

# Accounting in Hong Kong

Summary of accounting standards in Hong Kong

# HKSSAP 9 Events after Post Balance Sheet Events

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- Adjusting events are post balance sheet events that provide evidence of conditions that existed at the balance sheet.
- adjust the amount recognise in the financial statement to reflect the adjusting events after balance sheet date

# HKSSAP 9 Events after Post Balance Sheet Events

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- Non-adjusting events are post balance sheet events that are indicative of condition that arise after balance sheet date
- Not adjust the amount recognise in the financial statement to reflect non-adjusting events after balance sheet date

# HKSSAP 9 Events after Post Balance Sheet Events

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- Dividend – if the dividend proposed or declared after the balance sheet date, the enterprise should not record it as liability at the balance sheet date
- Going Concern – enterprise should not prepare financial statement on going concern if the management decide after the balance sheet date either it intends to liquidate or cease to trading or it has no realistic alternative but to do so.

# HKSSAP 9 Events after Post Balance Sheet Events

- Example of Adjusting events
- Fixed assets – subsequent determination of the purchase price or sales proceeds of fixed assets purchased or sold before the accounting year end
- Property – permanent diminution
- Investment – permanent diminution
- Inventories – sale of inventories after the balance sheet showing the estimate of net realizable value was correct.
- Construction Contract – estimate of accrued profit on a construction contract was materially inaccurate

# HKSSAP 9 Events after Post Balance Sheet Events

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- Debtor – go into liquidation or receivership
- Dividend receivable – declaration of dividend by subsidiary or associate companies for period prior to B/S date
- Taxation – Change of taxation rates applicable to periods prior to B/S date
- Claims : receipt of insurance claim which were in the process of negotiation prior to the accounting year ended
- Discoveries – significant errors or frauds which render financial statement misleading

# HKSSAP 9 Events after Post Balance Sheet Events

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- Examples of Non-adjusting events
- Business combination – acquisition or merger
- Reconstruction and proposed reconstruction
- Issue shares or debentures
- Purchase and sales of fixed assets and investment
- Losses of fixed assets or inventories as a result of catastrophe – fire, flood
- Starting a new business or extending trading activities

# HKSSAP 9 Events after Post Balance Sheet Events

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- Closing a significant part of the trading activities if this was not anticipated at the year ended
- Decline in the value of property and investment held as fixed assets, if it can be demonstrated that the decline occurred after the year ended
- Change in rates of foreign exchanges
- Government action, such as compulsory acquisitions
- Strikes or labour disputes
- Augmentation of pension benefits

# SSAP 12-Income Taxes

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- Balance sheet liability approach VS Income statement approach
- Adopt Balance sheet approach – temporary difference ( difference between carrying amount and tax base)

# SSAP 12-Income Taxes(Con't)

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- Full provision of timing difference
- Prohibit recognize deferred tax assets or liability even if there is difference between carrying amount and tax base on initial reorganization (part or all of the cost of the assets will not deduct for tax purpose at the outset)

# SSAP 12-Income Taxes(Con't)

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- Carrying amount – Taxable amount + Deductible amount ( Assets )
- Carrying amount + Taxable amount – deductible amount ( liabilities)

# SSAP 14- Lease

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- Not apply
- Natural resources exploration
- Licensing agreement (e.g. films or copyrights)
- Contracts for services agreement (the right to use assets has not been transferred)

# SSAP 14- Lease (Con't)

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- Lease include hire purchases
- Change in classification arising from revised agreement -> a new agreement
- Lease of land and building -> SSAP 13 & SSAP 17

# SSAP 15- Cash Flow Statement

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- Exemption from less than HKD20 million revenue ( not turnover or gross income) – neither listed on recognised Stock Exchange nor a dealer registered under Securities Ordinance
- Charities or non-profit org. exempt
- Banking or insurance are no longer exempt from cash flow statement

# SSAP 15- Cash Flow Statement (Con't)

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- Bank overdraft include in cash or cash equivalent if bank overdraft form an integral part of an enterprises's cash management
- The Standard does not allow the use of exchange rate at Balance sheet (foreign currency cash flow translated at the date of cash flow)

# SSAP 24-Investment in Securities

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- Apply only listed or unlisted investment
- Excludes investment in associates, subsidiaries or joint venture
- Past, classify short-term investment or long-term investment
- Short-term : stated at lower of cost or market value
- Long -term : stated at cost less provision for permanent diminution in value
- At the discretion of the company

# SSAP 24-Investment in Securities (Con't)

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- Held-to-maturity securities.
- The company has the expressed intention and ability to hold them to maturity
- Example : bond
- It is not common

# SSAP 24-Investment in Securities (Con't)

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- Non Held-to-maturity
- A) Benchmark Treatment
- Investment Securities
- Identified long-term purpose or strategic reason
- Purpose is documented at the time of acquisition or change of purpose
- Clearly identifiable
- Periodically review

# SSAP 24-Investment in Securities (Con't)

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- Carried at cost but reduced to fair value if impairment is non-temporary
- Sole purpose for capital gain -> Other Investment regardless of period of holding
- Other Investment
- Not a Held-to-maturity nor Investment Securities
- Fair value

# SSAP 24-Investment in Securities (Con't)

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- B)Alternative Treatment
- Fair value
- Trading securities
- The gain/loss included in net profit or loss when it arise
- Non-trading securities
- The unrealized gain/loss at the B/S date directly recognize in equity
- Sold/disposed or impaired ->cumulative gain/loss included in net profit/loss
- Comply with IAS

# SSAP 28 Provision, contingent liabilities and assets

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- PROVISION
- Provision recognize if it meets three conditions
- Present obligation as a result of past event
- Outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

# SSAP 28 Provision, contingent liabilities and assets (Con't)

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- CONTINGENT
- Contingent liability/assets is a possible obligation/assets
- Arises from past events
- Existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of enterprises

# SSAP 28 Provision, contingent liabilities and assets (Con't)

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- Contingent liability is a present obligation that arises from past event, but it is not recognize
- Not probable that outflow of resources embodying economic benefits to settle the obligations
- Amount of obligation cannot be measured with sufficient reliability

# SSAP 28 Provision, contingent liabilities and assets (Con't)

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- A probable contingent : where the future event is likely to occur
- A possible contingent : where there is more than a slight but less than likely chance of the future events occurring
- A remote contingent : where there is only a slight chance of future events occurring

# SSAP 28 Provision, contingent liabilities and assets (Con't)

Likelihood of outcome	Accounting treatment – contingent loss	Accounting treatment – contingent gain
Reasonable certain	Not a contingent - accrue	Not a contingent - accrue
Probable	Accrue – if the amount can be estimated with reasonable accuracy, otherwise disclose	Disclosure in note
Possible	Disclose in note	No disclose
Remote	No disclose	No disclose

# SSAP 28 Provision, contingent liabilities and assets (Con't)

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- Examples of contingent
- Litigation – pending or threatened litigations e.g. damage to environment
- Patents – infringe the patents of another company
- Guarantees – guarantee the liabilities of others – company (usually those within group) often guarantee each other's bank overdraft
- Discounted bill of exchange – bills of exchange with recourse
- Contract terms - failure to supply or take a certain quantity of goods or services may lead to penalties

# SSAP 29 – Intangible Assets

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- Recognise an intangible Assets
- Include cost in goodwill
- Recognise as an expenses

# SSAP 29 – Intangible Assets (Con't)

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- Recognise as an assets if it satisfies definition of intangible assets
- Future economic benefits
- Cost can be realisable measurable

# SSAP 29 – Intangible Assets (con't)

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INCLUDE COST IN GOODWILL  
If it cannot meet the criteria of  
recongnoise an assets, Please  
go into another question

ASSETS ACQUIRED IN A BUSINESS ?



NO

RECOGNISE AS AN EXPENSES

# SSAP 30 Business Combination

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- Past, Most Hong Kong companies write off goodwill to reserve immediately on acquisition
- New standard eliminate this option
- Unlike IAS – use of merger accounting and definition of subsidiary
- HK incorporated companies must use the definition of subsidiary in the Company Ordinance

# SSAP 30 Business Combination (Con't)

- Business combination is bring together of separate enterprises into one economic entity
- Enterprises control over the net assets and operation of another enterprises
- Control is the power to govern the financial and operation policies
- A subsidiary is an enterprises that is controlled by another enterprises

# SSAP 30 Business Combination (Con't)

- Date of Acquisition
- Incorporate into income statement the results of operation of acquiree
- Recognize in the balance sheet the identifiable assets and liabilities of the acquiree and any goodwill or negative goodwill arising on acquisition

# SSAP 30 Business

## ~~Combination (Con't)~~

- The identifiable assets and liabilities acquired should be recognized separately (date of acquisition)
- Any associate future economic benefit will flow to acquiree
- A reliable measure is available of their cost or fair value
- Goodwill or negative goodwill is the residence cost of acquisition after recognizing identifiable assets or liabilities

# SSAP 30 Business Combination (Con't)

- Liability should not be recognized as at acquisition date if
- they result from acquirer's intention or action
- For future losses or other cost expected to be incurred as a result of acquisition whether they related to acquirer or acquiree

# SSAP 30 Business Combination (Con't)

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- Negative goodwill-not related to identifiable expected future loss or expenses that can be measured reliable at the date of acquisition
- Negative goodwill should be recognized as income statement if
- The amount of negative goodwill not exceeds fair value of acquired non-monetary identifiable assets
- Systemic basis over the remaining weighted average useful life of identifiable assets

# SSAP 30 Business

## ~~Combination (Con't)~~

- The amount of negative goodwill exceeds fair value of acquired of non-monetary assets -> recognized income immediately
- Related to expected future losses or expenses -> recognize income when identifiable future losses or expense occur
- Cost of acquisition include contingent consideration if payment of amount is probable and measure reliability – purchase consideration contingent on future events

# SSAP 30 Business

## ~~Combination (Con't)~~

- Adjustment can be made to the subsequent identification or change in value of the identifiable assets or liabilities to the extent
- Do not increase the carrying amount of goodwill above its recoverable and
- Goodwill adjusted if such adjustment is made by end of first annual accounting period commencing after acquisition
- If not, treated as expenses

# SSAP 32-Consolidated Financial Statement and Investment in Subsidiary

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- SSAP conflict with the Company ordinance with a definition of subsidiary
- Hong Kong incorporate company that does not meet the definition of subsidiary -> may not consolidate irrespective the substance of relationship
- A parent is a wholly-owned subsidiary need not present consolidated FS (require disclosure)
- SSAP32 concern with formal right. If investor is entitled to control investee -> subsidiary

# SSAP 32-Consolidated Financial Statement and Investment in Subsidiary (Con't)

- Special Purpose Entity should be consolidated where the substance of the relationship (SPE controlled by reporting entities)
- Exception from consolidation -> SSAP 24 (other than Held-to-maturity)
- Control is temporary
- Serve long term restriction
- Uniform accounting procedure
- Allow some difference date , not > 3 months

# SSAP 32-Consolidated Financial Statement and Investment in Subsidiary (Con't)

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- Consolidation procedure
- Intra-group balances and transactions
- Unrealised profits
- Minority interest should be present separately from liability and shareholder's equity(BS) and separate disclosure (Income statement)

# SSAP 34-Employee benefits

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- The SSAP apply when the effect on the financial statement would be material
- Apply only for employee benefits
- Defined contributions plan – a straight forward
- Contribution payable are recognized when employee render services

# SSAP 34-Employee benefits (Con't)

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- Defined Contribution – employer has no obligation to provide a specific level of benefits or to make any additional contributions
- Defined Benefits – specify the benefit to be paid (e.g. employer may decide the amount that an employee received an retirement of 2% final salary for each year worked)
- Defined benefits – funded or unfunded scheme

# SSAP 34-Employee benefits (Con't)

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- Amount of defined benefit recorded at B/S :
- Present value of defined benefit obligation at the balance date ( use actuarial technique) minus
- Fair value of the plan assets out of which the obligation settled directly
- Adjusted unrecognised amount, if any
- Plus any actuarial gain not recognise
- Minus any past service cost not recognise
- Minus any transitional loss not recognise

# SSAP 34-Employee benefits (Con't)

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- Amount of defined benefit recognised as income/expenses
- Current services cost
- Interest cost
- Expected return on any plan assets
- Actuarial gain/loss
- Past services cost
- Effect on any curtailment or settlement
- Transitional loss

# SSAP 34-Employee benefits (Con't)

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- Project Unit Credit Method to be used in determining present value of defined benefit and related current services cost
- Movement of net liability
- Opening net liability + Total expenses for the year – contribution paid to the plan = Closing net liability

# SSAP 34-Employee benefits (Con't)

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- Curtailment occurs:
- Commitment to make a reduction in the number of employee covered by plan
- Amends the terms of defined benefit plan
- Settlement occurs when an enterprises eliminate all its legal or constructive obligation

# SSAP 34-Employee benefits (Con't)

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- Present value of obligation :
- At the beginning + current services cost + past services cost + Effect on curtailment/settlement - benefits paid to member + Interest cost + gain/(loss) on actuarial = At the closing
- Past services cost – vested (recognized immediately) or unvested (spread over the average period until unvested)

# SSAP 34-Employee benefits (Con't)

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- Plan assets are assets held by a separate legal entity that exist solely to pay employee benefits provided that assets are not available to the enterprise's own creditor, if bankruptcy
- Example : trust fund
- Fair value of the plan assets :
- At the beginning + Expected return on plan assets + contribution paid into the plan + effect on curtailment/settlement - benefit paid to member + Actuarial gain(loss) = At the closing