

# HKFRS / IFRS UPDATE 2012/02

## IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS – TRANSITION GUIDANCE



On 22 December 2011, the HKICPA issued an invitation to comment on an IASB Exposure Draft (ED) which proposes changes to clarify the transition guidance in IFRS 10 "*Consolidated Financial Statements*" (IFRS 10). The ED was issued following requests to clarify this guidance that were received by the IFRS Interpretations Committee (IFRIC).

The ED clarifies the following points:

- a. The date of initial application is the beginning of the annual reporting period in which IFRS 10 is adopted (eg 1 January 2013 for a calendar year end entity that adopts IFRS 10 in 2013, or earlier if early adopted), and not the beginning of the earliest comparative period presented.
- b. If the conclusion as at the date of initial application about whether an investee is to be consolidated is unchanged following the adoption of IFRS 10, there is no change to amounts presented in comparative periods by retrospective application. This means that comparative information will not be restated where, at 1 January 2013, an investee was consolidated under IAS 27 / SIC 12 and is consolidated after the adoption of IFRS 10, or where the investee was not consolidated under IAS 27 / SIC 12 and is not consolidated after the adoption of IFRS 10. In addition, restatement does not apply where the date on which control passed is different under IFRS 10 compared with IAS 27 / SIC 12.

For example, an investee was acquired and consolidated from 2008 under IAS 27 or SIC 12. If IFRS 10 was applied retrospectively, the investee would have been consolidated from 2010. Under this scenario there will be no change made to information presented for comparative periods in the investor's 2013 consolidated financial statements.

- c. If the conclusion as at the date of initial application about whether an investee is to be consolidated changes following the adoption of IFRS 10, amounts presented for comparative periods will be restated to conform with the guidance in IFRS 10.
  - i. *IFRS 10 requires consolidation where this was not required by IAS 27 / SIC 12*

The approach to be followed differs, depending on whether the investee meets the definition of a business in IFRS 3 *Business Combinations*.

If an investee that meets the definition of a business is consolidated for the first time under IFRS 10, the investor applies IFRS 3 as of the date it obtained control over the investee.

For example, if an investee that meets the definition of a business was not consolidated under IAS 27 / SIC 12 and is required to be consolidated at the date of initial application under IFRS 10, the investor measures the assets, liabilities, and non-controlling interest as of the date of the business combination (that is, the date on which control passed as determined through the application of IFRS 10).

### STATUS

Exposure draft

### EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013 (early adoption permitted if HKFRS/IFRS 10 is early adopted)

### ACCOUNTING IMPACT

Clarification of HKFRS/IFRS 10 transition guidance

Comparative information is restated. Any difference between the amounts determined on the basis of acquisition accounting, and the previous carrying amount of the investor's involvement with the investee, is recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained.

If fully retrospective measurement is impracticable, then the investor is required to apply the requirements of IFRS 3 from a deemed acquisition date. The deemed acquisition date is the beginning of the earliest period for which application of IFRS 3 is practicable. IFRS 10 notes that this may be the current period.

If the investee does not meet the definition of a business, the investor is required to apply the acquisition method as described in IFRS 3, but without recognising any goodwill for the investee, as of the deemed acquisition date. Although the guidance is not explicit about the requirements, it would appear that this means that an investor would measure the investee's identifiable assets and liabilities at fair value following the guidance in IFRS 3, except where IFRS 3 has an exemption from fair value measurement (such as for income taxes, which are measured in accordance with IAS 12). Non-Controlling Interest would be measured at either fair value or the proportionate share of identifiable net assets.

ii. *IFRS 10 does not require consolidation where this was required by IAS 27 / SIC 12*

If an investee was consolidated under IAS 27 or SIC 12 and, as at the date of initial application, it is not required to be consolidated under IFRS 10, the investee's carrying amount is determined on the basis of retrospective application of IFRS 10.

For example, if at its date of initial application, an investor might conclude that it is no longer required to consolidate an investee that was consolidated under IAS 27 / SIC 12. In this case, the investor measures its retained interest in the investee at the amount at which it would have been measured if the requirements of IFRS 10 had been effective when the investor became involved with, or lost control of, the investee.

Any difference between the previous amount of assets, liabilities and non-controlling interest recognised, and the carrying amount of the investor's retained interest in the investee, is recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when the investor became involved with, or lost control of, the investee.

If measurement of the retained interest on a fully retrospective basis is impracticable, an investor applies the requirements set out above at the beginning of the earliest period for which application of IFRS 10 is practicable. IFRS 10 notes that this may be the current period.

Where retrospective application of IFRS 3 is required, the ED does not state which version of IFRS 3 (2004 or 2008) an investor should use. We believe that IFRS 3 (revised 2008) should be followed. This is because the definition of a business that will be used is the definition under IFRS 3 (revised 2008) since the guidance requires an investor to determine whether an investee is a business at the date of initial application of IFRS 10, which is always later than the date of initial application of IFRS 3 (2008).

The full text of the exposure draft is posted on the HKICPA's website at <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>. Interested parties may submit comments to the Institute in writing on or before 28 February 2012.

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## **BDO's support and assistance on HKFRS/IFRS**

For any support and assistance on HKFRS/IFRS, please talk to your usual BDO contact or email [info@bdo.com.hk](mailto:info@bdo.com.hk)

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