Highlights for the Proposed HKFRS for Private Entities

Thank you for completing the self assessment questions.

The suggested answers to the self assessment questions in relation to the Highlights for the Proposed HKFRS for Private Entities webcast are set out below for your reference. For further enquiry in relation to CPD credit hours arrangement, please contact the Institute's Professional Development Department at cpd@hkicpa.org.hk. For technical enquiries, please contact the Institute's Standard Setting Department at commentletters@hkicpa.org.hk.

Question 1

Which of the followings are the local amendments made by HKICPA's Financial Reporting Standard Committee to ensure HKFRS for Private Entities suits Hong Kong business and financial reporting environment?

(1) Replacing the term "SMEs" in IFRS for SMEs by "Private Entities"

(2) Changing the name of the standard to "HKFRS for Private Entities"

(3) Replacing the recognition and measurement principles in Section 29 *Income Tax* of the IFRS for SMEs with the extant version of HKAS 12 *Income Taxes*

(4) Capping the measurement of deferred tax liabilities associated with an investment property measured at fair value at the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period (This amendment will restrict the amount of deferred taxation recognised in relation to revaluation gains of investment properties as such tax is in practice never paid in Hong Kong)

(5) Modifying the definition of "Private Entities" to make banks eligible to use HKFRS for Private Entities for preparing their general purpose financial statements

Answer

A (1) only

B (1) and (3) only

C (2) and (3) only

D (1), (2), (3) and (4) only

E All of them

The correct answer is D.

Banks are usually publicly accountable as banks usually hold assets in a fiduciary capacity for a broad group of outsider as one of its primary business and therefore banks are generally not permitted to use HKFRS for Private Entities to prepare its generally purpose financial statements.

Question 2

Which of the following topics are omitted in final IFRS for SMEs (and hence HKFRS for Private Entities) by International Accounting Standards Board (IASB) when the standard is produced as they are irrelevant to typical Private Entities?

(1) Income taxes

(2) Segment reporting

(3) Insurance

(4) Earnings per share

(5) Foreign currency translation

Answer

A (1) only

B (1) and (2) only

C (2) and (3) only

D (2), (3) and (4) only

E All of them

The correct answer is D. Please refer to Powerpoint Slide #12 for further information.

The income tax and foreign currency translation topics were not omitted in IFRS for SMEs/HKFRS for Private Entities. The relevant accounting requirements are contained in Section 29 Income Tax *and Section 30* Foreign Currency Translation *of HKFRS for Private Entities.*

Question 3

Which of the following accounting treatment in relation to accounting for investments in joint ventures is **not permitted** under HKFRS for Private Entities?

(1) Cost model (except if published quotation available then must use fair value through P&L)

(2) Fair value through profit or loss (if impracticable, then use cost model)

(3) Equity method

(4) Proportionate consolidation

Answer

A (1) only

B (4) only

C (2) and (3) only

D (2), (3) and (4) only

E All of them

The correct answer is B.

As stated in Powerpoint slide #48 and Section 15 Investments in Joint Ventures *of HKFRS for Private Entities, entities are permitted to use either cost model, fair value through profit or loss or equity method to account for its investments in joint ventures. Proportionate consolidation is not permitted.*

Question 4

Which of the following is **not true** in relation to HKFRS for Private Entities?

(1) HKFRS for Private Entities requires all research and development costs to be recognised as expense (i.e. no capitalization)

(2) HKFRS for Private Entities requires property, plant and equipments to be accounted for using cost less depreciation less impairment model (i.e. revaluation of property, plant and equipment is not permitted under HKFRS for Private Entities)

(3) HKFRS for Private Entities requires all borrowing costs to be charged to expense when incurred (i.e. no capitalization)

(4) HKFRS for Private Entities do not permit recycling of gains or losses on net investment in a foreign entity that are initially recognised in other comprehensive income (i.e. eliminates the need for tracking the exchange differences after initial recognition)

(5) The tax accounting requirements of HKFRS for Private Entities **follows** proposals contained in the IASB Exposure Draft intended to replace IAS 12 *Income Taxes*, which IASB has already expressed that it is unlikely that the project will proceed in its current form

Answer

A (1) only

B (5) only

C (2) and (3) only

D (2), (3) and (4) only

E All of them

The correct answer is B.

As stated in Powerpoint slide #18 and 19 and Para.P13 of HKFRS for Private Entities, the Section 29 Income Tax *of HKFRS for Private Entities was amended to suit Hong Kong circumstances.*