



## **Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* – Additional Exemptions for First-time Adopters**

### **HKICPA Standard Setting Department Staff Summary (August 2009)**

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk).

### **Introduction**

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1. Amendments to HKFRS 1 *First-time Adoption of HKFRSs* – Additional Exemptions for First-time Adopters address the retrospective application of HKFRSs for the measurement of oil and gas assets and leases and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process.
2. Entities shall apply the amendments for annual periods beginning on or after 1 January 2010. Earlier application is permitted with disclosure of that fact.

### **Reasons for issuing Amendments to HKFRS 1**

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3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKFRS 1 is to maintain international convergence arising from the issuance of Amendments to IFRS 1 by the International Accounting Standards Board (IASB).
4. The amendments:
  - i) exempt entities using the full cost method from retrospective application of HKFRSs for oil and gas assets.
  - ii) exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* when the application of other accounting requirements produced the same result.

## **Main features of the Amendments**

5. Under some other accounting requirements exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area, which is referred to as full cost accounting in some jurisdictions.
6. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to HKFRSs on the following basis:
  - i) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
  - ii) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.
7. An impairment test of the assets to which the exemption is applied is required at the date of transition to HKFRSs so as to avoid the use of deemed costs resulting in an oil and gas asset being measured at more than its recoverable amount.
8. If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by HK(IFRIC) – Int 4 but at a date other than that required by HK(IFRIC) – Int 4, the first-time adopter need not reassess that determination when it adopts HKFRSs.
9. For oil and gas assets in the development or production phases accounted for under full cost accounting, a further exemption is contained in the amendment in respect of decommissioning, restoration and similar liabilities. The amendment requires that, where an entity uses the deemed cost exemption for oil and gas assets, the related decommissioning and restoration liabilities are measured at the date of transition in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and recognise directly any difference between that amount and the carrying amount under previous GAAP directly in retained earnings.

## **Other references on Amendments to IFRS 1**

1. KPMG IFRS Briefing Sheet on Amendments to IFRS 1  
[http://www.kpmg.com.hk/en/virtual\\_library/Audit/IFRS\\_briefingsheet/IFRSBS09145.pdf](http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS09145.pdf)
2. Ernst & Young Supplement to IFRS outlook on Amendments to IFRS 1  
[http://www.ey.com/Publication/vwLUAssets/Supplement\\_52/\\$File/Supplement\\_52.pdf](http://www.ey.com/Publication/vwLUAssets/Supplement_52/$File/Supplement_52.pdf)

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