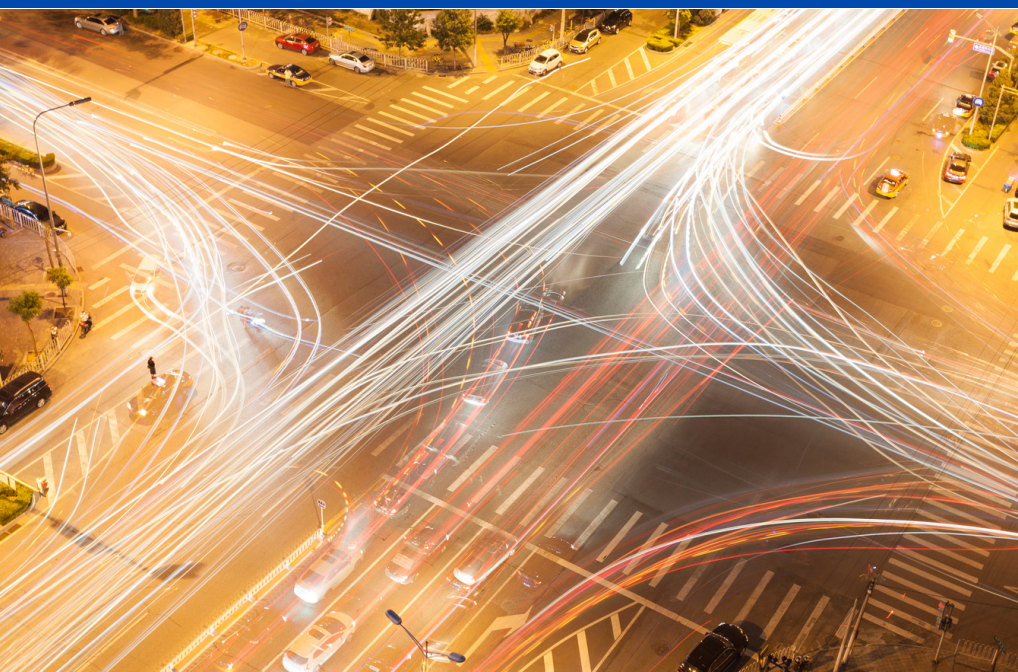




CWK GLOBAL SNAPSHOT

KEY CHANGES ON HKAS 1 AND HKFRS PRACTICE STATEMENT 2



BACKGROUND

In April 2021, the Hong Kong Institute of Certified Public Accountants issued Disclosure of Accounting Policies, which amended HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2, the amendments targeted to:

- provide more guidance for companies to decide what accounting policy information should be disclosed
- require companies to disclose their material accounting policy information rather than their significant accounting policies
- apply the concept of materiality to accounting policy disclosures

EFFECTIVE DATE

The amendments to HKAS 1 on the Disclosure of Accounting Policies are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.



HKAS 1 KEY CHANGES

	Prior to Amendments	After Amendments
HKAS 1.10	<p>A complete set of financial statements comprises:</p> <p>notes, comprising significant accounting policy and other explanatory information</p>	<p>A complete set of financial statements comprises:</p> <p>notes, comprising material significant accounting policy information and other explanatory information</p>
HKAS 1.21	<p>An entity discloses its significant accounting policies comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements</p>	<p>An entity discloses material accounting policy information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information</p>



DEFINITION OF MATERIAL ACCOUNTING POLICY

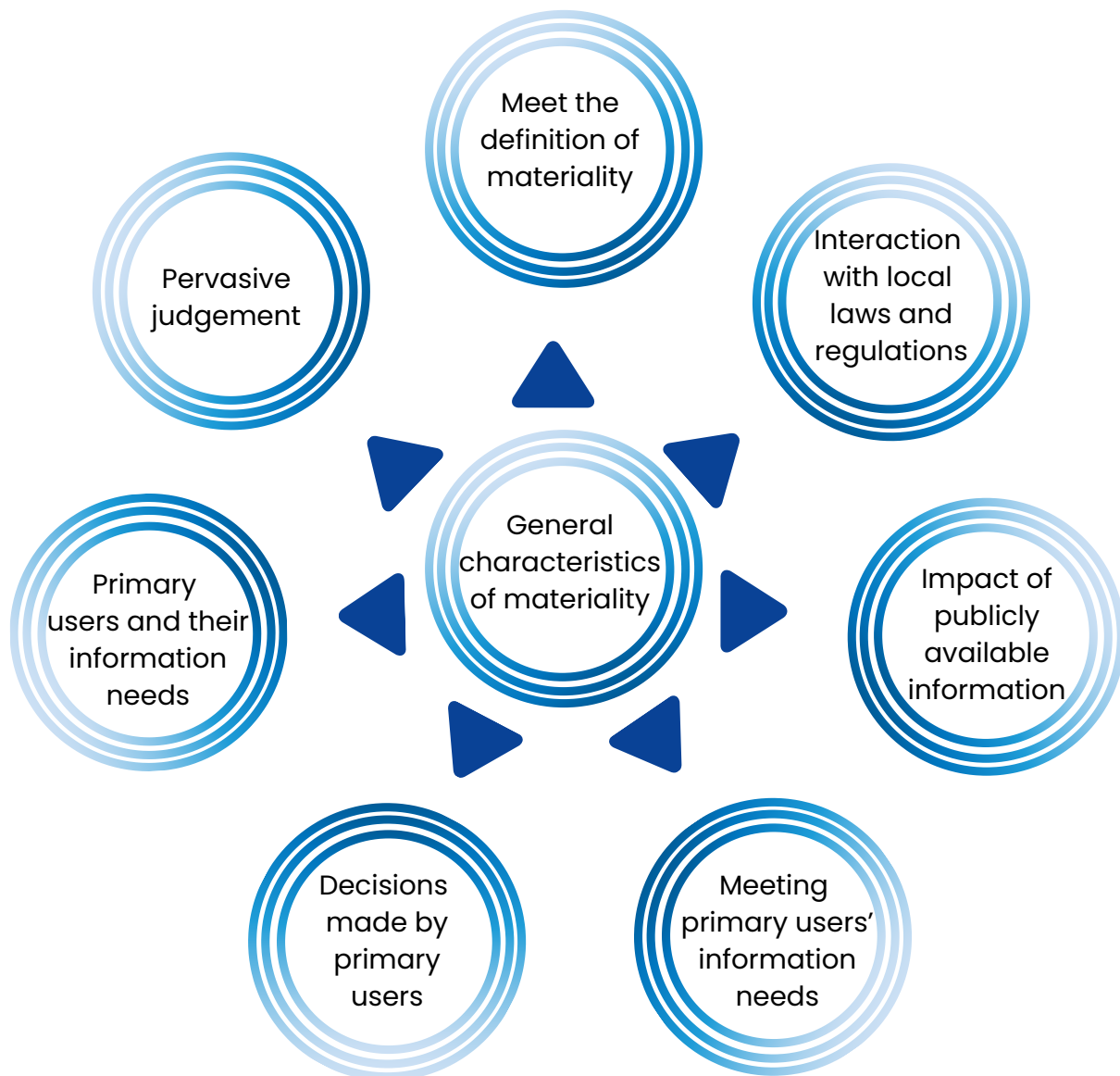
HKAS 1.117 was amended to define that 'accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.'

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

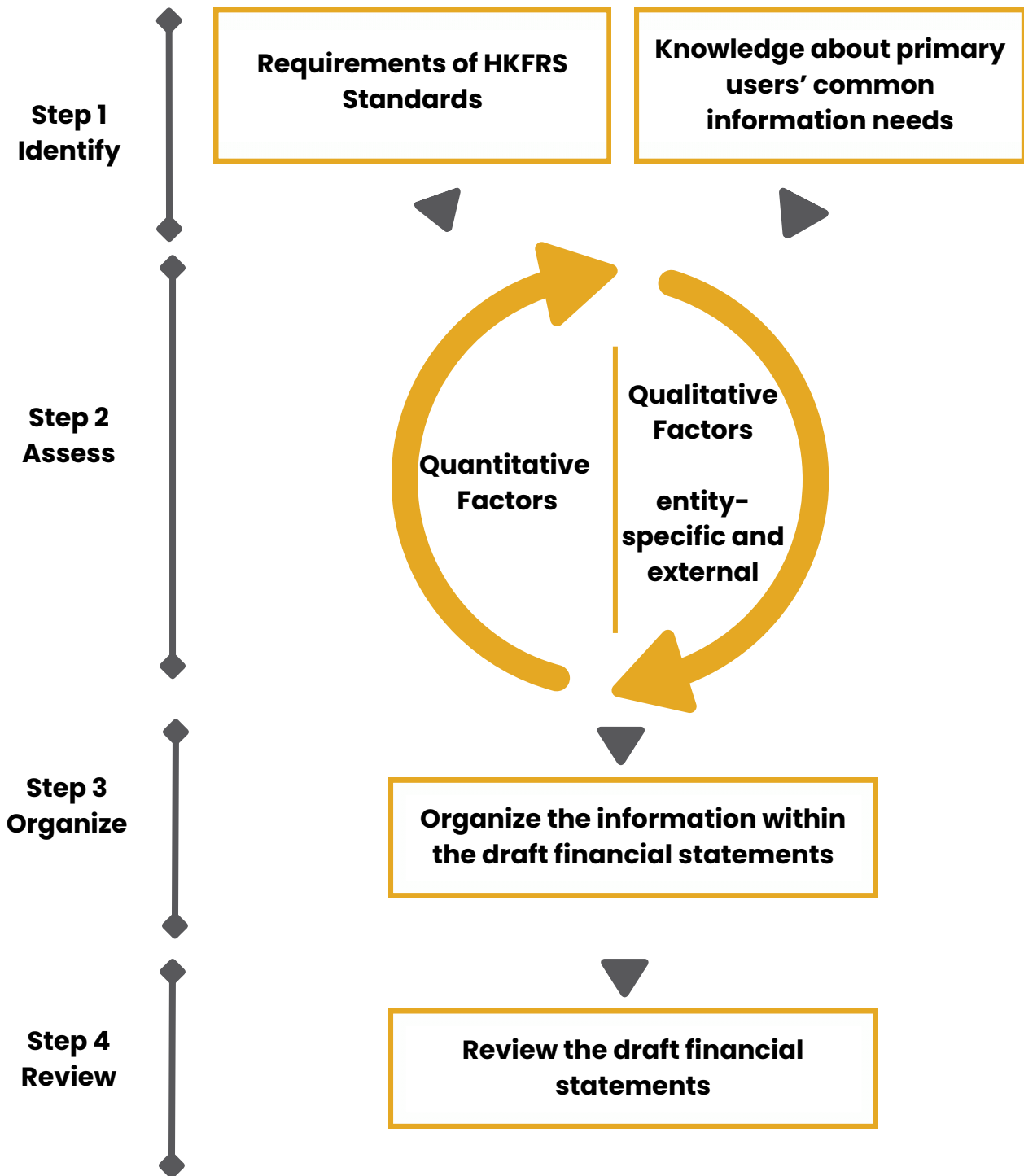
EXAMPLES OF MATERIAL ACCOUNTING POLICY

- Changes in accounting policies during the reporting period
- The entity chose the accounting policy from one or more options permitted by HKFRSs
- The accounting policy was developed in accordance with HKAS 8 in the absence of an HKFRS that specifically applies
- Significant judgements or assumptions required to be made in applying an accounting policy
- The accounting is complex and users of the entity's financial statements would otherwise not understand

HKFRS PRACTICE STATEMENT 2 DEFINITION OF MATERIAL



A FOUR-STEP MATERIALITY PROCESS



Reference: HKICPA HKFRS Practice Statement 2 (2022) Diagram 1

STEP 1: IDENTIFY

The entity identifies information that has the potential to be material.

- It is necessary to enable primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows.
- The output of Step 1 is a set of potentially material information.

Step 2: ASSESS

The entity then assesses whether the information identified in Step 1 is material by considering:

Quantitative factors

- the size of the impact of the transaction, other event or condition against measures of the entity's financial position, financial performance and cash flows.

Qualitative factors

- An entity-specific qualitative factor. For instance, the involvement of a related party/ uncommon, or non-standard, features of a transaction or other event or condition/unexpected variation or unexpected changes in trends.
- External qualitative factors. For instance, the entity's geographical location, its industry sector, or the state of the economy or economies in which the entity operates.

The output of Step 2 is a preliminary set of material information.

STEP 3: ORGANIZE

The entity organises the information within the draft financial statements in a manner that supports clear and concise communication.

The Practice Statement notes the following helpful points:

- emphasise material matters;
- tailor information to the entity's own circumstances;
- describe the entity's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;
- highlight relationships between different pieces of information;
- provide information in a format that is appropriate for its type, e.g. tabular or narrative;
- provide information in a way that maximises, to the extent possible, comparability among entities and across reporting periods.
- avoid or minimise duplication of information in different parts of the financial statements; and
- ensure material information is not obscured by immaterial information

The output of Step 3 is the draft financial statements.

STEP 4: REVIEW

The entity then steps back and assesses the information provided in the draft financial statements as a whole.

The entity also considers whether:

- all relevant relationships between different items of information have been identified.
- items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions.
- the information in the financial statements is communicated in an effective and understandable way and organised to avoid obscuring material information.
- the financial statements provide a fair presentation of the entity's financial position, financial performance and cash flows

The output of Step 4 is the final financial statements.

IMPORTANT

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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