2015 amendments to *HKFRS for Private Entities*

The International Accounting Standards Board issued the *IFRS for Small and Medium-sized Entities* in 2009 in response to international demand for the IASB to develop global standards for small- and medium-sized entities. The Institute adopted the *IFRS for SMEs* in 2010 in the form of *Hong Kong Financial Reporting Standards for Private Entities* as a reporting option for private entities that have no public accountability.

When the *IFRS for SMEs* was issued, the IASB stated that it planned to undertake an initial comprehensive review of the *IFRS for SMEs* after two years of use to consider whether there was a need for any amendments. Specifically, the IASB said it would consider whether to amend the *IFRS for SMEs* to address any implementation issues identified and also whether to consider any changes made to IFRS since the *IFRS for SMEs* was published.

The IASB decided to commence its initial comprehensive review in 2012 based on its view that sufficient jurisdictions had adopted the *IFRS for SMEs* to provide broad insight into the implementation experience. After considering the feedback it received during the initial comprehensive review, and taking into account the fact that the *IFRS for SMEs* is still a new standard, the IASB has made limited amendments to the *IFRS for SMEs*. The Institute has adopted those amendments in *HKFRS for Private Entities*.

Amendments that could have a significant impact for private entities

- Addition of an option to use the revaluation model for property, plant and equipment.
- Replacing the modified text in section 29 Income Tax of *HKFRS for Private Entities* with the revised section 29 of the amendments to the *IFRS for SMEs*. As a result of this change, the recognition and measurement requirements for deferred income taxes of *HKFRS for Private Entities*, *IFRS for SMEs* and IAS 12 *Income Taxes* are now aligned.
- Alignment of the main recognition and measurement requirements for exploration and evaluation assets with HKFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Amendments that add undue cost or effort exemptions and requirements

Amendments that exempt an entity from the following requirements when application would cause undue cost or effort:

- Measurement of investments in equity instruments at fair value.
- Recognizing intangible assets of the acquiree separately in a business combination.
- Offsetting income tax assets and liabilities.
- Measuring the liability to pay a non-cash distribution at the fair value of the non-cash assets to be distributed.

The IASB has added clarifying guidance in section 2 to emphasize that an undue cost or effort exemption is not intended to be a low hurdle. An entity is required to carefully weigh the expected benefits of applying the exemption to the users of its financial statements against the cost or effort of complying with the related requirement.

Amendments that add other exemptions (based on similar exemptions in full HKFRS)

- An exemption from the fair value measurement requirements for equity instruments issued in a business combination under common control.
- An exemption from the fair value measurement requirements for distributions of non-cash assets controlled by the same parties before and after the distribution.
- An exemption that allows an entity to use the cost of the replacement part as an indication of what the cost

of the replaced part was at the time when it was acquired or constructed, if it is not practicable to determine the carrying amount of a part of an item of property, plant and equipment that has been replaced.

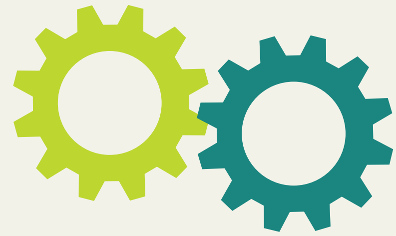
Amendments that modify presentation or disclosure requirements

- Requirement that an entity must disclose its reasoning for using any undue cost or effort exemption.
- Requirement that investment property measured at cost less accumulated depreciation and impairment is presented separately on the face of the statement of financial position.
- Requirement that entities should group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- Requirement that an entity must disclose the factors that make up goodwill recognized in a business combination and the useful life of goodwill.
- Requirement to disclose the total carrying amount of subsidiaries acquired with the intention of sale or disposal within one year from the acquisition date.
- Alignment of the definition of a related party with HKAS 24 *Related Party Disclosures*, including incorporation of the amendment to the definition in HKAS 24 from *Annual Improvements to HKFRSs 2010-2012 Cycle*, which includes a management entity providing key management personnel services in the definition of a related party.
- Removal of the requirements to disclose prior year reconciliations of balances for biological assets and number of shares outstanding, and to disclose the accounting policy for termination benefits.

Other amendments or clarifications

- Addition of an option to use the equity method to account for investments in subsidiaries, associates and jointly controlled entities in its separate financial statements, if presented.
- Clarification of the criteria for basic financial instruments and addition of examples of loan arrangements that would meet the criteria.
- Modification to require that if the useful life of goodwill or another intangible asset cannot be established reliably, the useful life should be determined based on management's best estimate but should not exceed 10 years. Previously a default 10-year life was presumed in such cases.
- Addition of the conclusions in HK(IFRIC) – Int 19 *Extinguishing Financial Liabilities with Equity Instruments* to provide guidance on debt for equity swaps when the financial liability is renegotiated and the debtor extinguishes the liability by issuing equity instruments.
- Modification resulting in leases with interest rate variation clauses linked to market interest rates no longer being accounted for as separate derivatives.
- Modification to require that the liability component of compound financial instruments should be accounted for in the same way as a similar standalone financial liability (currently measured at amortized cost).
- Replacement of the undefined term "date of exchange" with the defined term "date of acquisition."

The rest of the amendments are either clarification of definitions or redrafting of unclear and inconsistent requirements. There are also amendments for first time adopters of *HKFRS for Private Entities*. For details of the amendments,



please refer to the Institute's members' handbook update no. 175.

Transition and effective date

Entities reporting using the *HKFRS for Private Entities* are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided all of the amendments are applied at the same time.

Amendments must be applied retrospectively, unless impracticable, with the following exceptions:

- If an entity chooses to apply the revaluation model to any classes of property, plant and equipment, it must apply the related requirements prospectively from the beginning of the period it first applies the amendments.
- An entity is permitted to apply the revised income tax requirements prospectively from the beginning of the period in which it first applies the amendments.
- An entity must apply the clarified terminology "date of acquisition" prospectively from the beginning of the period (only applicable if an entity has business combinations.)

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