



**Comments to Consultation Issues for Questions in pages 11 and 12 of the “Consultation Paper on a Proposed Framework for Differential Reporting” issued by the Hong Kong Society of Accountants in August 2002.**

1. Yes, I firmly believe there is a need of differential reporting in Hong Kong.  
Reasons: (a) It is the present practice in Hong Kong which has been existed for a long time.
  - ✓ Reporting through Section 141D (true and correct view) and Section 123 (true and fair view) of the Companies Ordinance.
  - ✓ Reporting by the listing and non-listing companies. The former has to follow the listing rules as an obligation of listing.
  - ✓ Other special reporting from the special industries: lawyers, securities brokers, banking and insurance companies.(b) Financial reporting is basically to fulfil an objective i.e. to serve the interest of the owners/shareholders. If the owners/shareholders have only the user of tax authority in mind, I would cast doubt on the thinking that there are many users to demand that reporting information.
2. Benefit : Cost criterion is only one of the factors to be considered. I believe it stems from the angle of the preparation and review, however, other factors should also be considered:-
  - ✓ The accounting and other standards should be advertised and make knowledge to the interest parties and the public at large.
  - ✓ To enhance compliance, adoption and acceptance of the standards even in financial reporting of special purpose of financial statements.
3. The surrogating takes care the practical consideration on the value perspective relating to each entity. Furthermore it represents more comprehensive analysis on those interesting parties surrounding the entities.
4. Different reporting should be opened to all entities. If it has been adopted by those other than small ones there must be some justification for its acceptance to serve the interest of the owners/shareholders. As the management should know the alternative and has weighted the effect for making the selection.
5. No, I don't agree. The law forces the consolidated preparation and makes this practice unfair to those owners/shareholders who don't want it. On the other hand if it is the desire of the owners/shareholders that the accounts should be consolidated, then they will do it even if there is no requirement by the law. I fully support HKSA to lobby for a change in the law.
6. I think this is appropriate to be a starting point. If development warrants a further consideration the criteria will be reviewed in due course.

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7. As the criteria has been adopted and practised in other country proved to be a success I think it can also be applied in Hong Kong similarly.
8. I don't think the immediate application is an appropriate practice for whatever basis adopted. I prefer the first year of change will be regarded as a waiting period for two purposes:-
  - ✓ If the change is incurred incidentally the entity can resume the status as before in the next period.
  - ✓ Whether the change is from small to big size or vice versa I think it will be better to give time for the entity to accomplish the change.
9. I strongly disagreed the adoption of selective approach of differential reporting exemptions and will support the full exemption and alternative treatments. The establishment of standards is, in my view, to encourage adoption and compliance. If there is a more simple type of type of standards offered to the public at large, I think it is easy for them to adopt and follow rather than giving a mass material which is difficult to understand and may not have wide application for the great numbers of small and medium entities. When we apply to simple standards we are not barred to adopt the more detailed/complicated standards. As situation may arise for us to look for guidance and adoption if the simple one can not satisfy our requirements. *On the other hand it may be considered that the simple standards are the first and basic step to follow in financial reporting.*
10. I think the exemptions in Appendix 1 of the Framework are appropriate at present. As you can not expect everything is perfect at the start. Later development may justify the change if necessary.
11. I fully support the U. K. “Separate Approach” as the standards are prepared under the circumstance of small entities. Under this approach additional resources will be required but I have confidence that Standard Setting Committee and the Small Practitioners Committee can work out a solution to cope with the change. It is a known fact that the present main standards are written in the minds of multi-national and listing companies. I think that will be unfair to go through mass material and information in order to ascertain the item to be applicable. In the worst of it the end-users may not appreciate what you have done for them.
12. At present the financial statements prepared by the unincorporated business are still accepted by many organizations such as Inland Revenue Department and Banks. In my view, if the separate accounting standards are developed for small entities and not difficult to adopt and comply, I think this will be considered acceptable by the working group who prepares the financial statements. The working group includes the members of the Society and other people engages in accounting profession.

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For non-members of the Society it is not hard to believe which type of standards (simple or detailed/complicated) is more acceptable to adopt and follow. Non-practising members (which represent 80% of the membership) can not give the ball to the practising members in financial reporting as they are also expected to follow the standards in preparation of financial statements. In future when the statutory audit requirement will be fully or partly abolished by the Companies Ordinance (it is a matter of time, I believe) non practising members will play the same role as the practising members. Under this logical inference I shall cast doubt whether the adoption of details/ complicated standards would be an appropriate approach for the members in large. Bearing in mind you must have to study in details and then work out which is applicable to the transaction under review.

I have attended seminars conducted by the Society of Chinese Accountants and Auditors and the Hong Kong Society of Accountants regarding the current issue. One particular point alleged by some members is the Concept of “Differentiation” or “Two Classes of Accountants”. I feel uncomfortable when I heard this classification and the interpretation to our members. I strongly disagree to this allegation. As the Society will change its name to “Hong Kong Institute of Certified Public Accountants” all our members are CPAs and will not have any difference except that work involved or engaged is different. We are all well trained to be qualified as CPAs. *I don't think you will be looked or considered differently if you don't have the difference in mind.*

The Companies Ordinance has proposed the change of minimum number of shareholders from two to one. This implies the taking care of the modern need of the business society and if this becomes the law there will be no difference from unincorporated sole proprietor business except that liability of the shareholder's investment is limited. Now the Society is going to follow the standards which is not aimed to be adopted by the small entities. I hope the decision makers can take a practical view on their implementation.

I appreciate that it is not easy but also important to have a decision for the reporting framework therefore I hope the Society can take more consideration on the factors concerned and compare the adoption with the long term objective for the interest of the profession as well as the members in large.