



Our Ref: C/FRSC/AASC, M/NC

26 January 2005

**To: HKICPA Members/Member Practices**

Dear Member/Member Practice,

**Disclosure of the Impact of Adopting  
New Hong Kong Financial Reporting Standards (new HKFRSs)**

The Financial Reporting Standards Committee (FRSC) and Auditing and Assurance Standards Committee (AASC) of the Hong Kong Institute of CPAs (HKICPA) – with the endorsement of the HKICPA Council – are recommending that preparers of financial statements disclose the impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (new HKFRSs) effective for accounting periods beginning on or after 1 January 2005.

The FRSC and AASC have developed recommended wording for companies to include in their financial statements, so that readers of those statements understand the ramifications of these new HKFRSs.

1. **Background**

In 2004, the HKICPA issued a number of new HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

Preparers of financial statements are reminded that, where an entity has not applied a new HKFRS that has been issued but is not yet effective, paragraph 44 of SSAP 2 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* encourages the entity to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net profit or loss and financial position.

Preparers are also reminded that paragraph 30 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* also requires entities to disclose future changes in accounting policies arising from the issue of a new HKFRS in financial statements for accounting periods beginning on or after 1 January 2005.

In the light of the above, an issue was raised as to whether a disclosure should be made in financial statements for the year ended 31 December 2004 or later to inform readers of the possible effect of the changes resulting from the application of new HKFRSs in subsequent financial statements, and if so, what the extent of the disclosure should be.

2. **Recommendations of the FRSC and AASC**

(a) **Financial statements for the year ended 31 December 2004 or year ending before 31 March 2005**

The FRSC and AASC encourage preparers, and auditors to recommend their clients, to adopt the following Recommended Disclosure Note:



**“Recently issued accounting standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended [Date]. .....

- (i) *Additional wording for situation 1 where the Group has commenced an assessment but is not in a position to state the impact:*

.....The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.”

- (ii) *Additional wording for situation 2 where the Group has made a preliminary assessment and reached an initial conclusion on the impact:*

.....The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that:

- [(i) the adoption of [name of the HKFRS] would have the following significant effects:**

**[Descriptions of the effects]**

**OR**

- (ii) the adoption of [name of the HKFRS] would not have a significant impact on its results of operations and financial position.]**

**The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.”**

- (b) *Financial statements for the year ending on or after 31 March 2005*

The FRSC and AASC strongly encourage preparers of financial statements for the year ending on or after 31 March 2005 to carry out a detailed assessment of the impact of the new HKFRSs which are effective for accounting periods beginning on or after 1 January 2005 and make appropriate disclosure.

Yours sincerely,

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