HKAS 31 and 38 and HK(SIC)–Int 13

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Examples and Cases for Discussion

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Investments in Joint Venture

Example

- Peter Inc., a venture capital company, has investments over 30 technological manufacturing companies.
- The investment of Peter Inc. in those companies are in the form of convertible bonds.
- Peter Inc. plans to realise the gain from the flotation exercise of those companies in future, mostly within 2 to 3 years.
- At that time, it can convert the bonds into shares and dispose of them with a huge margin.
- According to the experience of Peter Inc., the gain on a particular flotation exercise can cover the loss incurred on at least 5 investments.
- All the investments provide Peter Inc. a joint control in order to monitor the business and growth of those companies.
- However, Peter Inc. would not look for the operating profits or assets enhancement from those investments.
- Discuss the proper accounting treatment.

Investments in Joint Venture

Example

The following entities are owned by A (35%), B (35%), C (15%) and D (15%) with different strategic decision arrangement as follows:

1. Entity OB's strategic decision requires 100% approval from A, B, C and D
2. Entity Vader's strategic decision requires a simple majority vote
3. Entity Yoda's strategic decision requires 70% approval

Jointly Controlled Entities

Example

The financial statements of VT and its 50% jointly controlled entity, JCE, are set out below:

	VT	JCE
Non-current assets		
Property, plant & equipment	1,000	2,000
Interest in JCE	500	0
	1,500	2,000
Current assets		
Account receivables	100	500
Cash at bank	100	100
	200	600
Current liabilities		
Account payables	(100)	(600)
Net current assets	100	0
Net assets	*1,600*	*2,000*

- Prepare the balance sheet of VT by using:
  1. Equity method and
  2. Proportionate consolidation
- Compare the differences of equity method and proportionate consolidation

Jointly Controlled Entities

Recognition of jointly controlled entities:

Proportionate Consolidation ⟷ Equity Method

Can an entity used proportionate consolidation fall back to use equity method?

Jointly Controlled Entities

Example

- Entity Jedi acquired 30% interest in Neo in Year 0 at $20,000 without any goodwill in the acquisition and accounted it as jointly controlled entities.
- In July of Year 0, Jedi decided to sell Neo and classified it as held for sale. Then, for Year 0, Neo reported a loss of $10,000.
- Fair value less cost to sale of Neo was $20,000 in Year 0 and Year 1.
- At the end of Year 1, Neo reported a further loss of $10,000.
- By reviewing the criteria in HKFRS 5, Neo can no longer be classified as held for sale at the end of Year 1.
- Jedi's balance sheet in Year 0 while Neo was classified as held for sale:
- Jedi's balance sheet in Year 1:

Intangible Assets

Example

How can an intangible asset held under finance lease be accounted for ?

Intangible Assets

Example

- The intangible assets of Issue are the data purchase and data capture costs of internally developed databases and are capitalised as development expenditure and written off over 4 years.

Intangible Assets

Example

- A direct-mail marketing company
  - acquires a customer list and
  - expects that it will be able to derive benefit from the information on the list for at least one year, but no more than three years.

Intangible Assets

Example

- An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

Intangible Assets

Example

Assessing the useful lives of intangible assets

- The broadcasting licence is renewable every 10 years if the entity
  - provides at least an average level of service to its customers and
  - complies with the relevant legislative requirements.
- The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition.
- The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so.
- Historically, there has been no compelling challenge to the licence renewal.
- The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future.
- Therefore, the licence is expected to contribute to the entity's net cash inflows indefinitely.

Intangible Assets

Example

Assessing the useful lives of intangible assets

- Entity A has a trademark with a remaining legal life of 5 years but it is renewable every 10 years at little cost.
- Entity A intends to renew the trademark continuously and evidence supports its ability to do so.
- An analysis of
  1) product life cycle studies,
  2) market, competitive and environmental trends, and
  3) brand extension opportunities

  provides evidence that the trademarked product will generate net cash inflows for Entity A for an indefinite period.

Intangible Assets

Example

Assessing the useful lives of intangible assets

- Entity B has a trademark with a remaining legal life of 5 years but it is renewable every 10 years through a open bidding process.
- Entity B intends to renew the trademark continuously and evidence supports its ability to win in the open bidding process.
- An analysis of
  1) product life cycle studies,
  2) market, competitive and environmental trends, and
  3) brand extension opportunities

  provides evidence that the trademarked product will generate cash inflows for Entity B for an indefinite period (if Entity B can win in the open bidding process).

Intangible Assets

Case

ESPRIT

Esprit Holdings Limited

- Adopted HK GAAP to 30 June 2003
- Begin to adopt all the new/revised IFRS in 2004 Annual Report
  - On the first time adoption of IFRS, the Group reassessed the useful life of previously recognised intangible assets.
  - As a result of this assessment, the acquired Esprit trademarks were classified as an <u>indefinite-lived intangible asset</u> in accordance with IAS 38 *Intangible Assets*.
  - This conclusion is supported by the fact that Esprit trademark legal rights are <u>capable of being renewed indefinitely</u> at <u>insignificant cost</u> and therefore are <u>perpetual in duration</u>, relate to a well known and long established fashion brand since 1968, and based on future financial performance of the Group, they are <u>expected to generate positive cash flows indefinitely</u>.

Intangible Assets

Case

Esprit Holdings Limited

- This view is supported by an independent professional appraiser, who has been appointed by the Group to perform an assessment of the useful life of Esprit trademarks in accordance with the requirements set out in IAS 38.
- Having considered the factors specific to the Group, the appraiser opined that Esprit trademarks should be regarded as an intangible asset with an indefinite useful life.
- Under IAS 38, the Group reevaluates the useful life of Esprit trademarks each year to determine whether events or circumstances continue to support the view of indefinite useful life for this asset.

What kind of further information are required?