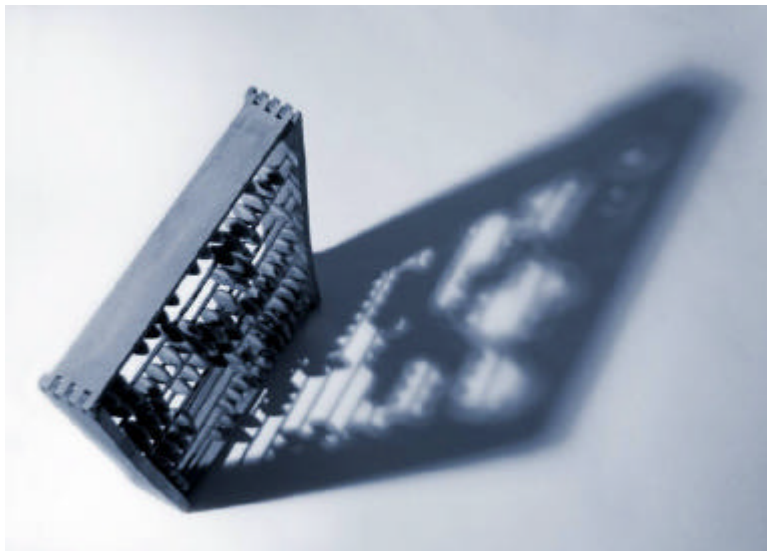


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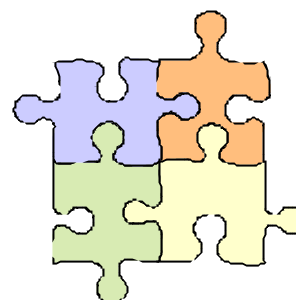
SSAP UPDATES 2002



In order to comply with International Accounting Standards, certain new accounting standards were introduced and certain revisions were made to the existing accounting standards which were effective for financial statements beginning on or after 1 January 2002. The summary of main points of the new / revised accounting standards are as follows:

SSAP 1 (revised) – Presentation of financial statements

- The main revision to SSAP 1 is to change the requirement from presenting “a statement of recognized gains and losses” to “a statement of changes in equity”. This change provides a degree of flexibility for **presenting the movements in share capital, reserves and retained profits either within the statement of changes in equity or in the notes.**
- **The statement of changes in equity is to be prepared even if the only component of changes in share capital/ reserves is the profit or loss for the year.**



SSAP 15 (revised) – Cash flow statements

- The main revision to SSAP 15 is to require the provision of information about the historical changes in cash and cash equivalents of an enterprise by means by a cash flow statement that classifies **cash flows during the year into operating, investing and financing activities whereas the old SSAP specifies two additional standard headings: ‘Return on investments and servicing of finance’ and ‘Taxation’.**
- Under the revised SSAP, cash equivalents defined as short-term, highly liquid investments that are readily convertible to known amounts of cash (say three months or less from the date of acquisition) and which are subject to an insignificant risk of change in value (**i.e. pledged time deposits and advances from banks repayable within 3 months from the date of the advance are no longer classified as cash equivalents under the revised SSAP).**
- Bank borrowings are generally considered to be financing activities. However, if bank overdrafts, which are repayable on demand, form an integral part of an enterprise’s cash management, such bank overdrafts are included as a component of cash and cash equivalents.

- Interest paid and received and dividend received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and received and dividend received may be classified as financing and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- Dividend paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an enterprise to pay dividends out of operating cash flows.
- Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.
- **The reconciliation of profit or loss before taxation to cash flows from operating activities is to be shown on the face of the cash flow statement.**

SSAP 11 (revised) – Foreign currency translation

- The main revision to the revised SSAP is to eliminate the option under the old SSAP to translate the income statement of a foreign subsidiary at the closing rate when preparing consolidated financial statements and to require the income statement of a foreign subsidiary to be translated at an average rate for the period (para. 30).
- The adoption of the new revised provision represent a change in accounting policy which will normally need to be reflected as a prior year adjustment to the opening retained profits. Alternatively, **where the calculation of a prior year adjustment is impracticable the change in policy may be applied only to current and future financial statements provided that the effect on the results of the current period is disclosed.**

SSAP 33 – Discontinuing operations

- This new standard establish a basis for segregating information about a major operation that an enterprise is discontinuing from information about its continuing

operations and to specify minimum disclosures about a discontinuing operation.

- This new standard uses the term “discontinuing operation” rather than the traditional “discontinued operation”. The latter term, expressed in the past tense, implies that recognition of discontinuance is necessary only at or near the end of the process of discontinuing an operation. This statement requires that disclosure about a discontinuing operation should begin when a detailed formal plan for disposal has been adopted and announced or when the enterprise has already contracted for the disposal.

SSAP 34 – Employee benefits

- This new SSAP requires an enterprise to recognize
 - (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
 - (b) an expense when an enterprise consumes the economic benefit arising from service provided by an employer in exchange for employee benefits.
- Short-term employee benefits
 - (a) For accumulating compensated absences (i.e. those entitlements to paid leave or cash in lieu that can be carried forward to the next period or would be paid out if the employee left), the expected cost of the benefit is recognized when the employees render service that increases their entitlement to future compensated absences. The cost is measured at the amount of the additional payments that are expected to arise as a result of the unused entitlement that has accumulated at the balance sheet date (see Appendix I for the sample calculation sheet). The adoption of the new provision represent a change in accounting policy, which will need to be reflected as a prior year adjustment to the opening retained profits of the company.
 - (b) For non-accumulating compensated absences (i.e. those that cannot be carried forward), the expected cost is recognized when the absences occur.
- Post-employment benefits
 - (a) Long service payments (“LSP”) payable under the Hong Kong Employment Ordinance would fall within the definition of post-employment benefits and to be treated as defined benefit plans.
 - (b) Under this accounting treatment, the provision for LSP at the balance sheet

date should be calculated by discounting the projected salaries of each employee at their expected dates of retirement to the present value x 2/3 (the upper salary limit is HK\$22,500 per month) x number of working years with the company at the balance sheet date (the upper limit of the provision for LSP is HK\$370,000 up to 30/9/2003) and offset with the employer's contributions and its interests under the provident fund scheme (see appendix 2 for the sample calculation sheet).

- (c) Several factors would affect the size of the provision, for example:
- the number of employees who have worked for more than 5 years;
 - the level of staff turnover;
 - **how close employees are to 65 years old;** and
 - the amount of retirement scheme benefits paid the company on the employee itself.
- (d) We suggest just to quantify the net provision for LSP for those staff aged over 50 at the balance sheet date to determine if such provision is to be taken up in the current year/ prior years' financial statements as the probability for staff aged below 50 who are expected to work with the company until the age of 65 years old is comparatively low.



APPENDIX 1

Clients _____

W.P. Ref. No. _____

File No. _____

Year End _____

**CALCULATION OF LIABILITIES IN RESPECT OF PAID ANNUAL LEAVE
(ACCUMULATING COMPENSATED ABSENCES)**

UNUSED ANNUAL LEAVE AT BALANCE SHEET DATE

	(A)		(B)	(C)	$\frac{(A)}{(C)} \times (B)$	
		Carried forward	Current year	Total no.	No. of	Accrued
<u>Name of employee</u>	<u>Basic salary</u>	<u>from last year</u>	<u>entitlement</u>	<u>of days</u>	<u>working days</u>	<u>liabilities</u>
					<u>per month</u>	<u>at balance</u>
						<u>sheet date</u>
						HK\$

