



# MEMBERS' HANDBOOK

## Update No. 236

(Issued 30 March 2020)

This Update relates to amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (Amendments to the SME-FRF & SME-FRS).

<u>Document Reference and Title</u>	<u>Instructions</u>	<u>Explanations</u>
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### VOLUME II

<a href="#">Contents of Volume II</a>	Discard existing pages i and iv & replace with revised pages i and iv.	Revised contents page
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### **SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING FRAMEWORK AND FINANCIAL REPORTING STANDARD (SME-FRF & SME-FRS)**

<a href="#">SME-FRF &amp; SME-FRS (Revised March 2020)</a>	Replace the cover page, pages ii and iii with revised pages ii and iii. Insert pages 129 – 133 after page 128.	Notes 1 and 2
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Notes:

- The following amendments have been made to the SME-FRF & SME-FRS:
  - For each class of property, plant, equipment or intangible assets, allow an entity to consistently use previous GAAP carrying amount or fair value as deemed cost on transition for all items in that class (*paragraph 44 of the SME-FRF and related definition*)
  - Add lessor accounting requirements (*paragraphs 5.11A to 5.11I of the SME-FRS*)
  - Add a presentation currency concept (*paragraphs 15.8 and 15.15 of the SME-FRS and related definition*)
  - Clarify that the disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) of the SME-FRF & SME-FRS apply to consolidated financial statements only, except the disclosure requirement in paragraph 19.16(g) may still apply to company-level financial statements in specific circumstances (*paragraph 19.16A of the SME-FRS*)
  - Permit aggregation of the summarised financial information of subsidiaries excluded from consolidation (*paragraph 19.16B of the SME-FRS*)
- An entity shall apply the Amendments to the SME-FRF & SME-FRS for annual periods beginning on or after 1 January 2021. Amendments to the SME-FRF & SME-FRS shall be applied retrospectively in accordance with paragraph 2.7 of SME-FRS. Early application is permitted.



## MEMBERS' HANDBOOK CONTENTS OF VOLUME II

(Updated to March 2020)

		<i>Issue/(Review date)</i>
<b>PREFACE AND FRAMEWORK</b>		
PREFACE	<a href="#">Preface to Hong Kong Financial Reporting Standards</a> .....	10/06(4/15)
CONCEPTUAL FRAMEWORK	<a href="#">Conceptual Framework for Financial Reporting 2010</a> .....	10/10
CONCEPTUAL FRAMEWORK (Revised)	<a href="#">Conceptual Framework for Financial Reporting 2018</a> .....	6/18
<b>HONG KONG ACCOUNTING STANDARDS (HKAS)</b>		
HKAS 1 Revised	<a href="#">Presentation of Financial Statements</a> .....	12/07(7/19)
HKAS 2	<a href="#">Inventories</a> .....	3/04(7/19)
HKAS 7	<a href="#">Statement of Cash Flows</a> .....	12/04(7/19)
HKAS 8	<a href="#">Accounting Policies, Changes in Accounting Estimates and Errors</a> .....	9/04(1/19)
HKAS 10	<a href="#">Events after the Reporting Period</a> .....	3/04(9/18)
HKAS 11	<a href="#">Construction Contracts</a> .....	12/04(9/18)
HKAS 12	<a href="#">Income Taxes</a> .....	11/04(7/19)
HKAS 16	<a href="#">Property, Plant and Equipment</a> .....	11/05(7/19)
HKAS 17	<a href="#">Leases</a> .....	12/04(9/18)
HKAS 18	<a href="#">Revenue</a> .....	11/04(9/18)
HKAS 19 (2011)	<a href="#">Employee Benefits</a> .....	7/11(7/19)
HKAS 20	<a href="#">Accounting for Government Grants and Disclosure of Government Assistance</a> .....	12/04(9/18)
HKAS 21	<a href="#">The Effects of Changes in Foreign Exchange Rates</a> .....	3/04(7/19)
HKAS 23 Revised	<a href="#">Borrowing Costs</a> .....	6/07(7/19)
HKAS 24 Revised	<a href="#">Related Party Disclosures</a> .....	11/09 (11/16)
HKAS 26	<a href="#">Accounting and Reporting by Retirement Benefit Plans</a> .....	8/04
HKAS 27 (2011)	<a href="#">Separate Financial Statements</a> .....	6/11(9/18)
HKAS 28 (2011)	<a href="#">Investments in Associates and Joint Ventures</a> .....	6/11(7/19)

		<i>Issue/(Review date)</i>
HK(SIC)-Int 29	<a href="#">Service Concession Arrangements: Disclosures</a> .....	12/04(7/19)
HK(SIC)-Int 31	<a href="#">Revenue – Barter Transactions Involving Advertising Services</a> .....	12/04(9/18)
HK(SIC)-Int 32	<a href="#">Intangible Assets – Web Site Costs</a> .....	12/04(7/19)
GLOSSARY	<a href="#">Glossary of Terms Relating to Hong Kong Financial Reporting Standards</a> .....	3/08(11/14)
<b>HONG KONG FINANCIAL REPORTING STANDARD FOR PRIVATE ENTITIES (HKFRS-PE)</b>		
HKFRS-PE	<a href="#">HONG KONG FINANCIAL REPORTING STANDARD FOR PRIVATE ENTITIES</a> .....	4/10(9/15)
HKFRS-PE (Revised)	<a href="#">HONG KONG FINANCIAL REPORTING STANDARD FOR PRIVATE ENTITIES (REVISED)</a> .....	5/17
<b>SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING FRAMEWORK AND FINANCIAL REPORTING STANDARD (SME-FRF &amp; SME-FRS)</b>		
SME-FRF & SME-FRS (Revised)	<a href="#">SME-FRF &amp; SME-FRS (Revised)</a> .....	3/14(12/15)
SME-FRF & SME-FRS (Revised March 2020)	<a href="#">SME-FRF &amp; SME-FRS (Revised March 2020)</a> .....	2/19(3/20)
<b>ACCOUNTING GUIDELINES (AG)</b>		
AG 1	<a href="#">Preparation and Presentation of Accounts from Incomplete Records</a> .....	3/84
AG 5	<a href="#">Merger Accounting for Common Control Combinations</a> .....	11/05 (11/13)
AG 7	<a href="#">Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars</a> .....	3/06
<b>ACCOUNTING BULLETINS (AB)</b>		
AB 3 (Revised)	<a href="#">Guidance on Disclosure of Directors’ Remuneration</a> .....	6/19
AB 4	<a href="#">Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance</a> ....	5/10
AB 5	<a href="#">Guidance for the Preparation and Presentation of a Business Review under the Hong Kong Companies Ordinance Cap. 622</a> .....	6/19
AB 6	<a href="#">Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap. 622</a> .....	6/19

# Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

The SME-FRF & SME-FRS (Revised) has been updated to reflect the amendments of the Companies (Amendment) (No. 2) Ordinance 2018. Please refer to paragraph 54 of the SME-FRF for the effective date of the amendments. Earlier application is not permitted.



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<b>Section 17</b>	<b>Events After the End of the Reporting Period</b>	<b>65-66</b>
<b>Section 18</b>	<b>Business Combinations and Goodwill</b>	<b>67-71</b>
<b>Section 19</b>	<b>Consolidated and Company-level Financial Statements</b>	<b>72-76</b>
<b>Section 20</b>	<b>Investments in Associates</b>	<b>77-79</b>
<b>Section 21</b>	<b>Interests in Joint Ventures and Other Forms of Joint Arrangements</b>	<b>80-81</b>
<b>Section 22</b>	<b>Cash Flow Statement (optional)</b>	<b>82-86</b>
<b>Appendix 1</b>	<b>Examples of Application:</b>	<b>87-97</b>
	<b>Part A Recognition of provisions</b>	<b>87-89</b>
	<b>Part B Revenue recognition</b>	<b>89-94</b>
	<b>Part C Impairment allocation</b>	<b>94-96</b>
	<b>Part D New CO non-exempted disclosure requirements</b>	<b>96-97</b>
<b>Appendix 2</b>	<b>Illustrative Company-Level Financial Statements Prepared in Accordance with the SME-FRS</b>	<b>98-110</b>
<b>Appendix 3</b>	<b>Illustrative Consolidated Financial Statements Prepared in Accordance with the SME-FRS</b>	<b>111-128</b>
<b>Appendix 4</b>	<b><u>Amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard</u></b>	<b><u>129-133</u></b>

**The *Small and Medium-sized Entity Financial Reporting Framework (SME-FRF)* and *Financial Reporting Standard (SME-FRS)* are standards of accounting practices issued by the Council of the Hong Kong Institute of Certified Public Accountants pursuant to section 18A of the Professional Accountants Ordinance and the *Company (Accounting Standards (Prescribed Body)) Regulation* issued under sections 357 and 380 of the new Hong Kong Companies Ordinance (Cap. 622) ("new CO"). The new CO came into effect on 3 March 2014. This version of the SME-FRF and SME-FRS takes into account all relevant subsequent amendments to the new CO, up to and including the Companies (Amendment) (No. 2) Ordinance 2018 which comes into effect on 1 February 2019 ("the 2018 Amendment Ordinance").**

SME-FRF and SME-FRS should be read in the context of the *Preface to Hong Kong Financial Reporting Standards*. SME-FRS should also be read in the context of the SME-FRF.

Where the SME-FRF and SME-FRS make reference to requirements in the new CO, this is for information purposes only and should not be relied upon to be a complete account of all the requirements of the new CO which may be relevant to a particular entity's circumstances. Nothing in the SME-FRF or SME-FRS should be taken as interpreting or amending the requirements set out in the new CO and if there is a conflict between the SME-FRF or SME-FRS and the new CO, then the new CO will prevail.

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## Appendix 4

### Amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (Amendments to the SME-FRF & SME-FRS)

#### Amendments to Small and Medium-sized Entity Financial Reporting Framework

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Paragraph 44 of the SME-FRF and paragraph 15.8 of the SME-FRS are amended. Paragraph 55 of the SME-FRF, paragraphs 5.11A – I, 15.15 and 19.16A – B of the SME-FRS and related definition are added. New text is underlined and deleted text is struck through. Paragraph 19.16 of the SME-FRS has not been amended but is included for ease of reference.

#### Transitioning from a different GAAP to SME-FRF and SME-FRS

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44. The transition from ~~a different~~ the entity's previous GAAP (for example the transition from reporting in accordance with Hong Kong Financial Reporting Standards) to the SME-FRF and SME-FRS is accounted for as follows:

...

- (c) All items recognised ~~previously~~ under a different the entity's previous GAAP, which meet the recognition criteria under the SME-FRF and SME-FRS, but which were previously measured on a basis inconsistent with the SME-FRF and SME-FRS (for example, unamortised goodwill) are to be re-measured in accordance with the relevant section of the SME-FRS and dealt with as a change of accounting policy under section 2 of the SME-FRS. An entity may also use the following exemptions for each class of property, plant and equipment\* or intangible assets in preparing its first financial statements that conform to the SME-FRF and SME-FRS:
- (i) Previous GAAP carrying amount as deemed cost: An entity may elect to measure all items in each class of assets at their previous GAAP carrying amount on transition; or
- (ii) Fair value as deemed cost: An entity may elect to measure all items in each class of assets at their fair value on transition.

#### Effective Date

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55. Amendments to the SME-FRF & SME-FRS, issued in March 2020, amended paragraph 44 of the SME-FRF and paragraph 15.8 of the SME-FRS, and added paragraphs 5.11A – I, 15.15 and 19.16A – B and related definition to the SME-FRS. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2021. Amendments to the SME-FRF & SME-FRS shall be applied retrospectively in accordance with paragraph 2.7 of SME-FRS. Earlier application of Amendments to the SME-FRF & SME-FRS is permitted. If an entity applies Amendments to the SME-FRF & SME-FRS for an earlier period it shall disclose that fact.

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\* The definition of property, plant and equipment in the SME-FRS includes property classified as investment property applying HKFRS or the HKFRS for Private Entities.

## **Amendments to the Definitions**

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The definition of presentation currency and previous GAAP are added after the definition of predecessor Companies Ordinance.

**Presentation currency** is the currency in which the financial statements are presented.

**Previous GAAP** is the basis of accounting that an entity used immediately before adopting SME-FRF and SME-FRS.

## **Amendments to the Small and Medium-sized Entity Financial Reporting Standard**

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### **Section 5 Leases**

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A heading is added after paragraph 5.3.

#### **Leases in the financial statements of lessees**

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#### **Leases in the financial statements of lessors**

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##### **Finance leases**

5.11A Lessors should recognise assets held under a finance lease in their statement of financial position, and present them as a receivable at an amount equal to the net investment in the lease. The net investment in a lease is the lessor's gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

- (a) the minimum lease payments receivable by the lessor under a finance lease, and
- (b) any unguaranteed residual value accruing to the lessor.

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

5.11B The recognition of finance income should be based on a pattern reflecting a constant periodic rate on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in profit or loss.

##### **Disclosure**

5.11C Lessors should disclose for a finance lease at the end of the reporting period the present value of minimum lease payments receivable, for each of the following periods:

- (a) not later than one year; and
- (b) later than one year.



### **Operating leases**

- 5.11D Lessors should present assets subject to operating leases in their statement of financial position according to the nature of the asset.
- 5.11E The lessor should recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefit from the leased asset is diminished.
- 5.11F The lessor should recognise costs, including depreciation, incurred in earning the lease income as an expense. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.
- 5.11G The lessor should add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.
- 5.11H To determine whether a leased asset has become impaired and to account for any impairment loss identified, a lessor shall apply Section 9 *Impairment of Assets*.

### **Disclosure**

- 5.11I Lessors should disclose the total of future minimum lease payments receivable under non-cancellable operating leases for each of the following periods:
- (a) not later than one year; and
  - (b) later than one year.

## **Section 15 The Effects of Changes in Foreign Exchange Rates**

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### **Translation of a foreign operation****Use of a presentation currency other than the reporting currency**

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- 15.8 ~~Where a foreign operation does not form an integral part of the entity and operates as a separate business with local finance, it is not uncommon that the foreign operation would report in a currency which is different from the reporting currency of the entity. Where this is the case, the results and financial position of the foreign operation should be translated into the reporting currency of the entity using the following procedures: An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's reporting currency, the entity should translate its items of income and expense and financial position into the presentation currency. For example, when a group contains individual entities with different reporting currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented. An entity should translate its results and financial position into a different presentation currency using the following procedures:~~
- (a) ~~assets and liabilities for each statement of financial position presented (i.e. including comparatives) should be translated at the closing rate at the end of that reporting period;~~
  - (b) ~~income and expenses for each income statement (i.e. including comparatives) should be translated at average rate for the period or closing rate at the end of that reporting period; and~~
  - (c) ~~all resulting exchange differences should be recognised as a separate component of equity.~~

## Disclosure

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15.15 An entity should disclose the currency in which the financial statements are presented. When the presentation currency is different from the reporting currency, an entity should state that fact and should disclose the reporting currency and the reason for using a different presentation currency.

## Section 19 Consolidated and Company-Level Financial Statements

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### Disclosure

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19.16 An entity should disclose:

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- (b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
- (c) the basis for concluding that control does not exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an investee, if applicable;
- (d) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements;

...

- (g) particulars of each subsidiary that has been excluded from consolidation in accordance with paragraph 19.2(b) including:
  - (i) the name of the subsidiary;
  - (ii) the principal place of operation and place of incorporation and an indication of the nature of business, the proportion of ownership interest and, if different, proportion of voting power held;
  - (iii) any amounts recognised in the entity's income statement in respect of:
    - a. dividends received or receivable from the excluded subsidiary;
    - b. impairment losses relating to the investment in the excluded subsidiary;
    - c. other transactions with the excluded subsidiary;
  - (iv) amounts recognised in the entity's statement of financial position in respect of:
    - a. investment in the excluded subsidiary;
    - b. any balances due to or from the excluded subsidiary;
  - (v) whether the excluded subsidiary prepares audited financial statements;
  - (vi) summarised financial information in respect of the excluded subsidiary, including the excluded subsidiary's:
    - a. revenue;
    - b. profit before tax;
    - c. income tax expense;
    - d. profit after tax;
    - e. total assets; and
    - f. total liabilities; and

- (vii) the basis of preparation of the summarised financial information disclosed in respect of the excluded subsidiary, including:
  - a. the period covered by the information;
  - b. the accounting framework adopted in its preparation; and
  - c. whether the information has been extracted from audited financial statements and if not, why not.

19.16A The disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) apply to consolidated financial statements only. However, if a parent does not prepare consolidated financial statements because one or more of its subsidiaries are excluded from consolidation in accordance with paragraph 19.2(b), the disclosure requirements in paragraph 19.16(g) would apply to the parent's company-level financial statements.

19.16B The summarised financial information in paragraphs 19.16(g)(vi) can be aggregated if there is more than one excluded subsidiary. The inter-company transactions between those excluded subsidiaries should be eliminated for aggregated summarised financial information.