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

MEMBERS' HANDBOOK

Update No. 104

(Issued 2 February 2011)

This Update relates to the amendments to:

- HKFRS for Private Entities; and
- Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i and iv & replace with revised pages i and iv.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
Hong Kong Financial Reporting Standard for Private Entities	Replace cover page and pages 26-28 with revised cover page and pages 26-28. Insert page 28A after page 28.	- Note
Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard	Replace cover page and pages 14-17 with revised cover page and pages 14-17.	- Note

Note:

1. Both HKFRS for Private Entities (paragraph 4.7(d)) and Small and Medium-sized Entity Financial Reporting Standards (paragraph 1.17(d)) contain similar requirements as set out in paragraph 69(d) of HKAS 1 *Presentation of Financial Statements*, being that a liability should be classified as a current liability if the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. In the light of the issuance of Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* on 29 November 2010, the Institute's Financial Reporting Standards Committee agreed that the "HKFRS for Private Entities" and the "Small and Medium-sized Entity Financial Reporting Standard" should also be amended to reflect the clarification in the Interpretation.

3. Since the amendments are clarification of existing standards, they shall have immediate effect.

Hong Kong Institute of Certified Public Accountants
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MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to February 2011)

HKFRS for Private Entities
~~Issued 30 April 2010~~Revised February 2011

Effective upon issue

Hong Kong Financial Reporting Standard for Private Entities

Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) is effective immediately upon its ~~issue~~issuance on 30 April 2010. Eligible entities are permitted to use HKFRS for Private Entities to prepare financial statements for prior period(s) where the relevant financial statements have not been finalised and approved.

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(p) **provisions**.

(q) **non-controlling interest**, presented within **equity** separately from the equity attributable to the **owners** of the **parent**.

(r) equity attributable to the owners of the parent.

4.3 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's **financial position**.

Current/non-current distinction

4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Current assets

4.5 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

4.6 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

4.7 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.[1]

4.8 An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

4.9 This HKFRS does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position, and

(b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

4.10 The judgement on whether additional items are presented separately is based on an assessment of all of the following:

(a) the amounts, nature and liquidity of assets.

(b) the function of assets within the entity.

(c) the amounts, nature and timing of liabilities.

Information to be presented either in the statement of financial position or in the notes

4.11 An entity shall disclose, either in the statement of financial position or in the notes, the following subclassifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity.

[1] The classification of a term loan as a current or non-current liability in accordance with paragraph 4.7(d) shall be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the reporting date. In this regard, the probability of the lender choosing to exercise its right within the next twelve months after the reporting date is not relevant.

The classification of a term loan in accordance with paragraph 4.7(d) shall depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting period. Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as current in its statement of financial position. This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

A more detailed discussion can be found in Hong Kong Interpretation 5 to the Hong Kong Financial Reporting Standards "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause".

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed.

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business.

(ii) in the process of production for such sale.

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals.

(e) provisions for **employee benefits** and other provisions.

(f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense that, as required by this HKFRS, are recognised in other comprehensive income and presented separately in equity.

4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised.

(ii) the number of shares issued and fully paid, and issued but not fully paid.

(iii) par value per share, or that the shares have no par value.

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period.

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.

(vi) shares in the entity held by the entity or by its subsidiaries or associates.

(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

(b) a description of each reserve within equity.

4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities.

(b) a description of the facts and circumstances of the sale or plan.

(c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

SME-FRF & SME-FRS
~~Issued August 2005~~Revised February 2011

Effective for a Qualifying Entity's financial statements
that cover a period beginning on or after 1 January 2005

Small and Medium-sized Entity Financial Reporting Framework and

Financial Reporting Standard

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Balance sheet

1.14 An entity should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Paragraphs 1.16 to 1.20 of this Section apply when this distinction is made.

1.15 When an entity chooses not to make the classification in paragraph 1.14, assets and liabilities should be presented broadly in order of their liquidity and the entity should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the balance sheet date, the amount expected to be recovered or settled after more than 12 months.

1.16 An asset should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within 12 months after the balance sheet date; or

(d) it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date.

All other assets should be classified as non-current.

1.17 A liability should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within 12 months after the balance sheet date; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.[1]

All other liabilities should be classified as non-current.

1.18 An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the balance sheet date, even if:

(a) the original term was for a period longer than 12 months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

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[1] The classification of a term loan as a current or non-current liability in accordance with paragraph 1.17(d) should be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the balance sheet date. In this regard, the probability of the lender choosing to exercise its right within the next twelve months after the balance sheet date is not relevant.

The classification of a term loan in accordance with the paragraph 1.17(d) should depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the balance sheet date. Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time should be classified by the borrower as current in its statement of financial position. This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

A more detailed discussion can be found in Hong Kong Interpretation 5 to the Hong Kong Financial Reporting Standards "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause".

1.19 The face of the balance sheet should include, where applicable, line items presenting the following amounts:

(a) property, plant and equipment;

(b) intangible assets;

(c) financial assets (including investments but excluding amounts shown under (e) and (g));

(d) inventories;

(e) trade and other receivables;

(f) tax assets;

(g) cash and cash equivalents;

(h) trade and other payables;

(i) tax liabilities;

(j) provisions;

(k) non-current liabilities;

(l) issued capital; and

(m) reserves.

1.20 Additional line items, headings and subtotals should be presented on the face of the balance sheet when such presentation is necessary to present properly the entity's financial position.

1.21 An entity should disclose the following, either on the face of the balance sheet or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity itself; and

(vii) shares reserved for issuance under options and sales contracts, including the terms and amounts;

(b) where it is not otherwise self-evident, a description of the nature and purpose of each component within equity;

(c) the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue; and

(d) the amount of any cumulative preference dividends not recognised.

An entity without share capital, such as a partnership, should disclose information equivalent to that required above, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

Income statement

1.22 The face of the income statement should include, where applicable, line items that present the following amounts:

(a) revenue;

(b) finance costs;

(c) tax expense; and

(d) profit or loss for the period.

Additional line items, headings and subtotals should be presented on the face of the income statement when such presentation is necessary to present properly the entity's financial performance.

1.23 All items of income and expense recognised in a period should be included in the determination of the profit or loss for the period unless the SME-FRS requires or permits otherwise.

1.24 When items of income and expense within profit or loss are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items should be disclosed separately.

1.25 Circumstances that may give rise to the separate disclosure of items of income and expense in accordance with paragraph 1.24 include the following:

(a) the write-down of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;

(b) the write-down of intangible assets to recoverable amount, as well as the reversal of such write-downs;

(c) a restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring;

(d) disposals of items of property, plant and equipment;

(e) disposals of intangible assets;

(f) disposals of long-term investments;

(g) litigation settlements; and

(h) other reversals of provisions.

1.26 An entity should present, either on the face of the income statement or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity.

1.27 Entities classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.

1.28 An entity should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

Changes in equity

1.29 An entity should present changes in equity either in the notes to the financial statements or as a separate component of the financial statements. Changes in equity should include the following:

(a) the profit or loss for the period;

(b) each item of income and expense, gain or loss that, as required by the SME-FRS, is recognised directly in equity, and the total of these items;

(c) the cumulative effect of changes in accounting policy and the correction of prior period errors;

(d) capital transactions with owners and distributions to owners;

(e) the balance of accumulated reserves at the beginning of the period and at the balance sheet date, and the movements for the period; and

(f) a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and end of the period, separately disclosing each movement. Comparative information is not required for this reconciliation.

Accounting policies and explanatory notes

1.30 The notes to the financial statements should:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;

(b) disclose the information required by the SME-FRS that is not presented elsewhere in the financial statements; and

(c) provide additional information that is necessary for a proper presentation.

1.31 Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet and the income statement should be cross-referenced to any related information in the notes.

1.32 The accounting policies section of the notes to the financial statements should describe:

(a) whether the financial statements have been prepared in accordance with the SME-FRS and the criteria on which the entity qualifies to apply the SME-FRS;

(b) the measurement basis (or bases) used in preparing the financial statements; and

(c) each specific accounting policy that is necessary for a proper understanding of the financial statements.

1.33 An entity should disclose the following, if the information is not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its place of incorporation and the address of the registered office (or principal place of business, if different from the registered office); and

(b) a description of the nature of the entity's operations and its principal activities.