

# HKAS 21, HKAS 32 and HKFRS 7

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**Examples and Cases  
for Discussion**

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## Indicators to Determine

Case

**Functional currency** is the currency of the primary economic environment in which the entity operates.

- Which functional currency and presentation currency are they having?

HSBC 

Standard Chartered 

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## Subsequent B/S Date

### Example

- TAS Limited owns 100% of X and Y. The group operates in the aircraft manufacturing industry which is currently a depressed market. The trade payables of Y amounting to US\$30 million are exerting pressure on the group. The directors are afraid that the trade payables may attempt to prove that Y is insolvent. The value of Y's assets at 30 Nov. 2005 is currently being discussed.
- The tangible non-current assets of Y comprise entirely of a manufacturing unit which is currently operating at 30–35% of capacity due to the depressed market and over capacity in the sector. The unit was completed on 1 June 2004 at a total cost of Euro 135 million which was converted into dollars at an exchange rate of US\$1 = Euro 1.35.
- Y's manufacturing unit was constructed with the aid of a foreign currency debt of Euro 13 million, which remains on 30 Nov. 2005 at its original translated amount as at 1 Dec. 2003. Exchange rates over the last three years are:
 

30 Nov/1 Dec	2003	2004	2005
Euro to US\$	1.3	1.4	1.6
- The trade payables of Y are arguing that because of the current strength of the dollar against the Euro, the value of its manufacturing unit should be adjusted downwards to reflect current exchange rates. (ACCA.02.12)

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## Translation of Foreign Operation

### Example

<u>On 1.1.2005</u>	<u>Parent P</u>	<u>Sub S</u>
Property	\$ 0	¥ 6,000
Investment	0	0
Cash at bank	<u>30,000</u>	<u>2,000</u>
	<u>30,000</u>	<u>8,000</u>
Issued equity	\$ (30,000)	¥ (5,000)
Retained earnings	<u>0</u>	<u>(3,000)</u>
	<u>(30,000)</u>	<u>(8,000)</u>

Same example as before except ...

HK\$1 = RMB 1 on 1.1.2007  
 HK\$1 = RMB 1 on 1.1.2008  
 HK\$1 = RMB 0.5 on 31.12.2008  
 (No profit for 2008 for P and S)

### On 1.1.2007

- Parent P acquired 20% interest in Subsidiary S at \$3,500 by cash.
- Fair value of the property of S was ¥8,000.

### During 2007

- Parent P reported nil profit and profit of S was HK\$6,000 (became cash).
- Fair value of S is HK\$30,000 at year-end.
- P accounted for S as held for trading.

### On 1.1.2008

- P acquired additional 60% interest in S at \$22,000 by cash.
- Fair value of the property of S was ¥11,000.

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# Translation of Foreign Operation

Example

<u>On 1.1.2008</u>	<u>Parent P</u>	<u>Sub S</u>	<u>J#1</u>	<u>J#2</u>	<u>Consolidated</u>
Property	\$ 0	¥ 6,000		5,000	\$ 11,000
Goodwill	0	0		12,100	12,100
Investment	28,000	0	(2,500)	(25,500)	0
Cash at bank	<u>4,500</u>	<u>8,000</u>			<u>12,500</u>
	<u>32,500</u>	<u>14,000</u>			<u>35,600</u>
Issued equity	\$ (30,000)	¥ (5,000)		5,000	\$ (30,000)
Retained earnings	(2,500)	(9,000)	2,500	7,800	(1,200)
Translation reserves	0	0			0
Revaluation reserves	0	0		(600)	(600)
Minority interest	<u>0</u>	<u>0</u>		(3,800)	<u>(3,800)</u>
	<u>(32,500)</u>	<u>(14,000)</u>			<u>(35,600)</u>

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# Try this ..... of Foreign Operation

Example

<u>On 31.12.2008</u>	<u>Parent P</u>	<u>Sub S</u>	<u>Sub S</u>
Property	\$ 0	¥ 6,000	\$ 12,000
Goodwill	0	0	0
Investment	28,000	0	0
Cash at bank	<u>4,500</u>	<u>8,000</u>	<u>16,000</u>
	<u>32,500</u>	<u>14,000</u>	<u>28,000</u>
Issued equity	\$ (30,000)	¥ (5,000)	\$ (10,000)
Retained earnings	(2,500)	(9,000)	(18,000)
Translation reserves	0	0	0
Revaluation reserves	0	0	0
Minority interest	<u>0</u>	<u>0</u>	<u>0</u>
	<u>(32,500)</u>	<u>(14,000)</u>	<u>(28,000)</u>

Please prepare the consolidated balance sheet of Parent P as at 31.12.2008

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# HKAS 32 – Presentation

## Case



Annual report of 2005 sets out that it has probably had the following shares:

- Preference shares carry a mandatory coupon
- Preference shares are redeemable on a specific date or at the option of the shareholder
- Preference shares are redeemable at the option of the shareholder

How do you classify and present the above items?

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# HKAS 32 – Presentation

## Example

Presentation from the perspective of the issuer on

### Liability and equity

- Are the following **financial liabilities** or **equity instruments**?
  - A contract to deliver as many of the entity's own equity instruments as are equal in value to HK\$10,000.
  - A contract to deliver as many of the entity's own equity instruments as are equal in value to the value of 100 ounces of gold.

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## 2. Nature and Extent of Risks

### Case

Early adopted HKFRS 7 in 2005 and its annual report states that (extract only):



- Risk management techniques, such as Value-at-Risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments.
- VaR measures
  - the expected maximum loss
  - over a given time interval (a holding period of 10 trading days is used by the Group)
  - at a given confidence level (95 per cent confidence interval is adopted by the Group)
  - based on historical data (one year is used by the Group).
- The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis .....

*How would you determine them?*