MOORE STEPHENS

ACCOUNTING ISSUES - FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Accounting Issues for 31 December 2011

- Revised related party transactions standard will require reassessment of which parties should be considered as related
- If party A is a related party of party B, then party B is a related party of party A
- Amendments to HKAS 12 "Income Taxes" which are effective for accounting periods beginning on or after 1 January 2012 have removed the requirement to provide deferred tax on investment property fair value increases
- Moore Stephens tax department can provide details for the reduction in deferred tax provisions for companies owning investment properties who wish to early adopt the amendments to HKAS 12
- New consolidation standards issued in 2011 which are effective for accounting periods beginning on or after 1 January 2013 introduce concept of "de facto" control
- If company now falls to be treated as a subsidiary under the new standards, consolidation must start from 1 January 2012

Although 2011 was a busy year in terms of new standards being issued, there are relatively few standards which are effective for accounting periods beginning on or after 1 January 2011. This newsletter examines the expected impact of the new standards effective for 2011 and also briefly highlights the new standards which will be effective in 2012 and 2013.

Revised HKFRSs effective for December 2011 Year Ends

The revised standard which, in our view, has the most impact is HKAS 24 (Revised) "Related Party Disclosures". The revised standard provides a partial exemption for government-related entities and also revises the definition of related party so that various inconsistencies in the old standard are removed. For instance, under the new standard, if party A is considered to be a related party of party B, then party B will also be a related party of party A. This was not always the case under the old standard. Companies should check to confirm which entities should be classified as related parties under the new standard in order to make the necessary financial statement disclosures. Two new interpretations in respect of companies with defined benefit schemes and companies which issue equity to settle debt are not considered to be relevant for the majority of Hong Kong companies.

The improvements to HKFRSs effective this year relate to an option to disclose the analysis of other comprehensive income in the notes to financial statements rather than the statement of changes in equity; clarification as to when non-controlling interests can be measured at fair value under the revised HKFRS 3 and minor amendments to HKFRS 7 "Financial Instruments".

Amendments to HKAS 12 "Income Taxes" effective for December 2012 Year Ends

The amendments require that a deferred tax provision in respect of an investment property carried at fair value should be based on a presumption that the carrying value of the property will be recovered through sale rather than through use. Accordingly, under the amendments, if a Hong Kong investment property is carried at an amount above its cost, a deferred tax provision would only be required in respect of the cumulative tax allowances received to date. In other words, deferred tax should be provided in respect of the balancing charge which would be payable on disposal of the property but a deferred tax provision is not required for the difference between the carrying value and cost since capital gains are not taxable in Hong Kong.

The amendments are effective for accounting periods beginning on or after 1 January 2012 with early adoption permitted. Our tax department can assist should you wish to examine what adjustments would result from early adoption of the amendments.

New HKFRSs issued in 2011 effective for December 2013 Year Ends

In June 2011, there was a new suite of accounting standards issued following completion of the first part of the International Accounting Standards Board's consolidation project. The issue of two new consolidation standards HKFRS 10 "Consolidated Financial Statements" and HKFRS 12 "Disclosure of Interests in Other Entities" were accompanied by the issue of revised HKAS 27 "Separate Financial Statements", revised HKAS 28 "Investments in Associates and Joint Ventures" and HKFRS 11 "Joint Arrangements".

The new consolidation standards are not expected to have a significant impact for those companies operating outside of the financial services sector. However, companies should note the new definition of control which includes the concept of "de facto" control whereby a shareholding below 50% might be considered to represent control if the non-controlling interest holdings are dispersed and not active at shareholder meetings. If companies are required to be consolidated then the effective date to commence consolidation is 1 January 2012 since the new accounting standards are effective for accounting periods commencing on or after 1 January 2013.

HKFRS 13 "Fair Value Measurement" was issued in June 2011 and is also effective in 2013. The standard has been introduced to bring consistency to fair value measurement across the various accounting standards which require fair value to be used.

Should you wish to discuss these revised standards in more detail, please call or email your usual contact partner/executive or Michael Pyburn and/or Taky Lo in the Technical Department.

905 Silvercord, Tower 2, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong. Tel: (852) 2375 3180 Fax: (852) 2375 3828
E-mail: ms@ms.com.hk Website: http://www.ms.com.hk