Amendments to HKFRS address separate financial statements and accounting for sale of assets

***Equity Method in Separate Financial Statements* (amendments to HKAS 27 *Separate Financial Statements*)**

In some countries, local laws require listed companies to present separate financial statements using the equity method to account for investments in subsidiaries, joint ventures and associates. However, this is not permitted under International Financial Reporting Standards.

The amendment is issued in response to comments made on the International Accounting Standards Board's 2011 Agenda Consultation, which supported the inclusion of the equity method as one of the options for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity.

As a result, the amendment allows entities to use the equity method to account for its investments in the preparation of separate financial statements. An entity is permitted to account for these investments either:

a. At cost;

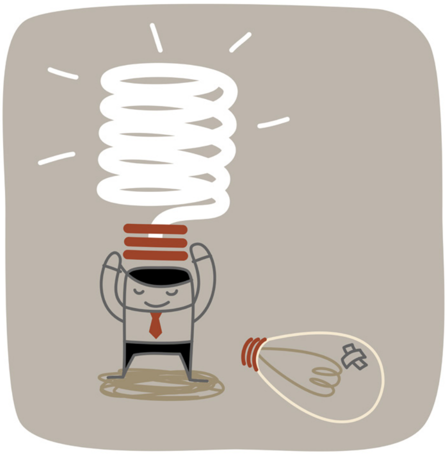
b. In accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* (or HKFRS 9 *Financial Instruments*); or

c. Using the equity method.

The entity shall apply the same accounting policy for each category of investments. The amendment is to be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (amendments to HKFRS 10 *Consolidated Financial Statements* and HKAS 28 *Investments in Associates and Joint Ventures*)**

The amendment addresses an inconsistency between the requirements in HKFRS 10 and HKAS 28. Paragraphs 28 and 30 of HKAS 28 require the amount of the gain or loss recognized from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest is restricted to the extent of the interests attributable to the unrelated investors in the joint venture or associate (such a requirement is carried forward from HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*). However, paragraph B98 of HKFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary, which includes a sale or contribution of a subsidiary to a joint venture or associate.



In order to address this inconsistency, the amendment states that in a transaction involving an associate or a joint venture, the extent of the gain or loss recognized depends on whether the assets sold or contributed constitute a business.

As a result, the amendment concludes that:

a. The accounting for the loss of control of a business, as defined in HKFRS 3 *Business Combinations*, should be consistent with the conclusions in HKFRS 3. Therefore, a full gain or loss should be recognized on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not;

b. Conversely, the current requirement in HKAS 28 for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business (that is, for transactions involving assets that constitute a business, an entity is now required to recognize any gain or loss in full); and HKFRS 10 is amended so that a partial gain or loss is recognized in accounting for the loss of control of a subsidiary that does not constitute a business as a result of a transaction between an investor and its associate or joint venture.

The amendment will be applied on a prospective basis 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.