

**Illustrative disclosures in respect of  
Hong Kong Interpretation 5 *Presentation of  
Financial Statements – Classification by the  
Borrower of a Term Loan that Contains a  
Repayment on Demand Clause***

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Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

## Illustrative disclosures in respect of the application of Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The following sets out extracts from a set of financial statements for the year ended 31 December 2010 prepared by a fictitious company, XYZ Limited, incorporated in Hong Kong applying Hong Kong Interpretation 5 for the first time and as a result, certain bank borrowings have been reclassified as current liabilities.

*[Note: The disclosures are only for illustrative purposes. They should not be considered the only acceptable form of presentation and do not attempt to cater for all entity-specific facts and circumstances. Alternative presentations to those proposed in this publication may also be acceptable.]*

### XYZ Limited

#### Statement of financial position at 31 December 2010 (Expressed in Hong Kong dollars)

Note	As at 31 December 2010 \$'000	As at 31 December 2009 \$'000 (restated)	As at 1 January 2009 \$'000 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Etc.	[ . ]	[ . ]	[ . ]
	[ . ]	[ . ]	[ . ]
<b>Current assets</b>			
Etc.	[ . ]	[ . ]	[ . ]
	[ . ]	[ . ]	[ . ]
Total assets	[ . ]	[ . ]	[ . ]
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	[ . ]	[ . ]	[ . ]
Bank borrowings	20 18,000	13,000	12,000
Current taxation	[ . ]	[ . ]	[ . ]
Provisions	[ . ]	[ . ]	[ . ]
	[ . ]	[ . ]	[ . ]
<b>Non-current liabilities</b>			
Bank borrowings	20 34,000	32,000	29,000
Deferred tax liabilities	[ . ]	[ . ]	[ . ]
Provisions	[ . ]	[ . ]	[ . ]
	[ . ]	[ . ]	[ . ]
Total liabilities	[ . ]	[ . ]	[ . ]
<b>Equity</b>			
Share capital	[ . ]	[ . ]	[ . ]
Reserves	[ . ]	[ . ]	[ . ]
	[ . ]	[ . ]	[ . ]
Total liabilities and equity	[ . ]	[ . ]	[ . ]

Approved and authorized for issue by the Board of Directors on [Date] and are signed on its behalf by:

\_\_\_\_\_  
(Name, Director)

\_\_\_\_\_  
(Name, Director)

The notes on pages [X] to [Y] form part of these financial statements.

*Note : As required by HKAS 1.10(f), a statement of financial position is presented at the beginning of the earliest comparative period when the entity has applied new accounting policies retrospectively in the year.*

**Notes to the financial statements**  
**For the year ended 31 December 2010 - continued**

**Changes in accounting policies**

HKAS 8.28

In November 2010 the HKICPA issued Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 *Presentation of Financial Statements*. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Company has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Company had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

***Effect of adoption of Hong Kong Interpretation 5 on the statement of financial position***

	<i>At 31 December</i> 2010	<i>At 31 December</i> 2009	<i>At 1 January</i> 2009
	\$'000	\$'000	\$'000
<b>Increase/(decrease) in</b>			
<b>Current liabilities</b>			
Bank borrowings	3,500	4,000	5,000
<b>Non-current liabilities</b>			
Bank borrowings	(3,500)	(4,000)	(5,000)

**Notes to the financial statements**  
**For the year ended 31 December 2010 – continued**

**9. Finance costs**

	2010 \$'000	2009 \$'000
Interest on bank borrowings		
- Wholly repayable within five years	3,352	2,788
- Not wholly repayable within five years	184	137
	-----	-----
Total finance costs	3,536	2,925
	=====	=====

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2010 and 2009, the interest on bank borrowings which contain a repayment on demand clause amounted to HK\$184,000 and HK\$137,000 respectively.

*[Note: It is acceptable to classify the interest on the bank loans with instalments which fall due after more than five years, but are subject to a repayment on demand clause, either as "wholly repayable within five years" or "not wholly repayable within five years", provided that the approach adopted is applied in a consistent manner and it is clear from the note which approach has been taken.]*

10<sup>th</sup> Sch (13(1)(b))

## Illustrative disclosures - Hong Kong Interpretation 5

### Notes to the financial statements For the year ended 31 December 2010 – continued

#### 20. Bank borrowings

*The analysis of the carrying amount of bank borrowings is as follows:*

	2010 \$'000	2009 \$'000 (restated)	1 January 2009 \$'000 (restated)
<b>Current liabilities</b>			
Bank overdrafts	1,300	700	800
Portion of term loans from banks due for repayment within one year	8,000	8,200	5,800
Portion of term loans from banks due for repayment after one year which contain a repayment on demand clause	8,700	4,100	5,400
	----- 18,000 =====	----- 13,000 =====	----- 12,000 =====
<b>Non-current liabilities</b>			
Bank loans	34,000	32,000	29,000

Bank borrowings bear average coupons of [x]% annually (2009:[y]% annually)

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. None of the portion of term loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

## Illustrative disclosures - Hong Kong Interpretation 5

### Notes to the financial statements For the year ended 31 December 2010 – continued

HKFRS 7.7 & 31

#### 20. Bank borrowings (continued)

A16(22)(1)

At 31 December 2010, interest-bearing bank loans and overdrafts were due for repayment as follows:

	2010 \$'000	2009 \$'000
Overdrafts repayable on demand	1,300	700
Portion of term loans due for repayment within one year	8,000	8,200
	9,300	8,900
Term loans due for repayment after one year (Note 1):		
After 1 year but within 2 years	10,000	9,000
After 2 years but within 5 years	30,000	25,000
After 5 years	2,700	2,100
	42,700	36,100
	52,000	45,000

Note 1 - The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

10<sup>th</sup> Sch (10)

At 31 December 2010, the bank loans and overdrafts were secured as follows:

	2010 \$'000	2009 \$'000
Unsecured bank overdrafts	1,300	700
Bank loans		
- secured	17,000	15,000
- unsecured	33,700	29,300
	52,000	45,000
	52,000	45,000

10<sup>th</sup> Sch (12(4))  
HKAS 16.74(a)

[details of security given]

HKFRS 7.25

[details of fair value of current and non-current bank borrowings]

All of the banking facilities are subject to the fulfilment of covenants relating to certain of the Company's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the company was to breach the covenants the drawn down facilities would become repayable on demand. In addition, certain of the Company's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Company has complied with the covenants and met the scheduled repayment obligations.

The Company regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Company's management of liquidity risk are set out in note 35(b). As at 31 December 2010 none of the covenants relating to drawn down facilities had been breached (2009: \$nil).

Notes to the financial statements  
For the year ended 31 December 2010 – continued

35. Financial risk management

(a) Credit risk

Etc.

(b) Liquidity risk

HKFRS 7.31-35  
& 39(c)

The Company's policy is to regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

HKFRS 7.39(a)

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's bank borrowings, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Company can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

HKFRS 7.B11C(a)

<b>2010</b>						
<b>Maturity Analysis - Undiscounted cash outflows</b>						
	<i>On demand</i>	<i>Within 1 year</i>	<i>More than 1 year but less than 2 years</i>	<i>More than 2 years but less than 5 years</i>	<i>More than 5 years</i>	<b>Total undiscounted cash outflows</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	1,300	-	-	-	-	1,300
Term loans subject to a repayment on demand clause	9,920	-	-	-	-	9,920
Other bank loans	-	7,300	9,259	29,885	-	46,444
	11,220	7,300	9,259	29,885	-	57,664
	=====	=====	=====	=====	=====	=====

<b>2009 (restated)</b>						
<b>Maturity Analysis - Undiscounted cash outflows</b>						
	<i>On demand</i>	<i>Within 1 year</i>	<i>More than 1 year but less than 2 years</i>	<i>More than 2 years but less than 5 years</i>	<i>More than 5 years</i>	<b>Total undiscounted cash outflows</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	700	-	-	-	-	700
Term loans subject to a repayment on demand clause	4,715	-	-	-	-	4,715
Other bank loans	-	8,241	8,865	27,610	-	44,716
	5,415	8,241	8,865	27,610	-	50,131
	=====	=====	=====	=====	=====	=====

**Notes to the financial statements**  
**For the year ended 31 December 2010 – continued**

**35. Financial risk management (continued)**

(b) Liquidity risk (continued)

The table that follows summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in page 6. Taking into account the Company's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	<b>Maturity Analysis - Term loans subject to a repayment on demand clause based on scheduled repayments</b>					<b>Total undiscounted cash outflows \$'000</b>
	<i>On demand</i> \$'000	<i>Within 1 year</i> \$'000	<i>More than 1 year but less than 2 years</i> \$'000	<i>More than 2 years but less than 5 years</i> \$'000	<i>More than 5 years</i> \$'000	
31 December 2010	-	1,275	1,594	4,970	3,687	11,526
31 December 2009	-	642	754	2,291	2,643	6,330