

JUNE 2013 SUPPLEMENT

Qualification Programme

Module A

Financial Reporting



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

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## Changes at a glance

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<b>Chapter Name</b>		
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### Part B: Technical Update

There have been no developments in examinable standards or legislation between the publication of the 2012 Learning Pack and 30 November 2012, the cut-off date for examinable standards and legislation for the June 2013 exam session.

## Reminder of the six-month rule

HKICPA operates a 'six-month' rule whereby students will only be examined on standards and legislation that had been released six months prior to the first day of the month in which the examination takes place.

In addition to the above condition, students will be examined on standards and legislation which have been effective or will become effective on or before 13 months after the first day of the month in which the examination takes place.

If you are studying for the examinations in **June 2013**, the examinable standards are those issued on or before 30 November 2012 which are effective or will be effective by 1 July 2014.

### Examinable standards

You will find a list of the standards that are examinable in your examination session by logging onto the HKICPA online QP Learning Centre.

## Introduction

This Supplement has been produced for those candidates preparing for the June 2013 examination session of the HKICPA Qualification Programme.

It is designed to be used in conjunction with the 2012 edition of the Learning Pack, and it will bring you fully up to date for developments that have occurred in the period since publication of the Learning Pack and 30 November 2012, the cut-off date for examinable standards and legislation for the June 2013 examination.

The Supplement contains two sections:

**Part A** contains a list of any notified errors in the material in the current edition of the Learning Pack. These are identified in chapter order, therefore as you start a new chapter in the Learning Pack you are advised to refer to the list to see whether there is anything relevant.

**Part B** comprises a technical update on developments that will be examinable in June 2013 that are not currently covered in the Learning Pack. The topics covered are listed on the contents page, and again are covered in chapter order.

In each case the text in the supplement explains how the Learning Pack is affected by the change, for example whether the new material should be read in addition to the current material in the Learning Pack, or whether the new material should be regarded as a replacement.

Careful study of both the Learning Pack and this supplement should ensure that you are fully prepared for the June 2013 examination session.

Good luck with your studies!

## Part A: Identified Errata

### Chapter 5 Property, plant and equipment

#### Section 1.5.4 Replace the requirements of the question with the following:

##### Self-test question 2

*Required*

Calculate

(a) the carrying amount of the machinery at 31 December 20X1

(b) the profit/loss on the disposal of the faulty component

(c) the carrying amount of the machinery at 31 December 20X2

### Chapter 14 Revenue

#### Section 3.2.2 example Replace Example: Loyalty points with the following:

Loyalty points can arise in one of two ways – either by the entity implementing its own loyalty programmes (eg Park-N-Shop) or by a third party applying such loyalty programmes (eg HSBC credit card providing the programme for the retailers who participate in its programme). The entity can also recognise this deferred revenue by either allocating the deferred revenue systematically (amortisation) or on a sale-by-sale basis. The following examples are shown on a sale-by-sale basis for convenience.

Case 1 is easy, according to paragraph 7 of the Interpretation:

**If the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognised shall be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.**

What that essentially means is this: take Park-N-Shop for example, who award one point for every \$100 that a customer spends; every 100 points can be redeemed for goods with a retail price of \$100. The accounting entries following a sale of goods for \$200 would be:

		\$	\$
DEBIT	Cash / credit card receivables	200	
CREDIT	Deferred revenue – Loyalty points (\$200/\$100 × 1 point)		2
	Revenue		198

A portion of the consideration paid by the customer will be allocated to deferred revenue as above, measured as the fair value of the points awarded. Then when the customer utilises their points the next time they spend:

		\$	\$
DEBIT	Cash / credit card receivables	98	
	Deferred revenue	2	
CREDIT	Revenue		100

So in essence you have deferred your revenue until later.

Case 2 refers to paragraph 8 of the Interpretation:

**If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (ie as the principal in the transaction) or on behalf of the third party (ie as an agent for the third party).**

- (a) **If the entity is collecting the consideration on behalf of the third party, it shall:**
- (i) **measure its revenue as the net amount retained on its own account, ie the discounts or incentives that otherwise would be offered to customers that have not earned the award credits; and**
  - (ii) **recognise this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.**
- (b) **If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfils its obligations in respect of the awards.**

In paragraph 8(a)(i) and (ii) of the Interpretation the entity supplying the award credits is acting as an **agent** of the third party supplying the awards, which may be the case with airline loyalty programmes where retailers or other service firms pay the airline a cost per mile for using their loyalty programmes. However in case (b) the reference is to a similar programme but where the retailer acts as a **principal** on their own account.

Look first at the accounting entries in the situation of Paragraph 8(a). Say that a retailer has a loyalty programme arrangement with an airline such that, for every \$10 that the customer spends with the retailer, he is awarded one point which can be redeemed for one mile.

The face value of each point is \$1. For each point issued, the retailer will pay \$0.8 to the airline.

If the retailer makes a sale of \$200 the accounting entries would be:

		\$	\$
DEBIT	Cash/credit card receivables	200	
CREDIT	Commission income (20 × \$0.2)		4
	Liability to airline (20 × \$0.8)		16
	Revenue		180

The retailer acts as an agent of the airline and earns commission of \$0.2 per point issued. A sale of \$200 leads to the issue of 20 points and commission income of  $20 \times \$0.2 = \$4$ .

The benefits of such a scheme to the retailer are that they do not have to incur resources to administer the scheme (the airline administers the redemptions) and they can exit the scheme at any time with no obligation for the outstanding points.

If the retailer has collected the consideration allocated to the points on its own account, ie acting as a principal rather than as an agent, then it is entitled to measure its income from the points as the gross \$20 in the example above, but must separately recognise the \$16 payable to the airline as an expense. In either case the net income of \$4 is ultimately recognised from the transaction:

		\$	\$
DEBIT	Cash/credit card receivables	200	
CREDIT	Income from loyalty programme (20 × \$1)		20
	Revenue		180
and			
DEBIT	Loyalty programme expense (20 × \$0.8)	16	
CREDIT	Liability to airline		16

## Chapter 17 Borrowing Costs

**Topic Recap** In the right hand column 'Qualifying Assets', disregard the final two bullet points of the second box, 'includes:...' The box should therefore read:

Includes:

- Inventories
- Manufacturing plants
- Power generation facilities
- Intangible assets
- Investment properties

