

Hong Kong Master GAAP Guide



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12th Edition



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藏书章

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CCH Hong Kong Limited

Room 1608, 16/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong
Customer Service Hotline: 800 968 667 Facsimile: 800 933 814
Email: support@cch.com.hk Website: www.cch.com.hk

CCH (Beijing) Publication Distribution Co Ltd

Suite 2503, Tower A, TYG Centre, C2 North Road, East 3rd Ring Road, Chaoyang District, Beijing, P.R China 100027
Telephone: (8610) 5863 7888 Customer Service Hotline: (8610) 5863 7887 Facsimile: (8610) 5863 7999
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Beijing Wolters Kluwer Asia Pacific Information Technology Co. Ltd Shanghai Branch

Suite 15B&C, China Resource Times Square, 500 Zhang Yang Road, Pudong, Shanghai, 200122
Telephone: (8621) 6391 0808 Customer Service Hotline: (8610) 5863 7887 Facsimile: (8621) 6391 0876
Email: support@cchchina.com.cn Website: www.cchchina.com.cn

CCH Asia Pte Limited (Registration No: 199703606K)

8 Chang Charn Road, #03-00, Link (THM) Building, Singapore 159637
Telephone: (65) 6225 2555 Customer Service Hotline: 800 6162 161 Facsimile: 800 6162 176
Email: support@cch.com.sg Website: www.cch.com.sg

Commerce Clearing House (Malaysia) Sdn Bhd (Registration No: 216303-M)

Suite 9.3, 9th Floor Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
Telephone: (603) 2052 4688 Customer Service Hotline: 1800 181 151 Facsimile: 1800 181 173
Email: support@cch.com.my Website: www.cch.com.my

Wolters Kluwer India Pvt Ltd

501-A, Devika Tower 6, Nehru Place, New Delhi - 110 019

Telephone: (911) 4653 0000 Facsimile: (911) 4653 0399

Email: support@cchindia.co.in Website: www.cchindia.co.in

CCH Japan Limited

Akasaka Shasta East 1F, 4-2-19, Akasaka, Minato-ku, Tokyo 107-0052, Japan

Telephone: (813) 6234 3980 Facsimile: (813) 6234 3989

Email: support@cch.co.jp Website: www.cch-japan.jp

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About the Authors

Mr PATRICK P H Ng (BA (HONS), M PHIL, FCPA, FCCA, FHKRFP, Hon HKAT) is currently a Lecturer of the Department of Business Administration, Hong Kong Institute of Vocational Education. Previously, he was a Lecturer with the Department of Accountancy, City University of Hong Kong.

Mr Ng received a Bachelor of Arts Degree with First Class Honours (in Accounting, Finance & Economics) from University of Essex, UK, and a Master of Philosophy (in Finance) from King's College, University of Cambridge, UK. He is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA, formerly HKSA), a Fellow of the Association of Chartered Certified Accountants (ACCA), a Fellow of the Hong Kong Society of Registered Financial Planners and an Honorary Hong Kong Accounting Technician. He had served as a Board Member of Hong Kong Institute of Accredited Accounting Technicians (HKIAAT, formerly HKAAT) from 1999 to 2003, the Editor of the Members' Journal of ACCA (Hong Kong) from 1997 to 2005 and 2007 to 2009, and the Chief Editor of Accounting Personnel, the Journal of HKIAAT, from 1996 to 2006.

Mr Ng is an accomplished and well-respected writer in the field of accounting and financial reporting. He has authored/co-authored nine accounting textbooks entitled "Financial Accounting for Hong Kong", "Introduction to Financial Accounting in Hong Kong", "Financial Accounting", "Advanced Accounting", "HKAL — Principles of Accounts (Volume 1 & 2)", "HKIAAT Paper 7 Financial Accounting", "Examination Guide to ACCA Paper 13 (H) Financial Reporting Environment (Hong Kong)", "Accounting in Hong Kong: Regulatory Framework and Advanced Accounting Practice" and "Corporate Accounting — Business Combinations in Hong Kong", currently used for HKICPA, ACCA, HKICS, ICSA, HKAAT, HKAL examinations and as textbooks for university, post-secondary, and vocational education students. Mr Ng has published in total more than 60 articles on financial reporting and audit assurance disciplines, in international refereed journals, professional journals and refereed conference proceedings. He taught the Professional Stage of ACCA Examination Courses on Financial Reporting and Advanced Corporate Reporting Papers with the City University of Hong Kong for more than 11 years.

Mr Ng lent his many years of practical experience in accounting and auditing in Hong Kong and substantial teaching and research experience to the CCH's loose-leaf publication "Hong Kong GAAP — A Practical Guide to Accounting Standards" in 1999. It was then published as a bound book and retitled "Hong Kong Master GAAP Guide" which goes into the 12th Edition in 2012.

With Chinese Accounting Standards (CAS) converging with International Financial Reporting Standards (IFRS), Mr Ng has also extended his international knowledge of Financial Reporting Standards to another CCH publication, "China Master GAAP Guide", which was launched in 2004 and goes into the 9th Edition in 2012.

Associate Professor Ng Eng Juan graduated with B Ec (first class honours) from Universiti Malaya and MBA from University of Southern California. He is a fellow of the Institute of Certified Public Accountants of Singapore (ICPAS), the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA). He has also passed the uniform examinations of the American Institute of Certified Public Accountants (AICPA).

Prof Ng has had many years of working experience in an international public accounting firm. He is currently with the Nanyang Business School of the Nanyang Technological University, teaching financial accounting courses in the B Acc and MBA programmes. Over the years, he has won several teaching awards, including "Teacher of the Year".

Prof Ng is actively involved in the accounting profession. He has been a member of the Accounting Standards Committee and China Committee of ICPAS and the Technical Panel of MIA for many years. He currently serves as an external examiner/advisor to several accounting professional and degree programs in Singapore, UK and China. He also provides consultancy services to public accounting firms and other organisations and conducts regular executive development programmes for accountants and managers. He was awarded "CPE Trainer of the Year" by the ICPAS in 2006.

Prof Ng's current research interests are in the area of accounting standards and practices. Among his publications are more than 20 professional books including "Consolidated Accounts", "Cash Flow Statements", "Accounting for Income Taxes", "Consolidated Financial Statements (Singapore)", "Accounting Disclosure Handbook (Singapore)", "Singapore GAAP", "Malaysia GAAP" and "A Practical Guide to Financial Reporting Standards (Malaysia)".

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About the Contributors

Ms Cheng Po Wah (Barrister-at-law, LLB, LLM) has more than 30 years' experience in teaching "Company Law", "Hong Kong Business Law" and "Securities Law and Practices" at universities in Hong Kong. She is the Chief writer of two books, "Hong Kong Company Secretary's Handbook: Practice and Procedure" and "Hong Kong Business Law".

Dr Dora L Y Lee (PhD, Barrister-at-law, LLB, LLM, MBA, CICPA, FCCA, FCPA, FTIHK) specialises in tax training at a CPA firm. She worked at the Inland Revenue Department for eight years, and had over 16 years of teaching experience at City University of Hong Kong. She specialises in taxation and has published a number of articles in journals published by the Hong Kong Institute of Certified Public Accountants (HKICPA, formerly HKSA) and the Hong Kong Institute of Accredited Accounting Technicians (HKIAAT, formerly HKAAT). She is the author of the book "Advanced Taxation in Hong Kong" which is published by Pearson Education South Asia Pte Ltd and is currently used as a textbook for university students. She was also the author of the book "Hong Kong Taxation" which was published by HKAAT. She previously taught the ACCA Examination Course on Tax Planning jointly organised by the City University of Hong Kong with ACCA or HKICPA for many years.

Foreword

The Hong Kong Master GAAP Guide is a comprehensive, practical and up-to-date commentary on the approved accounting standards in Hong Kong. It is an essential tool for accountants and professionals who are required to prepare the accounts of a business enterprise. This book also serves as a useful reference for auditors when analysing the financial statements of corporations.

The Hong Kong Master GAAP Guide is divided into the following sections:

- Financial Reporting Environment;
- HK Interpretations ("HK-Int");
- Hong Kong Financial Reporting Standards ("HKFRS");
- HK(IFRIC) Interpretations ("HK(IFRIC)-Int");
- Hong Kong Accounting Standards ("HKAS");
- Hong Kong (SIC) Interpretations ("HK(SIC)-Int"); and
- Recent Developments.

The Financial Reporting Environment gives an overview of the overall regulatory framework under which all companies operate. The HKFRS, HKAS and Interpretations form the subject matter of this Guide. Each accounting standard and interpretation is covered under a separate chapter and discussed using non-technical language and illustrated with worked examples.

The section on Recent Developments features the latest accounting standards issued by the Hong Kong Institute of Certified Public Accountants. A comprehensive topical index is included at the end. Readers can easily locate commentary on any subject by searching the index.

This new 2012 edition of the Hong Kong Master GAAP Guide is current as at 30 April 2012.

CCH Accounting Editors

June 2012

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1-200 Public sector legislation

Public sector legislation principally consists of the statutes promulgated by the government. Compliance with the provisions of these statutes is a legal requirement. The statutes which have a significant impact on GAAP in Hong Kong are:

(a) Companies Ordinance (Cap. 620) and

(b) Inland Revenue Ordinance (Cap. 112).

Hong Kong, previously a British colony, has a common law tradition. Like other common law countries such as England and the United States, financial reporting requirements are only outlined by the Companies Ordinance. The Inland Revenue Ordinance plays a very minimal part on financial reporting. Accounting principles, practices and rules that have developed are largely derived from the private sector as discussed under Chapter 1-300 below.

1-300 Private sector regulatory bodies

The private sector regulatory bodies consist of professional bodies and self-regulatory organisations. These private sector bodies do not have legal power to enforce compliance. However, professional sanctions and public reprimand are often strong deterrents against deviations from accepted practices. The principal private sector bodies of regulation are the CAAP in Hong Kong and

the regulatory bodies provided for in rules governing the listing of securities on the Hong Kong Stock Exchange of Hong Kong Limited (the HKSE).

It is the Hong Kong Institute of Certified Public Accountants (HKICPA)

1 Introduction

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1-100 Introduction

The generally accepted accounting practices (GAAP) in Hong Kong are influenced by both the public sector legislation and private sector regulatory bodies.

1-200 Public sector legislation

Public sector legislation principally consists of the statutes promulgated by the government. Compliance with the provisions of these statutes is legally enforceable. The statutes which have a significant impact on the GAAP in Hong Kong are:

- (a) *Companies Ordinance* (Cap 32); and
- (b) *Inland Revenue Ordinance* (Cap 112).

Hong Kong, previously a British colony, has a common law tradition. Like other common law countries such as England and the United States, financial reporting requirements are only outlined by the *Companies Ordinance*. The *Inland Revenue Ordinance* plays a very minimal part on financial reporting. Accounting principles, practices and rules that have developed are largely those of the private sector as discussed in section 1-300 below.

1-300 Private sector regulatory bodies

The private sector regulatory bodies comprise mainly professional bodies and advisory committees. These private sector bodies do not have legal power to enforce compliance. However, professional sanctions and public reprimand are often strong deterrents against deviations from accepted practices. The principal private sources of regulation on the GAAP in Hong Kong are:

- (a) the requirements contained in the Rules Governing the Listing of Securities ("Listing Rules") of the Stock Exchange of Hong Kong Limited (SEHK); and
- (b) the Hong Kong Institute of Certified Public Accountants (HKICPA).

In July 2006, the *Financial Reporting Council Bill* was passed by the Legislative Council. The Financial Reporting Council takes over the investigation of irregularities in the financial reporting of listed companies and has greater power and authority than the HKICPA to perform this role.

1-400 Business organisations and their disclosure requirements

In Hong Kong, a business organisation may take the form of a sole proprietorship, a partnership, or a company incorporated under the *Companies Ordinance*. Companies incorporated under the *Companies Ordinance* may be public companies or private companies. Public companies may or may not be listed on the SEHK. Private companies cannot be listed.

As explained below, the extent of influence of each of the above regulatory bodies depends on the form of business organisation:

- (a) The requirements of the *Companies Ordinance* are applicable only to companies incorporated under the *Companies Ordinance*. All other business organisations not incorporated under the Ordinance do not have to comply.
- (b) The requirements of the SEHK Listing Rules are applicable only to companies listed on the SEHK. Companies not listed on the SEHK do not have to comply.
- (c) The Hong Kong Financial Reporting Standards (HKFRS), issued by the HKICPA, are applicable to general purpose financial statements and other financial reporting of all profit-oriented entities, whether incorporated or not, and whether listed or not. (The HKFRS are financial reporting standards and interpretations issued by the HKICPA, and include HKFRS, Hong Kong Accounting Standards (HKAS) and Interpretations currently in use.)
- (d) The requirements of the *Inland Revenue Ordinance* are applicable to every business organisation with assessable profit.

Thus, a listed company has to comply with the HKFRS, the requirements of the *Companies Ordinance* and the *Inland Revenue Ordinance*, as well as those of the SEHK. Specifically, a listed company will have to submit its audited financial statements to the Registrar of Companies and to the Commissioner of Inland Revenue. In addition, it may also have to submit its half-yearly financial statements and preliminary financial statements to the SEHK. All the financial statements are to be prepared to give a “true and fair” view of the financial position, financial performance and cash flows of an entity in compliance with the requirements of HKFRS, the provisions of the *Companies Ordinance* and the *Inland Revenue Ordinance*, and the SEHK requirements.