

HKFRS / IFRS UPDATE 2012/07

TRANSITIONAL GUIDANCE FOR NEW CONSOLIDATION STANDARDS



Background

On 28 June 2012 the International Accounting Standards Board (IASB) published *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (the amendments)*. The amendments result from proposals in the Exposure Draft *Transition Guidance* published in December 2011.

The amendments clarify certain aspects when an entity transitions from IAS 27 *Consolidated and Separate Financial Statements / SIC 12 Consolidation – Special Purpose Entities* to the new consolidation standards IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other entities* which become effective 1 January 2013.

The amendments include clarifications to the proposals in the exposure draft that address some of the concerns in BDO International's comment letter sent to the IASB. For example the amendments now clarify which version of IFRS 3 (2004 or 2008) and of IAS 27 (2004 or 2008) is to be applied when there is a change in the consolidation decision.

The HKICPA adopted the amendments as amendments to HKFRS 10, HKFRS 11 and HKFRS 12 with the same effective date.

Clarifications

The amendments clarify the following points:

Date of initial application

The date of initial application is the beginning of the annual reporting period for which HKFRS 10 is applied for the first time and not the beginning of the comparative period (eg date of initial application is 1 January 2013 for a calendar year end entity that first adopts HKFRS 10 in 2013).

Adjustment as a result of transition (HKAS 8.28(f))

An entity is only required to provide information about the adjustment that resulted from the transition for the annual period immediately preceding the date of initial application (the immediately preceding period). An entity is permitted to provide this information for the current or earlier periods but is not required to do so (eg if the date of initial application is 1 January 2013, as in the example above, the entity would need to quantify the effect of the adjustment for the calendar year 2012 in accordance with HKAS 8.28(f). However it would not need to give the information in respect of the current period (2013) or any other prior periods presented).

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013 (early adoption is required if the new consolidation standards are early adopted)

ACCOUNTING IMPACT

Clarification of the transition guidance in the new consolidation standards

Consolidation conclusion reached is unchanged when HKFRS 10 is adopted

If the conclusion at the date of initial application about whether or not an investee is to be consolidated is unchanged following the adoption of HKFRS 10, there is no change to amounts presented in comparative periods by retrospective application. Continuing the example above, this means that comparative information will not be restated where, at 1 January 2013, an investee was consolidated under HKAS 27 / HK(SIC)-Int 12 and is still consolidated after the adoption of HKFRS 10, or where the investee was not consolidated under HKAS 27 / HK(SIC)-Int 12 and is still not consolidated after the adoption of HKFRS 10. This relief also applies to a subsidiary that was disposed of during the comparative period in such a way that it would not be consolidated under HKAS 27 / HK(SIC)-Int 12 or under HKFRS 10 at the date of initial application.

Consolidation conclusion reached is changed when HKFRS 10 is adopted

If the conclusion at the date of initial application about whether an investee is to be consolidated changes following the adoption of HKFRS 10, amounts presented for comparative periods are restated by the investor to conform with the requirements in HKFRS 10.

i. HKFRS 10 requires consolidation where this was not required by HKAS 27 / HK(SIC)-Int 12

The approach to be followed differs, depending on whether or not the investee meets the definition of a business in HKFRS 3 *Business Combinations*.

If an investee that meets the definition of a business is required to be consolidated at the date of initial application under HKFRS 10 and was not consolidated in accordance with HKAS 27 / HK(SIC)-Int 12, the investor applies HKFRS 3 from the date it obtained control over the investee on the basis of the requirements of HKFRS 10. The immediately preceding period is adjusted retrospectively.

If the investee does not meet the definition of a business, the investor is also required to apply the acquisition method as described in HKFRS 3 from the date it obtained control over the investee on the basis of the requirements of HKFRS 10, but without recognising any goodwill for the investee.

Unlike the exposure draft the final amendments also clarify which version of HKFRS 3 (2004 or 2008) and of HKAS 27 (2004 or 2008) are to be applied.

- If the date that control was obtained in accordance with HKFRS 10 is later than the effective date of HKFRS 3 as revised in 2008 (HKFRS 3 (2008)) then HKFRS 3 (2008) is applicable.
- If control was obtained before the effective date of HKFRS 3 (2008) an investor can apply either HKFRS 3 (2008) or HKFRS 3 (2004).
- If control was obtained (as defined in HKFRS 10) later than the effective date of HKAS 27 (2008), an investor is required to apply HKFRS 10 for all periods that the investee is retrospectively consolidated in accordance with the transitional guidance in HKFRS 10.
- If control was obtained before the effective date of HKAS 27 (2008), an investor can either apply HKFRS 10 for all periods; or apply HKAS 27(2004) to periods prior to the effective date of HKAS 27 (2008) and thereafter HKFRS 10 for subsequent periods.

Regardless whether the investee meets the definition of a business or not, when control was obtained at a date earlier than the beginning of the immediately preceding period, equity is adjusted at the beginning of the immediately preceding period by the difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee.

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

ii. *HKFRS 10 does not require consolidation where this was required by HKAS 27 / HK(SIC)-Int 12*

If an investee was consolidated under HKAS 27 / HK(SIC)-Int 12 and, as at the date of initial application, it is not required to be consolidated under HKFRS 10, the investor measures its carrying amount in the investee on the basis of retrospective application of HKFRS 10.

For example, at the date of initial application, an investor might conclude that it is no longer required to consolidate an investee that was consolidated under HKAS 27 / HK(SIC)-Int 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 HKFRS 10 had been effective when the investor:

- Became involved with (but did not obtain control of) the investee; or
- Lost control of the investee.

The immediately preceding period is adjusted retrospectively. If the date at which the loss of control occurred is earlier than the beginning of the immediately preceding period, then 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 equity at the beginning of the immediately preceding period.

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 HKFRS 10 is practicable. The amendments to HKFRS 10 state that this may be the current period.

The amendments note that if an entity chooses to present adjusted comparatives for a period before the immediately preceding period then all references to the "immediately preceding period" in the transition guidance shall be read as the "earliest adjusted comparative period presented".

An entity is also required to clearly identify any unadjusted comparative information for earlier periods presented, to state that it has been prepared under a different basis and to explain that basis (eg HKAS 27).

Changes to HKFRS 11 Joint Arrangements

The amendments clarify that an entity is only required to provide information under HKAS 8.28(f) about the adjustments that resulted from the transition for the annual period immediately preceding the year in which HKFRS 11 is first applied (the immediately preceding period). An entity is permitted to provide this information for the current or earlier periods but is not required to do so. (eg if an entity first adopts HKFRS 11 in its annual period beginning 1 January 2013 it would need to quantify the effect of the adjustment for the calendar year 2012 in accordance with HKAS 8.28(f). However it would not need to give the information in respect of the current period (2013) or any other prior periods presented).

The amendments note that if an entity chooses to present adjusted comparative information for a period than before the immediately preceding period all references to the "immediately preceding period" in the transition guidance shall be read as the "earliest adjusted comparative period presented".

An entity is also required to clearly identify any unadjusted comparative information for earlier periods presented, to state that it has been prepared under a different basis and to explain that basis (eg HKAS 31).

Changes to HKFRS 12 Disclosures of Interests in Other Entities

The amendments clarify that an entity is only required to present disclosures for the immediately preceding period and the period in which HKFRS 12 is first adopted.

The amendment in addition eliminates the requirement to present comparatives for specified disclosures relating to unconsolidated structured entities (eg if an entity first adopts HKFRS 12 in its annual period beginning 1 January 2013 it would only present disclosures relating to unconsolidated structured entities for 2013 and not for 2012).

Effective Date

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2013. Earlier application is required if HKFRS 10, HKFRS 11 and HKFRS 12 are also early adopted.

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