

General Purpose Financial Reporting in Hong Kong

Questions and answers on General Purpose Financial Reporting issues in Hong Kong appear below.

Disclaimer

This document is intended for general guidance only and is subject to the Hong Kong Society of Accountants (HKSA) Staff Policy on Handling Technical Queries, posted on the HKSA website at: <http://www.hksa.org.hk/professionaltechnical/policy/techqs.pdf>.

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Please note that the contents of this document are subject to change from time to time.

Feedback welcomed

We welcome your comments and feedback. Comments and suggestions on the material in this document should be addressed to Mr. Simon Riley, Deputy Director – Accounting, Hong Kong Society of Accountants, e-mail: commentletters@hksa.org.hk.

Relevant links

- HKSA Financial Reporting home page <http://www.hksa.org.hk/professionaltechnical/accounting/>
- Reference materials page <http://www.hksa.org.hk/professionaltechnical/accounting/rm>
- Standard setting process and comparison between Hong Kong accounting standards and IFRS.....
<http://www.hksa.org.hk/professionaltechnical/accounting/dueprocess/>
- Hong Kong Statute Law (including the Companies Ordinance)..... <http://www.justice.gov.hk/home.htm>

Question 1 Standards and guidance issued by the HKSA

Q: Where can all the latest accounting standards and guidance issued by the HKSA be accessed?

A: All the current standards and guidance issued by the HKSA are published in the HKSA Members' Handbook. Details on how to access a particular standard or guideline appear below.

A read-only version of the Society's Members' Handbook can be accessed on-line at:
<http://www.hksa.org.hk/professionaltechnical/pronouncements> and click on:
 "Online Members' Handbook"

Handbook contents, volume by volume, are as follows:

VOLUME I:	Professional Accountants Ordinance & By-Laws	Professional Ethics & Conduct
VOLUME II-A:	Accounting Standards, including Foreword & Framework	
VOLUME II-B:	Accounting Guidelines	
VOLUME III-A:	Statements of Auditing Standards	
VOLUME III-B:	Practice Notes & Auditing Guidelines	

To access the accounting standard on Income Taxes, for example, click on "Volume II-A" then scroll down to the relevant Statement, in this case 2.112 (SSAP 12). Summaries of accounting standards have also been posted on the HKSA website financial reporting home page – a link to that appears on page 1 of this document. HKSA Members can access the Handbook with full functionality by logging on to the HKSA website.

Electronic copies of the HKSA Members' Handbook (CD-ROM with full search, print and copy functionality) can be purchased from the HKSA – further details are available on the HKSA website at:
http://www.hksa.org.hk/publications/pub_forsale/pub_form8&1&6.pdf.

Question 2 The accounting standard setting process in Hong Kong

Q: How is an accounting standard developed in Hong Kong and how can I keep updated on the HKSA's accounting standard setting programme?

A: The Statement of Due Process describes the way in which an accounting standard is developed in Hong Kong. The Statement of Due Process can be accessed at:
<http://www.hksa.org.hk/professionaltechnical/accounting/dueprocess/statementofdueprocess.pdf>.

The HKSA's policy is to develop accounting standards that are converged with those issued by the International Accounting Standards Board. A description of the HKSA's convergence policy was published in the April 2002 edition of The Hong Kong Accountant at page 33 (available at:
http://www.hksa.org.hk/publications/society_journals/2002/2002-04/4-43.pdf and scroll down to "22 of 30").

The HKSA Council has delegated the standard setting function to the Financial Accounting Standards Committee (FASC). A copy of the FASC's Terms of Reference can be accessed on the HKSA website at: <http://www.hksa.org.hk/professionaltechnical/committees/FASC.pdf>.

Under the due process, a summary of FASC meetings is published on the HKSA website and these can be accessed at <http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate/>. Regular updates on the Society's standard setting programme are also published in "TechWatch", available on line at: <http://www.hksa.org.hk/professionaltechnical/techwatch/>.

The FASC's work programme for 2003 was discussed in the April 2003 edition of The Hong Kong Accountant at page 67, available on the HKSA website at:
http://www.hksa.org.hk/publications/society_journals/2003/2003-04/13.pdf.

All accounting & financial reporting exposure drafts issued by the HKSA are posted at:
<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/>.

Question 3 Definitions of terms

Q: *Is there are a glossary of terms and acronyms defined in the Hong Kong accounting standards? Where can I find a definition of a term such as “affiliated company” or “deemed capital”? Where can I find the Chinese equivalent of an accounting term?*

A: A glossary of terms defined in Hong Kong Statements of Standard Accounting Practice can be accessed at: <http://www.hksa.org.hk/professionaltechnical/accounting/rm/glossary.pdf>.

To search for a term (whether defined or not) appearing in Hong Kong SSAPs, or other material published in the HKSA Members’ Handbook, refer to question 1 above for details on getting access to an electronic copy of the Handbook.

The synonymous terms “enterprise” and “entity” are not defined in the accounting standards or in the Framework. Under the entity concept an enterprise refers to the *entity* to which a set of financial statements relate. The term “enterprise”, by itself, may therefore refer to any entity whether incorporated or not, whether it has securities traded publicly or not and irrespective of its ownership. In the case of consolidated financial statements, an “enterprise” would refer to the group.

As regards the specific term, “affiliated company” we believe that term is used in US GAAP but, despite its usage, we are not aware of the term being defined anywhere in US GAAP. It is apparent from the Glossary that the term “affiliated company” does not appear in Hong Kong SSAPs.

For those looking for a Chinese to English or English to Chinese translation of commonly used terms in accounting, banking, corporate finance, economics and insurance, the HKSA, in conjunction with the Accounting Society of China, has published a two volume “Glossary of Accounting Terms”. This publication is available from the HKSA’s counter at 4/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong. For enquiries, please call (+852) 2287 7228. Further details regarding this and other HKSA publications in Chinese can be found on the HKSA website at:

http://www.hksa.org.hk/publications/pub_forsale/pubforsale_form3_10.pdf.

Some commonly found acronyms are as follows:

EVA ... Economic Value Added
 FRS ... Financial Reporting Standard
 GAAP ... Generally Accepted Accounting Practice
 IAS ... International Accounting Standard
 IASB ... International Accounting Standards Board
 IASC ... International Accounting Standards Committee
 IFRIC ... International Financial Reporting Standards Interpretations Committee (of the IASB)
 IFRS ... International Financial Reporting Standard
 IG ... Implementation Guidance (on IAS 32 & IAS 39)
 IGC ... Implementation Guidance Committee (IASC, relevant to Q+A on IAS 32 & IAS 39)
 SAC ... Standards Advisory Council (of the IASC Foundation)
 SIC ... Standing Interpretations Committee (predecessor body to IFRIC)
 SSAP ... Statement of Standard Accounting Practice

Question 4 Application date for new or revised accounting standards and interpretations

Q: *An entity has a financial year ended 31 March 2003. If a new or revised accounting standard or interpretation becomes effective for annual financial periods beginning on or after 1 January 2003, does the entity need to apply that standard or interpretation for its financial statements for the year*

ended 31 March 2003?

A: A financial year that ends on 31 March 2003 would typically have begun before 1 January 2003. A new or revised accounting standard or interpretation that becomes effective for annual financial periods beginning on or after 1 January 2003 becomes effective for the *first* financial year that begins *on or after* 1 January 2003. In the case of a company that has a 31 March year-end, such an accounting standard or interpretation would therefore be applied initially for the financial year that commences on 1 April 2003.

Question 5 Answering a technical query***Q: What avenues of information are available for answering a technical accounting query?***

A: There are many avenues available for addressing a technical query.

The HKSA Staff Policy, which can be viewed at:

<http://www.hksa.org.hk/professionaltechnical/policy/techqs.pdf> is in place to define what is meant by a technical query and the manner in which HKSA Staff will attend to such queries. It should be noted that, under the Policy, HKSA Staff should be considered a last port of call and attend to queries in general terms only.

It is not possible for HKSA Staff to provide advice or interpretations in response to a query. HKSA Staff also attend only to queries that concern material published in the HKSA Members' Handbook. For example, HKSA Staff do not respond to questions on the Companies Ordinance including those that relate to shareholders' rights, company administration, payment of dividends, and financial reporting requirements under the Ordinance.

You are encouraged to read the Policy.

Apart from material published on the HKSA website, there are many other avenues of assistance available for researching an accounting or financial reporting issue:

1. Consult an accounting text

A number of publications are available for purchase from the HKSA. Please refer to information located at: <http://www.hksa.org.hk/publications/>. Without endorsing any of the following external publications and websites, other accounting texts and information are available:

“Hong Kong GAAP” published by Sweet & Maxwell – details available at: www.smlawpub.com.hk

“UK & International GAAP” – details available at:
http://www.ey.com/global/content.nsf/UK/Financial_Report

“IAS Plus” – details available at: www.iasplus.com

Q+A material on various SSAPs can also be accessed on the HKSA financial reporting reference page, <http://www.hksa.org.hk/professionaltechnical/accounting/rm>.

2. Attend HKSA CPD course and/or purchase CPD material

The HKSA run a number of CPD courses every year. Courses such as the “Technical Workshops” held in June & July 2003 – details available at:

http://www.hksa.org.hk/membership/cpd/activities/Tech_workshop.pdf or at
<http://www.hksa.org.hk/membership/cpd/index.php> are particularly relevant to an understanding of issues connected with a particular accounting standard. CPD course material can be obtained from the HKSA – details are available at:
http://www.hksa.org.hk/publications/pub_forsale/pubforsale_coursenotes.pdf

3. Visit the HKSA Library

HKSA members may also wish to visit the HKSA library, situated at:

17th Floor, Fortis Bank Tower, 77-79 Gloucester Road, Wan Chai, Hong Kong. Tel. 2287 7018

Opening hours: M-F: 9:00 a.m. - 7:00 p.m.

Sat: 9:00 a.m. - 12:00 noon

Sunday & Public Holidays: Closed

4. Consult a CPA

A list of all CPA Practices registered with the Society is available on the HKSA website at:

<http://www.hksa.org.hk/membership/list/index.php?item=cpa>. The list also includes their contact details if the practices opt to do so. For existing clients of CPAs, we recommend that you consult your CPA with regard to your technical accounting query, particularly so when the query is relevant to a financial statement audit.

5. Make use of the HKSA Free Public Advisory Service

The HKSA runs a “Free Public Advisory Service” – details are available at:

http://www.hksa.org.hk/corporate_relations/community/index.php?item=aap

6. For other specific types of questions and questioners

If your question is on a matter not connected with material published by the HKSA then the Staff Policy suggests that HKSA Staff are not the appropriate people to contact. For students, we recommend that you contact your lecturer. For questions involving a matter of law, it may be appropriate to approach a lawyer. A link to Hong Kong statute laws appears on page 1 of this document. For other queries relating to corporate regulation in Hong Kong, the following links may be relevant:

For information on the regulation of listed companies in Hong Kong ... Securities and Futures Commission website: <http://www.hksfc.org.hk>

For information on the Stock Exchange Listing Rules ... Hong Kong Exchanges and Clearing Limited website: <http://www.hkex.com.hk>

For information on the regulation of banks in Hong Kong ... Hong Kong Monetary Authority website: <http://www.hkma.gov.hk>

Question 6 Comparison of Hong Kong's accounting standards with International Financial Reporting Standards and with accounting standards applying in other countries

Q: Where can I find a comparison of Hong Kong accounting standards and interpretations with the International Financial Reporting Standards and/or with accounting standards applying in other jurisdictions?

A: Each individual Hong Kong accounting standard and interpretation contains a comparison between that pronouncement and the equivalent pronouncement issued by the IASB.

A summary comparison between Hong Kong accounting standards and IASB standards has posted on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/accounting/dueprocess>.

The HKSA does not publish a comparison between Hong Kong accounting standards and GAAP applying in other jurisdictions.

Following from the HKSA's policy of converging Hong Kong accounting standards with standards issued by the IASB (see question 2 in this document) the differences between Hong Kong GAAP and IASB GAAP are limited in number and are expected to decrease further over time.

To compare Hong Kong GAAP with GAAP applying in any other jurisdiction, one should compare the GAAP applying in that other jurisdiction with IASB GAAP and then make further adjustments necessary from a comparison of the accounting standards issued by the HKSA and the IASB.

Comparisons between GAAP applying in other jurisdictions and the IASB's standards may be available from a number of sources, for example the authority that issues GAAP pronouncements in that other jurisdiction may provide such a comparison. A number of websites also publish this information, for example <http://www.ifad.net> and <http://www.iasplus.com/country/compare.htm> (please note that these external websites are not endorsed by the HKSA).

GAAP pronouncements issued by the following accounting bodies, or a summary of which, may be obtained from the following websites:

- * International Accounting Standards Board: <[IFRS/ IAS](http://www.iasb.org)> <http://www.iasb.org>
- * UK Accounting Standards Board: <[UK FRS / SSAP](http://www.asb.org.uk)> <http://www.asb.org.uk>
- * Australian Accounting Standards Board: <[AASB Standards](http://www.aasb.com.au)> <http://www.aasb.com.au>
- * US Financial Accounting Standards Board: <[FASB Statements](http://www.fasb.org/st/)> <http://www.fasb.org/st/>