where the residual value, the useful life or the depreciation method has been re-estimated before a revaluation. This could also occur when revaluing an intangible asset under HKAS 38.

Consequently, *Annual Improvements to HKFRSs 2010-2012 Cycle* amends paragraph 35 of HKAS 16 and paragraph 80 of HKAS 38 by clarifying that at the date of the revaluation, the asset is treated in one of the following ways:

- a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be

restated proportionately to the change in the carrying amount. The accumulated depreciation or amortization at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

- b) The accumulated depreciation or amortization is eliminated against the gross carrying amount of the asset.

**HKAS 24 Related Party Disclosures - Key management personnel**

The amendment addresses the identification and disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity.

The existing HKAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity.

To address the diversity in disclosures, the amendment clarifies that a management entity that provides key management services to a reporting entity is deemed to be a related party of the reporting entity.

Consequently, the reporting entity is required to disclose the amount incurred for the service fee paid or payable to the management entity that employs, or has as directors, the persons that provide the key management personnel services.

As a result of identifying the management entity as a related party of the reporting entity, the reporting entity is also required to disclose other transactions with the management entity, for example, loans,

under the existing disclosure requirements of HKAS 24 with respect to related parties.

**HKAS 40 Investment Property - Clarification of interrelationship between HKFRS 3 Business Combinations and HKAS 40 when classifying property as investment property or owner-occupied property**

The amendment to HKAS 40 clarifies that HKAS 40 and HKFRS 3 are not mutually exclusive.

The discussion contained in paragraphs 7-14 of HKAS 40 relates only to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is an acquisition of an asset or a group of assets or a business combination within the scope of HKFRS 3.

As a result, reference should be made to HKFRS 3 to determine whether the acquisition of an investment property is a business combination.



This article is contributed by the Institute's Standard Setting Department.