



Financial Reporting Webinar Series:

Year-end Reporting Reminders

Friday, 17 December 2021



Consistent communication within the annual report is key

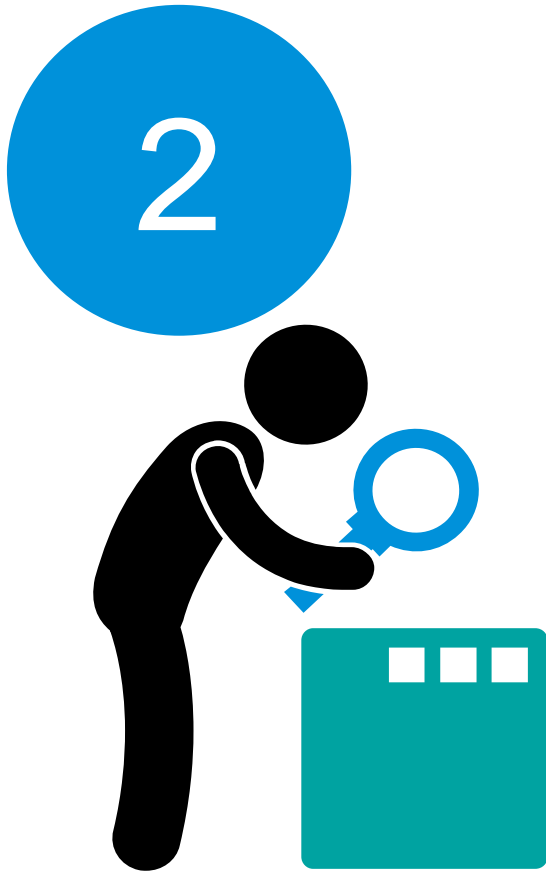


Areas to consider

- Financial risk disclosures including climate-related risk and capital management continues to be scrutinized by various stakeholders
 - Significant judgements made, assumptions applied and sensitivity analyses on estimates
- Are supply chain disruptions and other operational issues impacting financial results and estimates? How should such circumstances be disclosed?
- Going concern in close call situations, business continuity, liquidity risk, high estimation uncertainties and other financial risk exposures

Narrative disclosures and assumptions applied for accounting should be coherent

Presentation should be consistent, relevant and informative



Balance sheet:

- Are there significant amounts of ‘non-trade’ related items within “trade and other” receivables or payables?

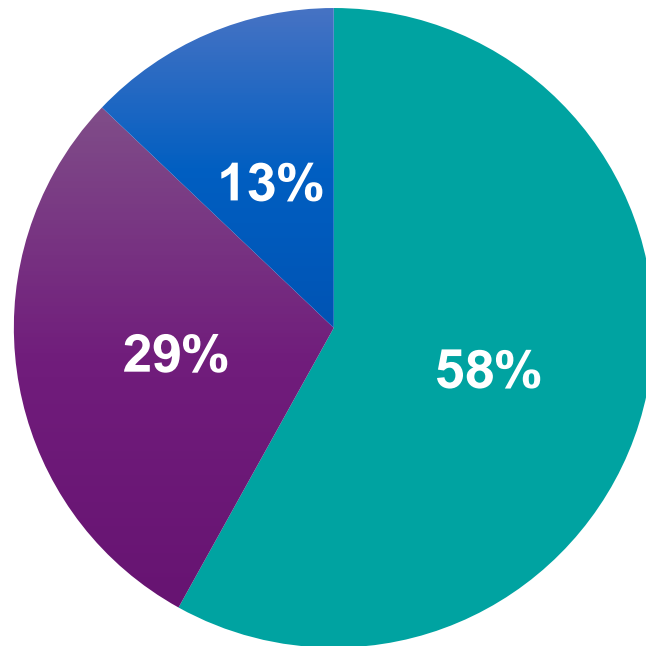
Cash flow statements:

- Changes in cash flows from working capital should be consistent with movements in the statement of financial position
- Non-cash amounts, such as conversion of debt to equity and reverse factoring are not erroneously presented as cash flows
- Ensure cash impact of unusual transactions (e.g. restructuring costs) are correctly classified

Use of non-GAAP measures in HSI 50 companies



Type of non-GAAP measures used by 26 of Hang Seng Index 50 companies*



■ EBITDA ■ Adjusted profits ■ others (e.g. FCF, adjusted net worth)

Source: KPMG Analysis

*26 out of HSI 50 companies reported non-GAAP measures based on latest published FY20/21 annual reports

5 companies reported more than 1 type of non-GAAP measures

EBITDA/Adjusted EBITDA is the most common non-GAAP measure used

Using non-GAAP measures to discuss business resilience



- All requirements continue to apply (**HKEX GL 103-19**)
- Relevant, meaningful and not misleading
- Any changes in presentation or definition should be explained
 - How the metrics are calculated
 - Why management finds them useful
- Direct vs. indirect (e.g. assets impairment charges) and comparability

Make reasonable and supportable assumptions and estimates

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Cash flow projections

- Multiple scenarios analyses vs single most likely CFs
- Realistic assumptions and estimates: forecasts vs actual performance/market information

Discount rates

- Specific to asset/cash generating unit
- Based on market participants' view

Perform a sense check

Appropriate treatment of ROU assets for impairment test



- Right-of-use (ROU) asset is tested for impairment as part of the larger CGU to which it relates
- Recoverable amount of ROU asset is the higher of VIU and FVLCD
 - Restrictions on sub-letting does not affect the fair value i.e. the lease is assumed to be assigned, not sub-let
- Impairment losses are allocated to the ROU assets similar to other assets in the CGU

Has Covid changed your expected use of leased premises?



Polling question – Company A implemented flexible work arrangement in 2021 and has sublet one floor of its offices. Is that office space that has been rented out tested on a stand-alone basis?

- 1) Yes
- 2) No
- 3) It depends

ROU asset relating to office space that a company leases for its own use does not generate independent cash inflows, so consider impairment at the level of the CGU to which the ROU asset relates (IAS 36.22).

Unless the asset has been sublet.

Fair value of investment properties should reflect an exit price and factor in estimation uncertainties



- Valuation principles remain unchanged under current economic conditions
- Risk adjustments required for significant measurement uncertainties
- Take note of caveats and limitations in valuation reports and make appropriate disclosures

Timing and amount of revenue estimates (assumptions such as price concession, return rates, breakage) may require continuous assessment



- Customer behavior change should be factored in for changes that would impact on timing and amount of revenue
- Assumptions using past historical data for estimates such as return rates and breakage may be less relevant
- Customers with credit issues could constrain the amount of revenue to be recognised
- Payment to customers should be recognised as reduction of revenue unless distinct goods/services are received from the customers

IBOR Reform phase 2 amendments are effective



- What are the financial instruments (including leases) that are indexed to an interest rate benchmark that is subject to reform?
 - What is the company's transition plan/ process/ status?
- Any hedging relationships (i.e. cash flow/ fair value hedges of interest rate risk) that will be impacted by the reform?
 - Any changes to hedged item and/ or hedging instrument for which the hedge documentation needs to be updated by the end of this reporting period?

Poll: How should cloud implementation costs be accounted for?



Company A entered into a cloud computing arrangement with a cloud vendor and incurred significant upfront implementation costs. Can Company A capitalise the implementation costs?

- 1) Yes**
- 2) No**
- 3) It depends**

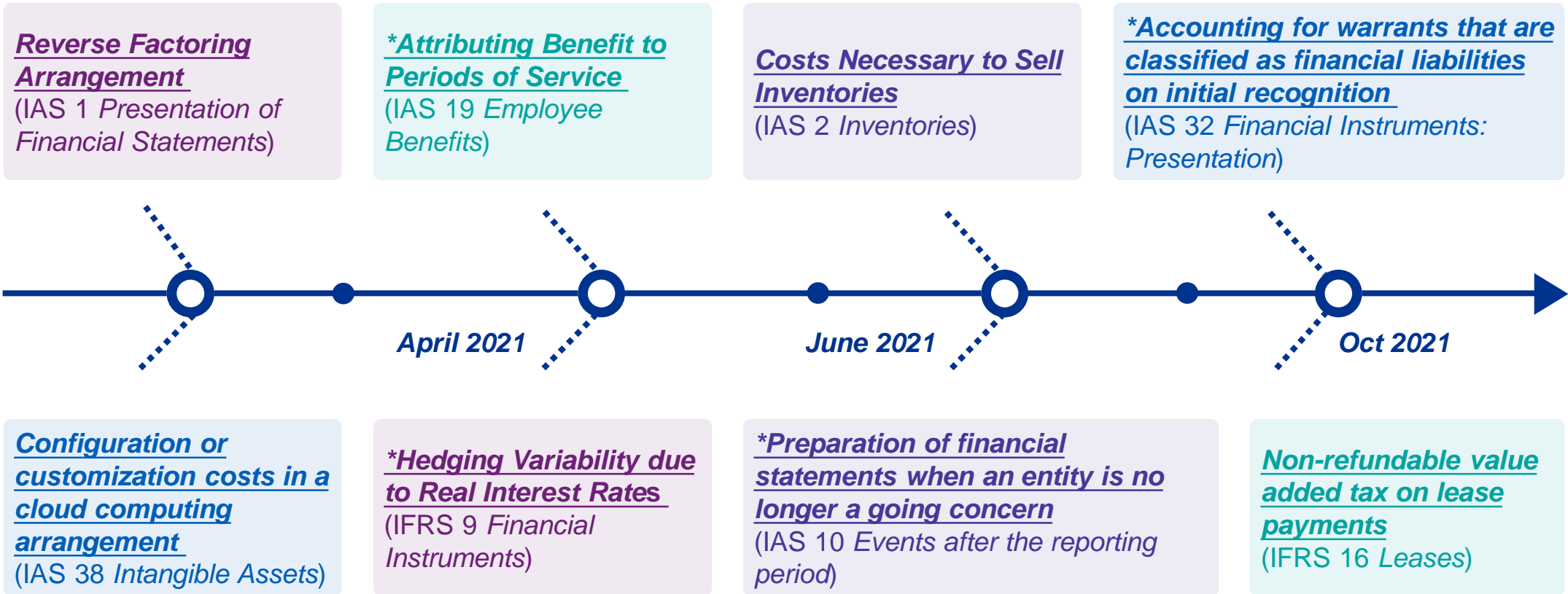
Cloud configuration or customization costs - does not automatically get capitalized like other IT projects



Key questions to consider:

- Is the cloud arrangement an intangible software or service contract?
- Are the implementation costs distinct from the service of accessing the software?

Recently issued IFRIC agenda decisions



- Items not covered in this briefing
For a summary of all IFRIC Agenda Decisions, visit: <https://www.ifrs.org/supporting-implementation/how-we-help-support-consistent-application/#agenda-decisions>



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Cloud implementation costs

home.kpmg/ifrs
July 2021

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Moving to hybrid working

Is your leased office space impaired?

27 July 2021 | 1 min read

Issue | Details | Actions | Home

What's the issue?

The COVID-19 pandemic has changed working practices, driving an... models. Some tenants are looking to either exit or renegotiate their...

Deciding to vacate or sub-let office space potentially indic... need to assess the potential impacts for their financial req...

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Testing leased office space for impairment

home.kpmg/ifrs
July 2021



Webinar dates and topics for 2021

- **29 January – Navigating potential accounting fraud**
- **19 March – IASB project update - Business combinations under common control**
- **14 May – Interim reporting update: What's on the horizon**
- **16 July – ESG Updates and Financial Reporting Implications**
- **30 September – Update on key IASB projects and recent IFRS amendments**
- **19 November – ESG Reporting Developments**
- **17 December – Year-end reporting reminders**



For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

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