

# Amendments to HKFRS issued by the Institute

The Institute has recently issued several amendments to Hong Kong Financial Reporting Standards to provide further guidance on accounting for and acquisition of an interest in a joint operation, clarify the acceptable methods of depreciation and amortization and the accounting for bearer plants.

## Accounting for acquisitions of interests in joint operations (amendments to HKFRS 11 *Joint Arrangements*)

The amendment requires that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business (as defined in HKFRS 3 *Business Combinations*), it shall apply all of the principles on business combinations accounting in HKFRS 3 and other standards and disclose the information required by those standards in relation to business combinations. As a result, a joint operator is required to apply the following principles:

- Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in HKFRS 3 and other standards;
- Recognizing acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received;
- Recognizing deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, as required by HKFRS 3 and HKAS 12 *Income Taxes* for business combinations;
- Recognizing the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and
- Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by HKAS 36 *Impair-*

*ment of Assets* for goodwill acquired in a business combination.

In this connection, a joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

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## Clarification of acceptable methods of depreciation and amortization (amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*)

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in the following limited circumstances:

- In which the intangible asset is expressed as a measure of revenue (i.e., the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold); or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

## Bearer plants (amendments to HKAS 16 and HKAS 41 *Agriculture*)

HKAS 41 currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement.

However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The International Accounting Standards Board received feedback from stakeholders who considered fair value was not appropriate for mature bearer biological assets such as oil palms and rubber trees because they were no longer undergoing significant biological transformation. The use of mature bearer biological assets such as these is seen by many as similar to that of manufacturing and should therefore, be accounted for under the standard on property, plant and equipment.



ILLUSTRATION BY MARTIN MICHINO

As a result, the amendment was issued which states that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16. Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

In the context of this amendment, a bearer plant is defined as a living plant that:

- Is used in the production or supply of agriculture produce;
- Is expected to bear produce for more than one period; and
- Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The amendments are all effective for annual periods beginning on or after 1 January 2016 with earlier application being permitted.



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