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Nov/Dec 2009 Issue

# AXP e-Newsletter

*Nov/Dec 2009*



# Contents

## EDITORS' PAGE

- 2 Budget 2010 - What it Means for You?

## TIPS ON AUDIT EXPRESS

- 3 Subsequent Changes to Client's Trial Balance

## BREAKING NEWS

- 7 Adapt to Change vs Risk of Negligence ~ A Balance

## TECHNICAL NEWS UPDATE

- 12 What's News from MASB & MIA FRSIC

## REVIEWING DISCLOSURE REQUIREMENTS

- 14 Inventories and Construction Contracts ~ Non-Compliances

## EXPERTS' CORNER

- 18 Preparation of Group Accounts ~ Consolidation (Part II)  
22 Non-Current Assets (Part II)

## ISQC-COMPLIANT AUDIT APPROACH

- 27 Fail to Plan, Plan to Fail

## AXP UPDATE

- 33 Highlight of the Events - MoU with UKM

## TRAVEL AND VACATION

- 35 Green Lover's Heaven ~ Titi Eco Farm Resort  
37 Travel and Vacation Quiz



## Budget 2010 – What it Means for You?



Our Prime Minister cum Finance Minister presented his first Budget speech on 23 October. We believe that there are different responses on this Budget, but finally the long awaiting personal relief has been increased, though it is not significant. What is your view? How does Budget 2010 affect you?

Back to our *e-Newsletter*, under *Tips of Audit Express*, we shall introduce another useful feature. It is always troublesome when the clients make changes to the trial balance. In *Audit Express*, within seconds, the auditors are able to compare the changes made and decide whether to accept these changes.

We have a review of the *revised FRS 101* issued by MASB and a recent negligent case in Hong Kong in *Breaking News*. Certainly, there are “lessons” to be learnt from others’ mistakes!!

We review the commonly omitted disclosure requirements for inventories and construction contracts in *Reviewing Disclosure Requirements*. In *Experts' Corner*, we continue with Part II of the recognition and measurement issues of preparing group accounts and accounting for non-current assets.

**Fail to plan, plan to fail** ~ we illustrate the requirement and importance for an audit plan under *ISQC-compliant Audit Approach*.

AXP has signed a MoU with UKM for the integration of *Audit Express* into their syllabus. Turn to *AXP Update* for more details.

**Good news for green lovers!!!! We have a review of the Titi Eco Farm Resort (TEFR) in Travel and Vacation.** What’s more, we are glad that TEFR has kindly sponsored a one night stay package worth RM420 to our Quiz, in addition to our shopping vouchers. Hurry!! Grab the opportunity to stay at this wonderful greenery resort! Your detox programme starts here!!

We welcome your feedback or suggestions on *AXP e-Newsletter* with the aim of helping us to better meet the needs of our customers.

Our next issue will be published in the new year, see you in 2010! Happy reading!

*Editorial Team*

### Circulation Notice

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### Contributions & Comments

*AXP e-Newsletter welcomes your contributions on contemporary issues encountered by the profession. We also wish to hear from you on how this e-Newsletter can be improved for more timely and useful information.*

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# Subsequent Changes to Client's Trial Balance



**About Tips on Audit Express**

We shall publish a series of articles introducing useful features of AXP's core software, **Audit Express (AE) - Professional Audit Module**. AE helps to automate the external audit process via minimum input of client's trial balance, thus increases audit efficiency and reduces costs.

Our aim is to highlight some of the useful features of AE and encourage users to exploit and utilise these features if they have not done so.

**Introduction**

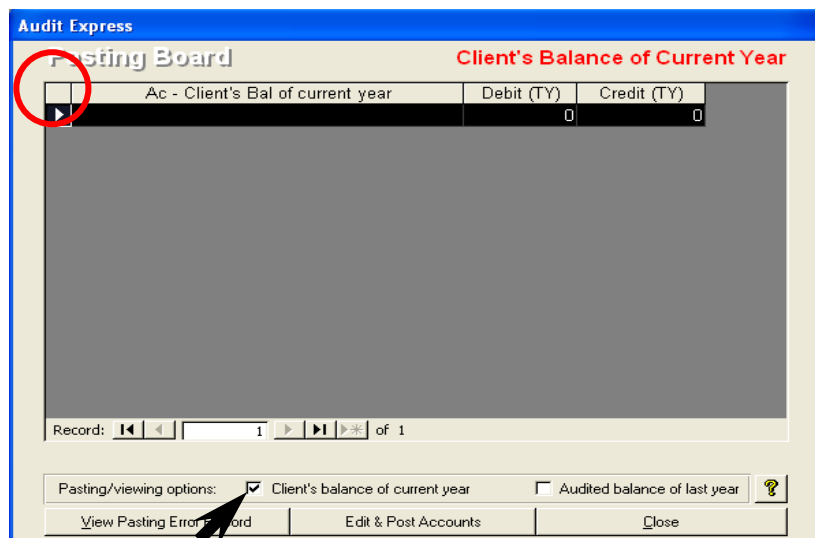
In the Sept/Oct Issue, we highlighted the usefulness and the steps of using **Observation and Recommended Audit Steps** function in AE.

It is common that clients may change Trial Balance (TB) while the auditors are performing the audit. If there are hundreds of accounts, it will be very time consuming to identify the changes and update all the relevant audit schedules, working papers and draft financial statements. In AE, there is a function that can assist auditors to check the differences in the TB and subsequently, generate all the revised audit documentations, within minutes!

**Step-by-Step Guidance**

If there are subsequent changes to the client's TB and management accounts, auditors just need to re-paste the revised TB in the **Audit Planning** as follow:

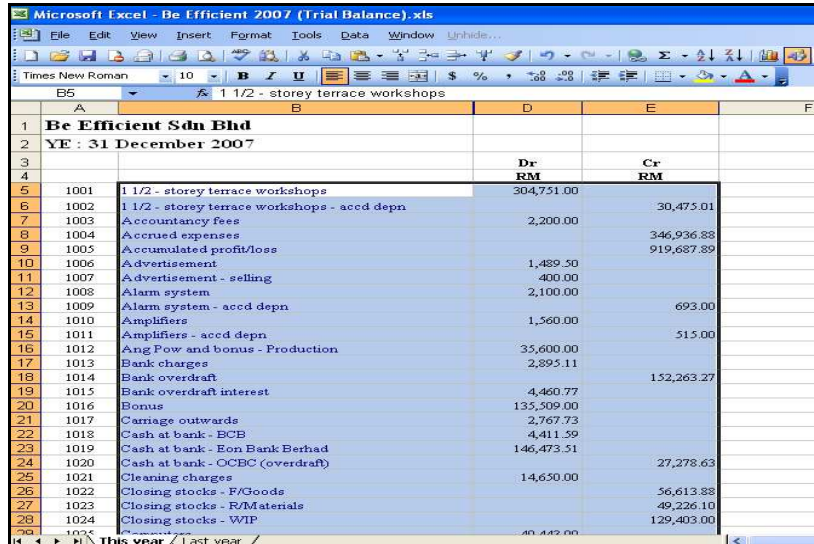
Step 1 - Execute **F4, 3. Open Pasting Board**.



*Subsequent Changes to Client's Trial Balance - cont'd*

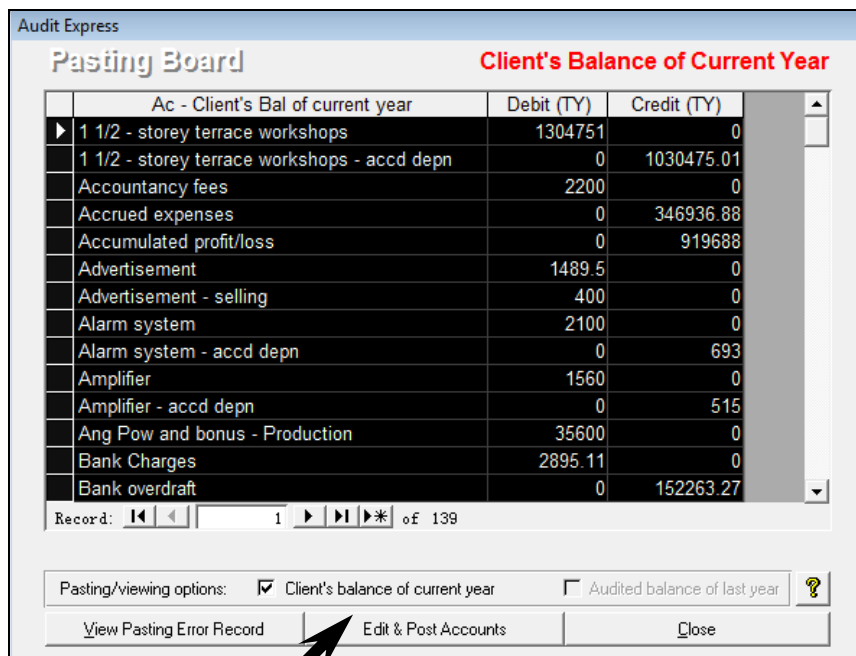
Step 2 - Tick **Client's balance of current year** (for current year), delete old TB in the **Pasting Board** by clicking the top-left box to highlight all (as circled) and pressing **Delete** on the keyboard.

Step 3 - Copy the desired range in the new TB by pressing **Ctrl + C** on the keyboard or clicking .



		Dr RM	Cr RM
1	<b>Be Efficient Sdn Bhd</b>		
2	<b>YE : 31 December 2007</b>		
3			
4			
5	1001 1 1/2 - storey terrace workshops	304,751.00	
6	1002 1 1/2 - storey terrace workshops - accd depn		30,475.01
7	1003 Accountancy fees	2,200.00	
8	1004 Accrued expenses		346,936.88
9	1005 Accumulated profit/loss		919,687.89
10	1006 Advertisement	1,489.50	
11	1007 Advertisement - selling	400.00	
12	1008 Alarm system	2,100.00	
13	1009 Alarm system - accd depn		693.00
14	1010 Amplifiers	1,560.00	
15	1011 Amplifiers - accd depn		515.00
16	1012 Ang Pow and bonus - Production	35,600.00	
17	1013 Bank charges	2,895.11	
18	1014 Bank overdraft		152,263.27
19	1015 Bank overdraft interest	4,460.77	
20	1016 Bonus	135,509.00	
21	1017 Carriage outwards	2,767.73	
22	1018 Cash at bank - BCE	4,411.59	
23	1019 Cash at bank - Eon Bank Berhad	146,473.51	
24	1020 Cash at bank - OCBC (overdraft)		27,278.63
25	1021 Cleaning charges	14,650.00	
26	1022 Closing stocks - F/Goods		56,613.88
27	1023 Closing stocks - R/Materials		49,226.10
28	1024 Closing stocks - WIP		129,403.00
29	1025	49,442.00	

Step 4 - Return to **Audit Planning** (currently at **Pasting Board**), highlight the row and perform paste by pressing **Ctrl + V** on the keyboard or clicking .



Ac - Client's Bal of current year	Debit (TY)	Credit (TY)
▶ 1 1/2 - storey terrace workshops	1304751	0
1 1/2 - storey terrace workshops - accd depn	0	1030475.01
Accountancy fees	2200	0
Accrued expenses	0	346936.88
Accumulated profit/loss	0	919688
Advertisement	1489.5	0
Advertisement - selling	400	0
Alarm system	2100	0
Alarm system - accd depn	0	693
Amplifier	1560	0
Amplifier - accd depn	0	515
Ang Pow and bonus - Production	35600	0
Bank Charges	2895.11	0
Bank overdraft	0	152263.27

Record: 1 of 139

Pasting/viewing options:  Client's balance of current year  Audited balance of last year

View Pasting Error Record | Edit & Post Accounts | Close

Subsequent Changes to Client's Trial Balance - cont'd

Step 5 - Click  and another interface **Pasting Board - Accounts In Transit** appears as below:

Accounts	Client's Bal (TY)	Audited Bal (LY)
1 1/2 - storey terrace workshops	1,304,751.00	
1 1/2 - storey terrace workshops - accd depn	(1,030,475.01)	
Accountancy fees	2,200.00	
Accrued expenses	(346,936.88)	
Accumulated profit/loss	(919,688.00)	
Advertisement	1,489.50	
Advertisement - selling	400.00	
Alarm system	2,100.00	
Alarm system - accd depn	(693.00)	
Amplifier	1,560.00	
Amplifier - accd depn	(515.00)	
Ang Pow and bonus - Production	35,600.00	
Bank Charges	2,895.11	
Net total	0.00	

Records are ready for posting

If there are any new accounts created in the new TB, auditors need to perform account grouping, otherwise, click **Records are ready for posting**. The new TB will be posted to the **Audit Planning**.

Auditors do not need to compare the differences between the new and the old TB manually.

To highlight the differences between the new and the old TB, simply access to **Auditor's Trial Balance** main interface. Note that the data therein is from the old TB.

Nature	Accounts	Pre-audit Bal	Adjustment	Final Bal	Audited Bal (LY)
FA	1 1/2 - storey terrace workshops	304,751.00	0.00	304,751.00	304,751.00
FA	1 1/2 - storey terrace workshops - accd depn	(30,475.01)	0.00	(30,475.01)	(24,380.00)
FA	Alarm system	2,100.00	0.00	2,100.00	2,100.00
FA	Alarm system - accd depn	(693.00)	0.00	(693.00)	(520.00)
FA	Amplifier	0.00	0.00	0.00	1,560.00
FA	Amplifier - accd depn	0.00	0.00	0.00	(401.00)
FA	Amplifiers	1,560.00	0.00	1,560.00	0.00
FA	Amplifiers - accd depn	(515.00)	0.00	(515.00)	0.00
FA	Computers	40,443.00	0.00	40,443.00	37,992.00
FA	Computers - accd depn	(34,615.58)	0.00	(34,615.58)	(28,993.00)
FA	Factory building	468,070.25	0.00	468,070.25	468,070.00
FA	Factory building - accd depn	(34,722.82)	0.00	(34,722.82)	(17,361.00)
Net Balance :		0.00	0.00	0.00	0.00

Accd Profits/Losses does not tally !

*Subsequent Changes to Client's Trial Balance – cont'd*

Step 6 - Press **Command Listing/F4 2. Check Pre-audit Balances** and the following interface, showing the differences between the new TB (now in **Audit Planning** as Client's Balance) and the old TB (now in **Auditor's Trial Balance** as Pre-audit balance), will pop out:

Nature		Accounts	Client's Bal	Pre-audit Bal	Difference
FA	1 1/2 - storey terrace workshops		1,304,751.00	304,751.00	1,000,000.00
FA	1 1/2 - storey terrace workshops - accd depn		(1,030,475.01)	(30,475.01)	(1,000,000.00)
FA	Alarm system		2,100.00	2,100.00	-
FA	Alarm system - accd depn		(693.00)	(693.00)	-
FA	Amplifier		0.00	0.00	-
FA	Amplifier - accd depn		0.00	0.00	-
FA	Amplifiers		1,560.00	1,560.00	-
FA	Amplifiers - accd depn		(515.00)	(515.00)	-
FA	Computers		40,443.00	40,443.00	-
FA	Computers - accd depn		(34,615.58)	(34,615.58)	-
FA	Factory building		468,070.25	468,070.25	-
FA	Factory building - accd depn		(34,722.82)	(34,722.82)	-
FA	Forklifts		16,000.00	16,000.00	-
FA	Forklifts - accm depn		(4,917.00)	(4,917.00)	-
Net Balance :			0.00	0.00	-

Step 7 - If the revised TB is acceptable, click **Update Pre-audit Balance** button to update or, as an alternative, to perform **Command Listing/F4 1. Get Client's Balance From Planning Module** in the **Auditor's Trial Balance** interface.

After accepted the new TB into the system, auditors just need to re-generate the audit planning documents, such as **comparative figures, financial ratios and account fluctuations, materiality level assessment result and observations and recommended audit steps**, as the new TB may change the results of these planning documents. Note that the **Lead Schedules** in the system will also automatically reflect all changes in the TB and auditors just needs to re-print those sections that have been affected by the new TB.

This feature of **AE** enables an auditor to compare the new TB with the old one in just a few clicks. Additionally, the new TB can be quickly updated to all the relevant working papers, thus reduce the time spent on the new TB.

For more details of the features of **AE**, or specific enquires in respect of this article, please feel free to contact us at **1300 882 297** or [marketing@myAXP.com](mailto:marketing@myAXP.com) **AXP**

# Adapt to Change vs Risk of Negligence ~ A Balance



## About *Breaking News*

A preview and analysis of recent “hot” business, accounting or auditing topics and their impact on Malaysian Small and Medium-sized Practitioners (SMPs) and Small and Medium-sized Entities (SMEs).

## Introduction

On **15 September 2009**, MASB announced the issuance of amendments to *FRS 101 Presentation of Financial Statements*, which shall be applied for annual periods beginning on or after **1 January 2010**.

The revised *FRS 101* introduced “substantial” changes in both current **presentation** and **terminology** of the financial statements. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other FRSs.

## What’s News from FRS 101?

The comparison of a complete set of financial statements is summarised as follows:

<u>Previous terminology</u> [FRS 101 ~ 2006]	<u>New terminology</u> [FRS 101 ~ 2009]
Balance Sheet [B/S]	<b>Statement of Financial Position [SFP]</b>
Income Statement [I/S]	<b>Statement of Comprehensive Income [SCI]</b>
Statement of Changes in Equity [SOCE]	Statement of Changes in Equity [SOCE]
Statement of Total Recognised Income and Expenditure [STRIE]	<i>Deleted - no longer used.</i>
Cash Flow Statement [CFS]	<b>Statement of Cash Flows [SCF]</b>
Notes (to the financial statements)	Notes (to the financial statements)

The key changes of *FRS 101* are summarised as follows:

1. Titles of [B/S] and [CFS] are now referred to as [SFP] and [SCF] respectively.
2. A [SFP] as at the beginning of the earliest comparative period shall be presented whenever the entity:
  - a. retrospectively applies an accounting policy;
  - b. makes a retrospective restatement of items in the financial statements; or
  - c. reclassifies items in the financial statements.



*Adapt to Change vs Risk of Negligence ~ A Balance - cont'd*

3. The requirements to report the **owners changes in equity** and **comprehensive income** are as follows:
  - a. all owners changes in equity shall be *disclosed separately* from the non-owners changes in equity;
  - b. components of comprehensive income (*i.e. non-owner changes in equity accounted for directly through reserves*) are not permitted to be presented as separate line items in the [SOCE];
  - c. all income, expenditure, gains and losses resulting from transactions with non-owners to be presented in:
    - i. one statement – [SCI]; or
    - ii. two statements – a separate [I/S] and a [SCI];
  - d. components of other comprehensive income to be displayed separately in the [SCI]; and
  - e. total comprehensive income to be presented as a one line item in the [SOCE].
4. The disclosure requirements of **other comprehensive income** includes:
  - a. income tax relating to each component of other comprehensive income; and
  - b. all reclassification adjustments, *i.e.*, amounts reclassified to profit or loss that were recognised in other comprehensive income in previous years.
5. **Dividends recognised** as distributions to owners and related amounts per share to be presented in the [SOCE] or in the [Notes]. Presentation of such information in the [SCI] is not permitted as these are owner changes in equity.

To summarise, the revised *FRS 101* adopts a policy of reporting financial information on the basis of **SHARED CHARACTERISTICS**. Under the latest revision:

- ✓ **ALL gains/losses relating to transactions with “non-owners”** – which are **accounted for** as *direct* reserve movements – are reported in the **bottom** section of the [SCI] as **other comprehensive income**.
- ✓ **ALL transactions with “owners”** – which are also **accounted for** as *direct* reserve movements – are reported as separate line items through the [SOCE].

At least this avoids the ‘**comparability**’ and ‘**duplication**’ problems of the former requirements!!



*Adapt to Change vs Risk of Negligence ~ A Balance - cont'd*

*Exhibit I: Sample of [SCI] (Option 1: all non-owners changes in equity are presented in one statement)*

	THE GROUP		THE COMPANY	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>FOR THE YEAR ENDED 31 DECEMBER 2010</b>				
<b>Continuing Operations</b>				
Revenue	23,743,683	19,326,112	381,809	291,722
Cost of sales	<u>(12,966,796)</u>	<u>(11,656,606)</u>	<u>-</u>	<u>-</u>
Gross profit	10,776,887	7,669,506	381,809	291,722
Other income	352,383	345,597	107,585	117,737
Distribution costs	(618,208)	(663,922)	-	-
Administrative expenses	(1,664,403)	(1,014,755)	(265,406)	(251,828)
Other expenses	(218,152)	(216,857)	(13,761)	(2,060)
Finance costs	(234,750)	(256,549)	(30,504)	(24,262)
Share of profit of associates	<u>225,700</u>	<u>89,460</u>	<u>-</u>	<u>-</u>
Profit before tax	8,619,457	5,952,480	179,723	131,309
Income tax expense	<u>(1,203,963)</u>	<u>(1,168,682)</u>	<u>(7,869)</u>	<u>-</u>
Profit for the year from continuing operations	7,415,494	4,783,798	171,854	131,309
<b>Discontinued Operations</b>				
Profit for the year from discontinued operations	<u>9,086</u>	<u>15,796</u>	<u>-</u>	<u>-</u>
<b>PROFIT FOR THE YEAR</b>	<u>7,424,580</u>	<u>4,799,594</u>	<u>171,854</u>	<u>131,309</u>
<b>Other Comprehensive Income</b>				
Gain on revaluation of landed property	417	3,284	21	35
Exchange differences on translating foreign operations	<u>258,266</u>	<u>231,391</u>	<u>-</u>	<u>-</u>
	<u>258,683</u>	<u>234,675</u>	<u>21</u>	<u>35</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>7,683,263</u>	<u>5,034,269</u>	<u>171,875</u>	<u>131,344</u>
<b>Profit attributable to:</b>				
Owners of the parent	7,267,773	4,670,064	171,854	131,309
Minority interest	<u>156,807</u>	<u>129,530</u>	<u>-</u>	<u>-</u>
	<u>7,424,580</u>	<u>4,799,594</u>	<u>171,854</u>	<u>131,309</u>
<b>Total comprehensive income attributable to:</b>				
Owners of the parent	7,526,456	4,904,739	171,875	131,344
Minority interest	<u>156,807</u>	<u>129,530</u>	<u>-</u>	<u>-</u>
	<u>7,683,263</u>	<u>5,034,269</u>	<u>171,875</u>	<u>131,344</u>



*Adapt to Change vs Risk of Negligence ~ A Balance - cont'd***Exhibit II: Sample of Consolidated [SOCE]****[Note: For illustration purposes, only Group's changes in equity for current year are presented]**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010									
	Share Capital RM'000	Share Premium RM'000	Revaluation Reserves RM'000	Translation Reserves RM'000	Share Option Reserves RM'000	Retained Profits RM'000	Attributable to owners of parent RM'000	Minority Interest RM'000	Total RM'000
At 1 January 2010	11,050,200	458,500	557,002	685,440	14,500	4,393,976	17,159,618	2,304,446	19,464,064
Profit for the year	-	-	-	-	-	7,267,773	7,267,773	156,807	7,424,580
Other comprehensive income for the year	-	-	417	258,266	-	-	258,683	-	258,683
Total comprehensive income for the year	-	-	417	258,266	-	7,267,773	7,526,456	156,807	7,683,263
Dividends	-	-	-	-	-	(2,237,040)	(2,237,040)	-	(2,237,040)
Issue of shares	270,000	784,000	-	-	(6,000)	-	1,048,000	-	1,048,000
Transfer to retained profits on disposal	-	-	(6,963)	-	-	6,963	-	-	-
Recognition of share-based payments	-	-	-	-	17,000	-	17,000	-	17,000
Balance at 31 December 2010	11,320,200	1,242,500	550,456	943,706	25,500	9,431,672	23,514,034	2,461,253	25,975,287

**Are We Prepared for Another Round of Financial Reporting "Tsunami"?**

Unlike those countries adopting *IAS 1* (similar to Malaysia's *FRS 101*) effective from annual periods beginning on or after 1 January 2009, entities in Malaysia have another year for preparation to adopt *FRS 101* and other new Standards, such as, *FRS 7* Financial Instruments: Disclosures, *FRS 8* Operating Segments, and *FRS 139* Financial Instruments: Recognition and Measurement.

In 1999, the MASB first adopted *MASB 1* which introduced significant changes in the presentation of an [I/S] and a new primary financial statement referred to as a [SOCE]. This has caused many practical problems, especially for small and medium entities, and it is mentally difficult to accept more transparent disclosures in the financial statements, such as cost of sales, and gross profit.

Although *FRS 101* is currently only applicable to **Entities other than Private Entities**, it should be noted that *IFRS for SMEs* has introduced similar requirements on presenting the financial statements. In our view, it is likely that MASB will adopt *IFRS for SMEs* in Malaysia to replace its existing Private Entity Reporting Standards.

There have been significant developments in the standards on both auditing and financial reporting during the last decade, and more changes are expected in the foreseeable future in view of the Memorandum of Understanding signed between International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) of the intention to converge US GAAP and IFRSs. It is vitally important that practitioners are both aware of the impact of these developments and ensure that their professional work is in compliance with all extant requirements. AXP is committed to assist our clients with help and advice from our Technical Support Unit.



*Adapt to Change vs Risk of Negligence ~ A Balance - cont'd***A Legal Case against Auditors' Negligent Actions**

Subsequent to the financial crisis and collapse of a few conglomerates worldwide and locally, the roles of the auditors are increasingly important as the watchdog to safeguard the wealth of the shareholders, notwithstanding the requirements to adapt to massive changes in standards on auditing and financial reporting standards.

In Hong Kong, a recent negligent case against Ernst & Young has further highlighted the importance of having genuine, independent and properly documented working papers to support the audit opinion rendered. The Firm was charged that key documents related to the audit of a conglomerate had been modified to cover up misconduct on the audit after the collapse of the conglomerate!

According to reliable source, a legal settlement of about US\$200 million is said to have been agreed with the liquidator for the negligence claims.

However, the story did not end after the out-of-court settlement of the civil suit by the liquidator. Police has raided its office and seized documents from the liquidator and its solicitor. They have also arrested an audit partner who had audited the conglomerate in connection with the fraud probe, and criminal actions are likely to be taken against the firm and/or the personnel involved in the engagement.

The liquidator's solicitor also claimed in the court that, in the 1990s, partners in Ernst & Young's Hong Kong office relied on the practice's close relationship with the conglomerate's founder for a substantial amount of audit business.

Furthermore, according to multiple court rulings, all the conglomerate's businesses have been injected into another company which was also listed in Hong Kong. Ernst & Young was alleged to have advised on the transaction. This is another instance of whether best efforts have been made to identify circumstances or relationships that might create **threats to independence** before an audit engagement is accepted.

**Moving Forward ...**

**Are preparers and auditors of financial statements prepared for another round of massive changes? Do we have an appropriate and useful tool to assist us in adopting these CURRENT and FUTURE changes?**

It is unavoidable that auditors need to be more "ethical" in both accepting and performing the audit engagements. Proper and systematic documentation is vitally important to record the basis of an audit opinion as required by International Standards on Quality Control (ISQC) 1.

Comprehensive documentation and rigid compliance procedures are certainly essential to ensure that history will not repeat itself when the financial reporting tsunami arrives ... again! **AXP**



## What's News from MASB & MIA FRSIC



### *About Technical News Update*

*A snapshot of the latest development in technical news from IASB, MASB, IFAC, MIA and any other authorities or regulatory bodies, which are more relevant to SMP.*

### What's New on the Reporting Standards in Malaysia?

On **15 September 2009**, the MASB issued 3 amendments to FRSs, as follows:

- ✓ FRS 101 *Presentation of Financial Statements*
- ✓ Amendments to FRS 132 *Financial Instruments: Presentation*
- ✓ Amendments to FRS 139 *Financial Instruments: Recognition and Measurement*, FRS 7 *Financial Instruments: Disclosures* and IC Interpretation 9 *Reassessment of Embedded Derivatives*
- ✓ Amendments to FRSs contained in the document entitled "*Improvements to FRSs (2009)*"

The above amendments are effective for annual periods beginning on or after **1 January 2010**.

In addition, 2 technical documents from the Islamic Perspective are issued:

- ✓ Technical Release: TR *i-3 Presentation of Financial Statements of Islamic Financial Institutions*
- ✓ Statement of Principle: SOP *i-1 Financial Reporting from an Islamic Perspective*

With the issuance of TR *i-3*, FRS *i-1*<sub>2004</sub> *Presentation of Financial Statements of Islamic Financial Institutions* has been withdrawn.

On **9 October 2009**, the MASB issued 4 Exposure Drafts for public comments, as follows:

- ✓ ED 67 *Improving Disclosures about Financial Instruments* (Amendments to FRS 7)
- ✓ [draft] IC Interpretation 4 *Determining whether an arrangement contains a lease*
- ✓ [draft] IC Interpretation 18 *Transfers of Assets from Customers*
- ✓ ED *i-4 Shariah Compliant Sale Contracts*

For more information on the above technical news, please visit [www.masb.org.my](http://www.masb.org.my). AXP

*What's News from MASB & MIA FRSIC – cont'd*

**What's new from MIA Financial Reporting Standards Implementation Committee (FRSIC)?**

On **1 September 2009**, MIA FRSIC issued 2 Consensuses:

✓ **FRSIC Consensus 12** Sustainable Forest Management Concession Arrangements

*The issue addressed in this Consensus is whether the costs incurred by the Licensee within a sustainable forest management concession arrangement shall:*

- *all be recognised as an intangible asset (similar to a conventional timber concession) in accordance with FRS 138 "Intangible Assets"; or*
- *be recognised separately as intangible assets, tangible assets or expenses in accordance with the applicable FRSs.*

✓ **FRSIC Consensus 13** Expenses Permitted to be Written Off Against the Share Premium Account under Section 60 of Companies Act, 1965

*In practice, all the expenses incurred in connection with a listing exercise are written off against share premium account. However, some of the expenses incurred in a listing exercise may be deemed to be incurred for purposes other than for the issue of shares. The issue addressed in this Consensus is whether the practice of writing off some or all of the expenses incurred in a listing exercise against the share premium account may contravene Section 60 (3) of the Companies Act, 1965, as well as FRS 132 Financial Instruments: Disclosure and Presentation.*

For more information on the above consensuses, please visit [www.frsic.my/default.asp](http://www.frsic.my/default.asp). **AXP**



## Inventories and Construction Contracts ~ Non-Compliances



### About *Reviewing Disclosure Requirements*

As a value-added service, AXP provides a complimentary service to assist in reviewing annual financial statements audited by our clients during the implementation and customisation stage of **Audit Express**. Any recommendations for improvements in disclosure requirements will be issued for their considerations.

In this section, we shall highlight common disclosure “faults” which have been observed during our review, and hope that it will help our client practitioners to better understand the disclosure requirements of prevailing reporting standards.

In this issue, we shall focus on **MASB 2 / FRS 102 Inventories** and **MASB 7 / FRS 111 Construction Contracts**.

<u>Reference</u>		<u>Observations</u>	<u>Recommendations or sample disclosures</u>
<u>PERS</u>	<u>FRS</u>		
2.37(a)	102.36(a)	Accounting policies adopted in measuring inventories are not disclosed in accordance with the Standard.	Accounting policies for inventories shall comprise the following components: <ol style="list-style-type: none"> <li>1. basis of measuring inventories, i.e., lower of cost or net realisable value;</li> <li>2. components of “cost”;</li> <li>3. definition of “net realisable value”; and</li> <li>4. cost formulas, i.e., specific identification, First-In, First-Out (FIFO), weighted average, or Last-In, First-Out (LIFO). <b>LIFO is not allowed under FRS.</b></li> </ol>



*Inventories and Construction Contracts ~ Non-Compliances - cont'd*

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			<p><i>Example:</i>  <i>Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises costs incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes materials, labour and an appropriate proportion of manufacturing overhead.</i></p> <p><i>Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.</i></p>																																													
2.37(b)	102.36(b)	Breakdown of the carrying amount of inventories is not disclosed.	<p><i>Example:</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">2009 RM</th> <th style="text-align: right;">2008 RM</th> </tr> </thead> <tbody> <tr> <td colspan="3"><i>At cost:</i></td> </tr> <tr> <td>Raw materials</td> <td style="text-align: right;">-</td> <td style="text-align: right;">108,682</td> </tr> <tr> <td>Work-in-progress</td> <td style="text-align: right;">-</td> <td style="text-align: right;">36,772</td> </tr> <tr> <td>Finished goods</td> <td style="text-align: right;">-</td> <td style="text-align: right;">457,480</td> </tr> <tr> <td>Aquaculture inventories</td> <td style="text-align: right;">33,000</td> <td style="text-align: right;">76,785</td> </tr> <tr> <td>Building materials</td> <td style="text-align: right;">11,420</td> <td style="text-align: right;">10,640</td> </tr> <tr> <td>Publications</td> <td style="text-align: right;">57,050</td> <td style="text-align: right;">58,908</td> </tr> <tr> <td>Unsold completed development units</td> <td style="text-align: right;">311,621</td> <td style="text-align: right;">33,756</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">413,091</td> <td style="text-align: right; border-top: 1px solid black;">783,023</td> </tr> <tr> <td colspan="3"><i>At net realisable value:</i></td> </tr> <tr> <td>Finished goods</td> <td style="text-align: right;">-</td> <td style="text-align: right;">87,321</td> </tr> <tr> <td>Unsold completed development units</td> <td style="text-align: right;">70,667</td> <td style="text-align: right;">35,352</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">70,667</td> <td style="text-align: right; border-top: 1px solid black;">122,673</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">483,758</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">905,696</td> </tr> </tbody> </table>		2009 RM	2008 RM	<i>At cost:</i>			Raw materials	-	108,682	Work-in-progress	-	36,772	Finished goods	-	457,480	Aquaculture inventories	33,000	76,785	Building materials	11,420	10,640	Publications	57,050	58,908	Unsold completed development units	311,621	33,756		413,091	783,023	<i>At net realisable value:</i>			Finished goods	-	87,321	Unsold completed development units	70,667	35,352		70,667	122,673		483,758	905,696
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*Inventories and Construction Contracts ~ Non-Compliances – cont'd*

<u>Reference</u>		<u>Observations</u>	<u>Recommendations or sample disclosures</u>
<u>PERS</u>	<u>FRS</u>		
NA	102.36(d)	Amount of inventories recognised as an expense is not disclosed.	The circumstances that will lead to the recognition of inventories as expense are as follows: 1. inventories are sold (often referred to as “cost of sales”); 2. inventories are written down to net realisable value; and 3. losses of inventories.
2.37(f)	102.36(h)	Carrying amount of inventories pledged as security for liabilities is not disclosed.	It is not uncommon for an entity to obtain bank facilities with fixed and floating charge over the assets of the entity. Although the inventories are not specifically pledged, they are covered under “floating” assets. Thus, relevant disclosure shall be made:  <i>Example:</i> <i>Inventories of the Company with carrying amount of RM___(2008: RM___) have been pledged to licensed banks for bank facilities granted to the Company.</i>
7.40(c), (d)	111.39(b), (c)	The methods used to determine the contract revenue recognised, and stage of completion of contracts in progress are not disclosed.	<i>Example:</i> <i>When the outcome of a construction contract activity can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively * by reference to the stage of completion of the contract activity at the balance sheet date. Stage of completion is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.*</i>  <u><i>* To change this paragraph, if the construction contracts is “cost plus contracts”:</i></u>  <i>by reference to the recoverable costs incurred during the financial year plus the fee earned, measured by the proportion that costs incurred to date bear the estimated total costs of the contracts.*</i>



*Inventories and Construction Contracts ~ Non-Compliances - cont'd*

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7.41	111.40	<p>Notes on construction contracts do not disclose one or more of the following items:</p> <ol style="list-style-type: none"> <li>1. aggregate amount of costs incurred and recognised profits (less recognised losses) to date;</li> <li>2. amount of advances received; and</li> <li>3. amount of retentions.</li> </ol>	<p><i>Example:</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;"><b>2009</b></th> <th style="text-align: right;"><b>2008</b></th> </tr> <tr> <th></th> <th style="text-align: right;"><b>RM</b></th> <th style="text-align: right;"><b>RM</b></th> </tr> </thead> <tbody> <tr> <td>Aggregate contract costs incurred to date</td> <td style="text-align: right;">2,393,904</td> <td style="text-align: right;">1,650,960</td> </tr> <tr> <td>Add: Attributable profits recognised</td> <td style="text-align: right;">703,586</td> <td style="text-align: right;">461,986</td> </tr> <tr> <td>Less: Expected losses recognised</td> <td style="text-align: right;">(10,395)</td> <td style="text-align: right;">(8,267)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">3,087,095</td> <td style="text-align: right; border-top: 1px solid black;">2,104,679</td> </tr> <tr> <td>Less: Progress billings</td> <td style="text-align: right;">(2,985,697)</td> <td style="text-align: right;">(1,996,496)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">101,398</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">108,183</td> </tr> <tr> <td>Gross amount due from contract customers</td> <td></td> <td></td> </tr> <tr> <td>Retentions, included in trade receivables</td> <td style="text-align: right; border-top: 1px solid black;">69,294</td> <td style="text-align: right; border-top: 1px solid black;">80,933</td> </tr> <tr> <td>Advanced received, included in other payables</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">32,059</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">23,901</td> </tr> </tbody> </table>		<b>2009</b>	<b>2008</b>		<b>RM</b>	<b>RM</b>	Aggregate contract costs incurred to date	2,393,904	1,650,960	Add: Attributable profits recognised	703,586	461,986	Less: Expected losses recognised	(10,395)	(8,267)		3,087,095	2,104,679	Less: Progress billings	(2,985,697)	(1,996,496)		101,398	108,183	Gross amount due from contract customers			Retentions, included in trade receivables	69,294	80,933	Advanced received, included in other payables	32,059	23,901
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AXP



## Preparation of Group Accounts ~ Consolidation (Part II)



### About Experts' Corner

Our Technical Adviser, Mr. Keith Farmer, will review and illustrate recognition and measurement issues of prevailing accounting standards in an interesting manner.

This is the second part of a series of articles concerning the preparation of *consolidated* financial statements in accordance with FRS 3: 'Business Combinations' and FRS 127: 'Consolidated and Separate Financial Statements'. In this article, we shall consider the '**fair value**' issue which is dealt with by FRS 3 and not FRS 127. In particular, we shall focus on the measurement of the '**cost of the business combination**', ie. the cost of an investment in a subsidiary as recorded by a parent.

The concept of fair value [**FV**] is intrinsic to the '**purchase**' method of consolidation. Previously we stated that the purchase method aims to show the position *as if 'P'* had actually bought the underlying net assets of '**S'**'. If so, '**P'**' would obviously have paid a '**market price**' based on circumstances at that date, and we refer to this market price as '**FV**'.

There are three key aspects we need to consider:

- 1) **Recognition** and **measurement** (ie. FV) of the '**cost of the business combination**'.
- 2) **Recognition** and **measurement** (ie. FV) of the identifiable net assets acquired at the acquisition date.
- 3) **Recognition** and **measurement** (ie. FV) of consolidated goodwill.

It is important to note that '**goodwill**' is **measured** as a *balancing figure*. Hence, if we get the first two correct, the goodwill figure is correct. Alternatively if either of the first two are incorrect (for whatever reason!) the impact is simply reflected through an inflated or deflated goodwill figure. We shall come back to this point later when we consider the measurement of goodwill.

### The cost of the business combination.

There are a number of aspects we need to consider when measuring the cost of the business combination.

- 1) The Standard refers to **two** dates. Firstly, the '**date of exchange**' (ie. the date on which an 'investment' is recognised in an investors' financial statements) and the '**acquisition date**' (ie. the date on which *control* of '**S'**' passes to '**P'**'). If control is acquired as a result of a **single** transaction (as is usually the case) then these two dates are one and the same. If, however, control is acquired in a '**piecemeal**' fashion (eg. initially acquire 40%, and *later* acquire a further 20%) then this is not the case, except in the context of the *final* acquisition of shares which, in aggregate, gives a controlling interest. In such a case, the '**cost of the business combination**' is the *aggregate* cost of the *individual* transactions.



*Preparation of Group Accounts ~ Consolidation (Part II) - cont'd*

Illustration 1: On 31/12/X2 'P' acquired 80% of the ordinary share capital [OSC] of 'S' for RM500,000 cash payable immediately.

<u>'Date of exchange'</u>	<u>Interest acquired</u>	<u>'Date of exchange' = 'acquisition date'</u>	<u>'Cost'</u>
31/12/X0	80%	Yes	RM500,000
<b>Cost of the business combination</b>			RM500,000
			=====

Illustration 2: On 31/12/X0, 'P' acquired 40% of the OSC of 'S' for RM400,000 cash payable immediately (*this does not represent a controlling interest*). On 31/12/X1, 'P' acquired a further 20% of the OSC of 'S' for RM300,000 cash payable immediately.

<u>'Date of exchange'</u>	<u>Interest acquired</u>	<u>'Date of exchange' = 'acquisition date'</u>	<u>'Cost'</u>
31/12/X0	40%	No	RM400,000
31/12/X1	20%	Yes	RM300,000
<b>Cost of the business combination</b>			RM700,000
			=====

- 2) In the above illustrations, the purchase consideration was paid in cash. Clearly, this is not always the case! The 'cost of a combination' (or the *aggregate* cost *if* shares are acquired on a piecemeal basis) comprises basically '4' components (FV based at the date of each 'exchange transaction'):
- a) any assets given (*which is basically the cash component of the combination*), and,
  - b) any liabilities incurred or assumed<sup>①</sup>, and,
  - c) any equity instruments issued, and,
  - d) any directly attributable costs.

① You should note that any costs *expected* to be incurred as a result of the combination (eg. anticipated reorganisation or integration costs or future losses) are not 'liabilities' by definition at the date of acquisition and hence **cannot** be included as part of the 'cost' figure. Any such costs will be expensed as incurred (or provisions are recognised) and hence act to reduce 'post' acquisition profits.

As a general principle, all components of the 'cost' are measured at 'FV'. Hence, any financial liabilities issued (for example debt capital), and any equity instruments issued (for example ordinary shares), shall be measured at their market value at the date of exchange. In the case of quoted instruments, the best evidence of FV is usually their published price at that date. Any 'issue costs' associated with financial liabilities (eg. any legal costs or discounts) and equity instruments (eg. legal or professional costs) which form part of the purchase consideration are accounted for as part of the 'net' proceeds of the financial instrument concerned, and *do not* form part of the cost of the combination.



*Preparation of Group Accounts ~ Consolidation (Part II) - cont'd*

Illustration 3: 'P' acquired an 80% interest in the OSC of 'S'. The purchase consideration comprised 500,000 ordinary RM1 nominal value shares with a market value of RM2 each (issue costs of RM50,000) and RM400,000 nominal value debt with a market value of RM350,000 (issue costs RM30,000).

The following entries would be recorded ('000's):

	Dr.	Cr.
Investment in 'S' (market value of shares)	1,000	
OSC (nominal value)		500
Share premium (excess)		500
	=====	=====
Share premium (issue costs debited to equity)	50	
Bank		50
	=====	=====
Investment in 'S' (market value of debt)	350	
Debt capital account		350
	=====	=====
Debt capital account	30	
Bank		30
	=====	=====

As a result, the investment in 'S' would be measured at RM1,350,000, equity (net) would rise by RM950,000 and a financial liability (ie. the debt capital) of RM320,000 (net) would be recognised (*and of course the bank balance would fall by RM80,000!*). In future periods, both the discount on the debt (ie. RM50,000) and the associated issue costs (ie. RM30,000) would be accounted for as part of the total finance cost recognised in P's financial statements, based on a constant periodic rate.

Any costs incurred by the acquirer associated with the business combination are classified into two categories. If they are '**directly attributable**' (ie. avoidable costs which would not otherwise have been incurred) they **shall be** capitalised as part of the 'cost' figure (eg. legal and professional costs). Any *other* costs (eg. the cost of running an acquisition department or management costs) **shall be** expensed immediately. If the proposed business combination fails, **all** costs shall be expensed immediately.

- 3) The Standard refers to the '**initially**' recognised cost of the combination at the 'date of exchange' and then identifies *one* scenario where this figure might subsequently be adjusted as a result of any '**contingent purchase consideration**'. We shall deal with this below.
- 4) What happens if an acquirer guarantees the market value of financial instruments issued as part of the purchase consideration, and is subsequently required to issue *further* equity or debt instruments to the seller as 'compensation'? If this occurs, we do **not** adjust the '**cost**' figure. Any *additional* equity shares issued are accounted for as a reduction in the value attributed to the shares initially issued, ie. Dr. share premium; Cr. share capital. In aggregate, total equity is unchanged. Any *additional* debt instruments issued are accounted for as an increase in the discount (or a decrease the premium) of the debt instruments originally issued, and will affect the future finance costs reported in the income statement.



*Preparation of Group Accounts ~ Consolidation (Part II) - cont'd*

- 5) Delayed purchase consideration. This takes one of two forms, either '**deferred**' or '**contingent**' consideration.

'**Deferred**' consideration represents a known amount which is payable at some point in the future. There are **no** uncertainties. The '**FV**' of the '**deferred consideration**' at the date of exchange is based on the '**present value**' of the future cash flows. Subsequent '**unwinding**' of the discount is accounted for as a '**finance cost**' and charged to the income statement (on a constant periodic rate basis) and **not** added to the '**cost**' figure.

'**Contingent**' consideration represents an amount which is payable in the future **if** certain specified conditions are met (eg. achieving a certain level post acquisition profits) and hence until the final outcome is known there **is** an element of uncertainty. Never-the-less, this would be capitalised as part of the '**initial**' cost figure *assuming* the outflow is assessed to be probable *and* the amount can be measured reliably. However, two circumstances may arise:

- a) If the future events do not occur, or the estimate needs to be revised, the '**initially**' recognised cost figure shall be adjusted accordingly (ie. increased or decreased).
- b) Assume that at the date of exchange the contingent consideration was **not** recognised as part of the '**initial**' cost figure, either because it was **not** probable that the outflow would take place *or* the amount could not be estimated reliably. If it subsequently becomes probable *and* can be measured reliably, then the additional consideration payable shall be accounted for as an (*upwards*) adjustment to the '**initially**' recognised cost figure.

If *either* of the above apply, this means that the cost figure is initially *estimated*, and hence so too is the initial goodwill figure. You should note that there is no '**time limit**' within which this adjustment to the initially recognised cost can be made. Hence once the outcome of the contingent liability is known, both the '**cost**' and the '**goodwill**' figures can be confirmed, either at their **initially** estimated figure or an *adjusted* figure. If an adjustment is necessary, the respective figures are restated retrospectively *as if* the '**correct**' information had been known at the acquisition date.

Once the '**cost**' has been measured in the separate financial statements of the parent, this figure will be used as the basis for subsequently preparing consolidated financial statements. In accordance with FRS 127, in *subsequent* periods the parent has the option of leaving the investment at its original cost (which is usually the case!) or restating annually at fair value with any gain or loss recognised in the income statement. If a parent chooses to restate annually at fair value, any cumulative gain or loss will need to be reversed as a consolidation adjustment prior to consolidation. Failure to do so will result in the same gain or loss being recognised twice!

In our next article, we shall focus on the establishing the '**fair value**' of the identifiable net assets and goodwill at the acquisition date. As we said earlier, goodwill is not measured *directly*, it is measured by way of a '**difference**' - *it is in fact the only asset to be measured in such a way!!* **AXP**



## Non-Current Assets (Part II)



This is the second part of a series of articles concerning the accounting treatment of **non-current assets [NCA]**. In this article we shall start to consider the requirements of FRS 116: 'Property, Plant and Equipment' [**PPE**]. This Standard is applicable to **all** tangible non-current assets except where another Standard *requires* (eg. FRS 117 in respect of finance leased assets) or *permits* (eg. FRS 140 in respect of investment property) a *different* treatment, or items of **PPE** which are classified as 'held-for-sale' and hence apply FRS 5: 'Non-Current Assets Held for Sale and Discontinued Operations'.

This Standard deals with four basic areas: '**recognition**', '**measurement**', '**depreciation**' and '**disclosures**', out of which we shall consider the first three.

### Recognition

The Standard states that an item of 'property, plant or equipment' [**PPE**] shall be recognised when it satisfies **both** the definition and recognition tests.

**PPE** is defined as: '*Tangible assets...held for use in the production or supply of goods and services, for rental to others, or for administration purposes, and, are expected to be used during more than one period.*' Note that it is the second part of the definition that creates the problem. These assets are acquired with an expectation (but no guarantee!) that they will provide an inflow of benefits to an entity over more than one accounting period. If that were not the case, the cost would simply be expensed as incurred. However, since this is the case, we need to find a method of matching the cost incurred against the future expected benefit inflows, and this takes us into the realms of '**estimation**' and '**allocation**'.

It is also important to note that items of **PPE** will only be recognised if, in addition to satisfying the definition, they also satisfy the '**recognition tests**':

- 1) 'It is **probable** (*ie. more likely than not*) that future economic benefits associated with the item will flow to the entity, **and**,
- 2) the cost can be **measured reliably**.'

### Measurement

This is the gross '**carrying value**' of an item of **PPE** as seen on the face of the balance sheet at the date of initial recognition. As usual, it is based on '**cost**', *ie.* the **fair value** of the consideration given at the date of acquisition.

*Non-Current Assets (Part II) – cont'd*

In subsequent accounting periods, an entity has a **choice**. It can either continue to report the gross carrying value based on the initially recognised cost, which is known as the '**cost model**' [CM] or – if it can be measured reliably – to restate the asset at **fair value**, which is known as the '**revaluation model**' [RM]. In both cases, the carrying value with *thereafter* be reduced by any subsequent accumulated depreciation and any accumulated impairment losses.

If an entity chooses to apply the **revaluation model** in respect of an item of PPE, it must be applied to all assets in the same class, although it need not be applied to all classes of assets. By definition, assets in the same class are assets used for the same or similar purposes in the business.

To illustrate, assume an entity owns property comprising 5 retail outlets, 2 production centres and 1 head office. If so, there are three different 'classes' of property. The entity would not be allowed to apply the **RM** to (say) 3 of the retail outlets and not the other two. They must all apply the **RM** or simply be left at cost (ie. **CM**). If the entity wished to apply the **RM** to the head office, this would be acceptable since there is only one asset in this 'class'. If the entity chose to apply the **RM** to all the retail outlets and the head office but not the production centres, this would also be acceptable. As we said above, it does not have to be applied to all classes of assets.

It might seem a little strange that an entity is allowed to use a 'mixed' accounting treatment whereby some NCA's are stated at cost (ie. **CM**) whilst others are stated at a current price (ie. **RM**). Many accountants argue that this results in 'cherry picking', meaningless balance sheet values and lack of comparability with other similar entities. Indeed the impact of applying the **RM** is that balance sheet ratio's appear to 'strengthen' (lower gearing, higher proprietary ratio, less dependence on short term funds etc.) whilst profitability ratio's appear to 'deteriorate' (lower margins, lower interest cover, lower PBT and P/L and lower return on capital employed). Hence it is vitally important to understand the impact that revaluations have on capital and profitability ratios, and read the accounting policies prior to carrying out an analysis of the financial position and performance.

### Initial Cost

An item of **PPE** may be acquired by '**purchase**', '**internal construction**' or under an '**exchange agreement**'.

If **purchased**, '**cost**' comprises:

**Firstly** – the amount of cash or cash equivalents paid or the fair value of other consideration given, at the date of acquisition, ie. the '**purchase price**'!! This will **INCLUDE** (*where relevant, and for example*) any import duties and non-refundable purchase taxes but **EXCLUDE** (*where relevant*) any **trade** discounts and rebates.

### **Example 1**

An entity acquired an item of plant with a list price of RM500,000 from a foreign supplier. Import duties are levied at a rate of 10% based on the list price, and there are two local purchase taxes. The first is levied at 5% based on the actual cost to the entity (excluding import duties and settlement discounts) which is not refundable. The second is a form of 'goods and services' tax at 10% which is based on the list price (including import duties). This tax is refundable to the entity on a quarterly basis. The entity is entitled to a 20% trade discount based on the list price, and settled promptly thereby being entitled to a settlement discount of a further 5% from the supplier.

**Required: What is the initial 'cost' of the plant?**



*Non-Current Assets (Part II) – cont'd***Answer 1 ('000's)**

List price	500
Less: Trade discount (20% x 500)	<u>(100)</u>
Basic cost	400
Add: Import duties (10% x 500)	50
Add: non-refundable purchase tax (5% x 400)	20
Add: refundable purchase tax (10% x 550)	<u>n/a</u>
<b>The initial 'cost' is</b>	<b>470</b>
	===

Note: The creditor was recorded at RM400k, (*the rest goes to the local government!*) but settled for only RM380k (ie. 95% x RM400k). Therefore, '**de recognition**' of the creditor (*upon settlement*) gives rise to '**income**' (*remember that a 'decrease in a liability' represents 'income' by definition*) of **RM20k** which will be reported as part of the P/L (*ie. credited through the I/S*) for the current period in the form of cash (*or settlement*) discount received.

**Secondly** – any *further* costs incurred by the entity which are *directly attributable* to bringing the NCA to the '**location**' and '**condition**' necessary for it to be '**capable of operating in the manner intended by management**' are also capitalised as part of the '**cost**' (eg. site preparation, initial delivery and handling, installation and assembly costs, professional fees, direct employee costs and pre-production testing [*net of any sale proceeds of any 'samples' produced*]).

Note that these costs are 'in addition to' the 'cost of buying' the NCA, *but* necessarily incurred before the NCA is in a position where it is '**capable**' of generating income. Note, however, that once '**capable**', any *further* costs would be **expensed**. Thus, if the NCA is '**capable**', but *not* currently being used (*or operating at a level significantly below its intended 'normal' operating level*), for **whatever** reason, *further* costs will never-the-less be **expensed**.

The basic rule is very simple: **stop capitalising costs when the NCA is 'capable of operating in the manner intended by management'**. You should *also* note that this is the point from which depreciation **starts!!** Please remember: **capitalisation STOPS** when '**capable**'.....**depreciation STARTS** when '**capable**'.



*Non-Current Assets (Part II) – cont'd*

**Example 2**

Assume the plant in example 1) incurred the following costs after delivery to the country ('000's):

Freight costs from the docks to the factory	5
Cost of site preparation at the factory	4
Cost of providing power supply to the plant	2
Employees costs directly associated with site preparation and power supply installation	1
Pre-production testing ( <i>goods produced tested in the factory and subsequently scrapped</i> )	3
Insurance premium paid for the first year of the assets life	1
Maintenance agreement cost for three years	6

**Required: What is the initial 'cost' of the plant?**

**Answer 2 ('000's)**

Cost of purchase [from example 1)]	470
<b>Add:</b>	
Freight costs from the docks to the factory	5
Cost of site preparation at the factory	4
Cost of providing power supply to the plant	2
Employees costs directly associated with site preparation and power supply installation	1
Pre-production testing ( <i>goods produced tested in the factory and subsequently scrapped</i> )	3
Insurance premium paid for the first year of the assets life	n/a
Maintenance agreement cost for three years	<u>n/a</u>
<b>The initial 'cost' is now</b>	<b>485</b>
	===

Note: The insurance premium and the maintenance agreement costs do **not** bring the asset to its current 'location' and 'condition'.....(they simply 'keep' it in its current location/ condition!!) and hence will be **expensed** over the period of benefit (*which in the case of the maintenance agreement is three years!!*).

Two further points warrant consideration:

If, as a result of **acquiring** a NCA, an **obligation** arises in respect of (*for example*) costs of dismantling and removing the NCA and restoring the site at the end of its useful life, then a **provision** needs to be recognised. The provision will be based on the 'initial best estimate' of the future cost, discounted to **present value** and **capitalised** (in accordance with FRS 137) (*ie. Dr. the asset; Cr. provision for restoration*) as part of the *initially* recognised 'cost' figure. Hence this 'cost' will be depreciated over the assets useful life. Subsequent '**unwinding**' of the discount in respect of the provision will be treated as a **finance cost** and **NOT 'capitalised'**.



*Non-Current Assets (Part II) – cont'd*

**Example 3**

Assume the plant in examples 1) & 2) above required local authority approval prior to purchase. Approval was granted on the condition that the entity dismantle and remove the asset and restore the site at the end of its useful life. The directors estimated the associated costs to be RM80,000 in future prices and RM56,000 in current prices.

**Required: What is the initial 'cost' of the plant?**

**Answer 3 ('000's)**

Cost of purchase [from example 1)]	485
<i>Add:</i>	
Provision recognised for removal/ restoration costs (PV based)	<u>56</u>
<b>The initial 'cost' is now</b>	<b>541</b>
	===

If settlement of the purchase price is *deferred*, the 'cost' figure recognised is the '**cash price equivalent**' (ie. what the NCA would have cost if payment had been made *immediately*). Any *further* amount paid is recognised as an **interest expense**.

**Example 4**

An entity acquired a motor vehicle on deferred payment terms. The total cost over the payment period was RM156,000 and the cash cost at the date it was acquired was RM100,000.

**Required: What is the initial 'cost' of the motor vehicle?**

**Answer 4 ('000's).....RM100k!!**

In our next article, we shall consider how to measure the cost figure when the NCA was internally constructed or acquired under an exchange transaction. Once we have established how to measure the '**initial**' cost, we can consider how the NCA is accounted for subsequently, which might involve the application of the '**revaluation model**'. If so, this will of course involve addition accounting implications, '*6' to be precise!!* **AXP**



## FAIL TO PLAN, PLAN TO FAIL



### About ISQC-Compliant Audit Approach

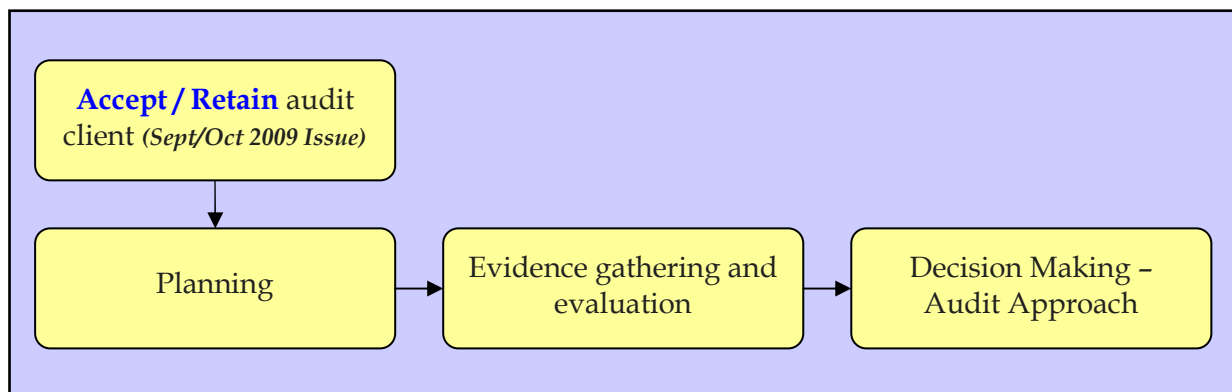
This section will illustrate the requirements of the International Standards on Quality Control (ISQC) 1 and standards on auditing, and how the audit programmes developed by AXP can help an auditor to comply with these standards.

### Overview

Before the commencement of an audit, an auditor should plan the audit so that the engagement will be performed in an effective manner (**ISA 300**), and the audit risk can be reduced to an acceptably low level via an appropriate audit approach.

An audit plan is essential to identify the factors that the auditor will use to determine an appropriate audit approach, for instance, acceptable audit risk, inherent risk, control risk, staff availability, reliance on the work of internal auditors and/or other experts, and the scope of the audit.

An overview of the procedures for planning an audit engagement is as follows:



### Planning the Audit Plan

We illustrated the requirements and procedures of performing “Preliminary engagement activities” in our *Sept/Oct 2009 Issue*. These should be carried out before the performance of any other significant activities for the current audit engagement. An auditor should obtain the acknowledgement of the engagement letter from those charged with governance (for example, directors) prior to the commencement of the audit activities.



*Fail to Plan, Plan to Fail – cont'd*

In formulating the overall audit strategy, an auditor should consider the following factors:

1. **scope of the engagement**, for example, financial reporting framework, number and locations of the components of the entity, extent to which components of the entity are audited by other auditors, availability of work of internal auditors, extent of using information technology on the audit procedures;
2. **reporting objectives, timing of the audit and communication required**, for example, timetable and deadline for reporting, key dates for expected communications with management and those charged with governance, auditors of other components, and communications among the engagement team members; and
3. **direction of the audit**, for example, materiality level, audit areas with high risk of misstatement, selection of the engagement team members, engagement budgeting, reliance on the entity's internal control, significant business and industry developments, and other significant relevant developments.

*Exhibit I: Excerpt of one of the Audit Programmes available in Audit Express on Overall Audit Strategy*

<b><u>CLIENT SERVICE</u></b>				
<b><u>OBJECTIVES:</u></b>				
To identify the engagement team and determine the scope, nature and extent of the audit engagement.				
<b><u>SCOPE:</u></b>				
<input type="checkbox"/>	To perform a statutory audit on the financial statements for the period / year ended 30-06-10.			
<input type="checkbox"/>	To perform a review on the financial statements for the period / year ended 30-06-10.			
<input type="checkbox"/>	Others (please specify)			
<b><u>ENGAGEMENT TEAM:</u></b>				
	<b>Position</b>	<b>Name</b>	<b>Years of service for this client</b>	<b>Proposed Date of Commencement</b>
	<b>Audit engagement:</b>			
	Audit Partner			
	Senior Manager			
	Audit Manager			
	Audit Senior			
	In Charge			
	Other field staff			
	<b>Tax engagement:</b>			
	Tax Partner			
	Tax Manager			
<b><u>CLIENT'S NEEDS FOR THE ENGAGEMENT</u></b>				
	<b><u>Obligations</u></b>	<b><u>Detail</u></b>		
	Regulatory agencies/ departments	1. Co 2. Inl		
	Holding companies			
<b><u>AUDIT APPROACH WHERE THERE ARE BRANCHES:</u></b>				
Where there are branches, we are required to determine the extent of our audit works. Rotation plan to visit all the branches may be adopted. The rotation plan must be rational and should consider the location and size of the branches. In any case, all the branches must be visited at least once in every 3-financial years.				
	<b>Branches</b>	<b>Year ___</b>	<b>Year ___</b>	<b>Year ___</b>
<b><u>AUDIT APPROACH WHERE THERE ARE MULTIPLE INVENTORIES LOCATIONS:</u></b>				
Where there are multiple inventories locations, we are required to determine the extent of our audit works. Rotation plan to visit all the inventories locations may be adopted. Rotation plan must be rational and should consider the location and size of the inventories locations. In any case, all the inventories locations must be visited once every 3-financial years.				
	<b>Inventories Locations</b>	<b>Year ___</b>	<b>Year ___</b>	<b>Year ___</b>

*Fail to Plan, Plan to Fail – cont'd***Evidence Gathering and Evaluation**

After the overall audit strategy has been established, an auditor is in a position to develop a more detailed audit plan by gathering the necessary evidence based on the overall audit strategy, and obtaining a more detailed knowledge of the entity and its control environment.

The detailed knowledge includes, but not limited to, an understanding of the entity's objectives and strategies, products, marketing plan, internal control, risk of materially misstating the financial statements, its procedures in addressing those risks, accounting information system and related internal control.

Evidence gathering procedures may be performed via, observation, inspection, inquiry, analytical procedures, and re-performance of the procedures.

The key principles under *ISA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* are summarised, as follows:

1. Risk assessment procedures and sources of information about the entity and its environment.
2. Understanding the entity and its environment.
3. Assessing the risk of material misstatement.

**Risk Assessment**

An auditor should perform the following risk assessment procedures to obtain an understanding of the entity and its environment:

1. Inquiries of management and others within the entity;
2. Analytical procedures; and
3. Observation and inspection.



*Fail to Plan, Plan to Fail – cont'd**Exhibit II: Excerpt of the Audit Programmes available in Audit Express – Assess Engagement Risk*

<b>ASSESS ENGAGEMENT RISK</b>					
<b><u>OBJECTIVES:</u></b>					
To understand the control environment of the Company and to assess the inherent risks of the audit engagement in order to develop an effective audit approach.					
<b><u>INTRODUCTION:</u></b>					
In developing our overall audit plan, we should assess inherent risks at the financial statements level. We should also obtain an understanding of the control environment sufficient to assess directors' and management's attitude, awareness and actions in regard to internal controls, and their importance in the company.					
A "Yes" answer indicates a potential inherent risk and mitigating factors should be identified, failing which the inherent risk would be assessed as "HIGH".					
<b><u>POINTS TO CONSIDER:</u></b>					
No.	Points to Consider	X-Ref	Yes	No	N/A
1	<b>ORGANIZATION STRUCTURE</b>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1	Is the organization structure inappropriate in relation to the size and nature of the business, e.g., unusual rapid growth, unduly complex or a large number of decentralized operating units?		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Is the reporting structure overly complex, involving numerous or unusual legal entities, managerial lines of authority or contractual arrangements without apparent business purpose?		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Understanding of the Entity and its Environment

Understanding of the entity and its environment consists of an understanding of the following aspects:

1. Industry, regulatory, and other external factors.
2. Nature of the entity, including the entity's selection and application of accounting policies.
3. Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements.
4. Measurement and review of the entity's financial performance.
5. Internal control.



*Fail to Plan, Plan to Fail – cont'd*

Exhibit III: Excerpt of the Audit Programmes available in Audit Express – Understanding Client's Business

<b>UNDERSTANDING CLIENT'S BUSINESS</b>					
<b>OBJECTIVE:</b>					
To have the knowledge of the client's business so as to enable us to identify and understand the events, transactions and practices that might have a significant impact on the audit engagement.					
<b>EXTERNAL FACTORS AFFECTING THE BUSINESS:</b>					
No.	Points to consider	X-Ref	Yes	No	N/A
1	Are there any changes or adverse development in the general economic and political factors which will affect the client's business? (consider the following points)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.1	General economic activities				
1.2	Interest rate and financing alternatives				
1.3	Inflation level and currency stability				
1.4	Government's monetary and fiscal laws and policies				
1.5	Foreign exchange control				
2	Are there any changes or adverse industry matters which will affect the client's business? (consider the following points)				
2.1	Technological advancement				
2.2	Competition within the industry				
2.3	Market positioning				
2.4	Cyclical and seasonal effects				
2.5	Adverse market conditions, eg, severe recession				
2.6	Regulatory and environmental requirements				
2.7	Competition benchmarking				
<b>FINDINGS (To document findings)</b>					
<b>INTERNAL FACTORS AFFECTING THE BUSINESS:</b>					
<b>3 Understand the Management and Ownership Structures</b>					
3.1	Describe the group structure (including significant shareholders, subsidiaries, joint ventures & associates)				
3.2	Describe the composition of the Board of Directors and their background (including experience, qualifications & key functions)				
3.3	Describe the sources and methods of financing, and the investment policies				
3.4	Describe if there are acquisitions, mergers or disposal of business activities				
3.5	Identify any related parties which have an impact on the financial statements				



*Fail to Plan, Plan to Fail - cont'd***Decision Making and Conclusion**

When an auditor has gathered the necessary evidence, the next task is to consider whether the available evidence is of sufficient and appropriate quality in order to make a decision concerning the appropriate audit approach to be adopted.

An auditor will determine whether “**system/test of control approach**”, “**substantive approach**” or **combination of the approaches** is more appropriate. Substantive approach may be further classified into “**test of details approach**” and “**analytical review approach**”.

Audit planning is not a discrete phase of an audit, but a continual and iterative process. Thus, a detailed understanding of the entity is required in all audit stages. Subsequently, the audit plan may be modified as a result of changes in conditions and/ or audit evidence obtained from other audit procedures.

*For further enquiry on the AXP's ISQC-compliant audit programmes and Small & Medium-sized Entities' audit programmes, please contact us at 1300 882 297 or [marketing@myAXP.com](mailto:marketing@myAXP.com) AXP*



# Highlight of the Events ~ MoU with UKM



## About AXP Update

Highlights of events participated, sponsored by AXP and any other important events/ milestones.



### AXP's Events for the Past Six Months from May 2009 to October 2009

Milestones achieved, and events participated and sponsored by AXP are as follows:

Date	Events / Milestones	Organisers / Details
19/10/2009	<p>Memorandum of Understanding (MoU) signing ceremony between AXP and Universiti Kebangsaan Malaysia (UKM)</p> 	<p>A MoU was signed between AXP and UKM at Cititel Mid Valley.</p> <p>The signing ceremony was officiated by <b>Yang Berbahagia Datin Prof. Ir. Dr. Siti Hamisah Binti Tapsir, Deputy Director General, Ministry of Higher Education</b>, representing <b>Y.B. Dato' Saifuddin Abdullah, Deputy Minister, Ministry of Higher Education</b>.</p> <p>Also attended were <b>Ms. Ho Foong Moi, Executive Director, Malaysian Institute of Accountants (MIA)</b>, <b>Professor Dr. Mohd. Fauzi Mohd. Jani, the Dean of the Faculty of Economics &amp; Business, UKM</b>, representatives from MIA and others.</p> <p>The initiative is fully supported by the MIA.</p>
13 & 14/10/2009	<p>National Accountants Conference 2009 (Event supporter)</p>	<p>MIA</p>
2 & 3/10/2009	<p>First <b>Audit Express Workshop</b> for accounting students of International Islamic University of Malaysia (IIUM)</p> 	<p>The 2 days workshop was initiated by IIUM's <b>BACC Association</b> and supported by Kulliyah Economics and Management Sciences.</p> <p>The majority of them agreed that the Workshop has helped to enhance their knowledge in auditing and was positive that the knowledge gained would be of significant benefit to them before they start their industrial training or join audit firms.</p>



*Highlight of the Events ~ MoU with UKM - cont'd*

<u>Date</u>	<u>Events / Milestones</u>	<u>Organisers / Details</u>
7/9/2009	Issue of re-branded AXP e-Newsletter	N.A.
19/8/2009	Public Accountants Conference 2009 	Accounting and Corporate Regulatory Authority (ACRA), Singapore
4 & 5/8/2009	National Tax Conference 2009 	LHDN and Chartered Tax Institute of Malaysia (CTIM)
29/7/2009	Issue of PERS Model Financial Statements (2009 Edition)	N.A.

For more information on the above events, kindly visit AXP's web-page: [www.myAXP.com](http://www.myAXP.com) AXP



## Green Lover's Heaven ~ Titi Eco Farm Resort



### About Travel and Vacation

Wondering where to go on vacation this year? Let us entice you with some amazing travel opportunities and a suggested itinerary for the destination selected. Furthermore, test your knowledge on Malaysia by participating in our **Travel and Vacation Quiz**. Prizes are waiting to be won by the lucky participants, and our Grand Prize can help to make your dreams come true.

*[This Article is written by one of the AXP's Directors, based on her recent experience in visiting Titi Eco Farm Resort (TEFR). We wish to extend our gratitude to TEFR for the pictures provided to publish in our e-Newsletter. For more details, please visit [www.titieco.com.my](http://www.titieco.com.my)]*

Are you a green lover? Are you looking forward to experience an affordable **GREEN** weekend in the beauty of nature? Are you looking for a place where the air is cooler, fresher and cleaner? Would you like to try the real nutritional organic cuisine where the vegetables and fruits are freshly pick from the farm and serve to you immediately?

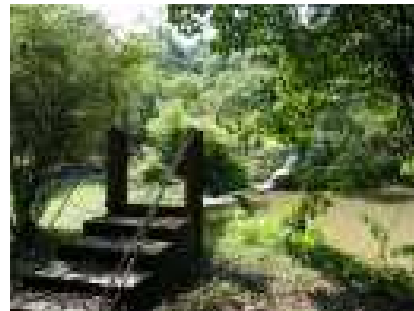


If you answer 'YES' to all the above questions, TEFR is the place you may want to consider! It is located in Jelevu, Negeri Sembilan and is only 45 minutes from Seremban or about two hours drive from Kuala Lumpur.

TEFR is a quiet, comfortable and chemical free farm in a quiet countryside retreat located about 1,000 feet above sea level. With 28-acre of lush greenery, the resort is surrounded by mixed fruit orchards, a herb garden and organic vegetable garden. There is an ostrich and domestic animal farm, fishpond, lotus pond, leisure centre and a composting hut. If you are lucky, depending on the weather condition, you may have a chance to watch fireflies at night.

The organic farm was designed by its owner, Mr. Lim applying the "**ecological sustainability**" principle with a unique management system integrating an organic farm, a resort and an in-farm factory. The aim is to promote the idea of environmental preservation and healthy lifestyle to the public.



*Green Lover's Heaven ~ Titi Eco Farm Resort – cont'd*

On our visit to TEFR in May 2009, we were welcomed with freshly boiled herbal tea, juicy and sweet farm fruits. You must also try the farm's fresh pineapple which is super sweet and juicy. Ms. Elaine of TEFR gave us a tip to FULLY enjoy the organic pineapple, ie. do not throw away the pineapple skin, boil it with water and drink it, equally sweet!

The owner is passionate about healing and caring for the earth and unselfishly shared with us his knowledge. The morning herb garden tour conducted during our stay was full of practical information. We were introduced to various species of herbs, as well as their respective medicinal properties.



The walk around the organic vegetable and mixed fruit orchard was a knowledgeable tour especially on the principle of "ecological and nutritional balance" which Mr. Lim shared with us! Other healthy and interesting activities that we really enjoyed were for example, a herbal bath and a healthy cooking class.

We also had the opportunity to experience the healthy way of eating and were served many special nutritional organic meals. The chefs are really talented. Apart from kampung chicken and fresh fish from the local fish pond, they skillfully turned around simple looking leaves, petals and roots into a dish that not only presentable but also truly healthy and delicious! The sequence of each dish served has a reason and you are advised to start with 'first come first eat' rule! By the way, you are expected to wash your own cutlery after each meal!

Personally I feel TEFR is green lover's heaven!! I strongly recommend anyone who wishes to experience a natural lifestyle to visit TEFR. I am also of the opinion that we should encourage the young generations to learn the basic of healthy lifestyle at the early stage of their life.

I will certainly revisit TEFR again in the near future and stuff myself silly with leaves, petals and pineapples!

**Wish you were there? See our special quiz in this Issue! A lucky AXP e-Newsletter's reader wins a complimentary 2 days 1 night stay for 2 persons, courtesy of TEFR. Your detox programme starts here!!** AXP



## Travel and Vacation Quiz



How good is your knowledge of Malaysia? Are you aware of Malaysia's better and less better known travel spots? Can you advise friends, family or visitors where to enjoy what Malaysia has to offer? Do you enjoy a challenge??

Try our quiz. All we need is the correct name of two locations for which we shall supply 3 clues in respect of each one. You can win a RM50 gift voucher per issue. Not only that, if you really know Malaysia, you are in the running to win a 6 consecutive issues Grand Prize of a RM1,000 holiday voucher.

### On Quiz 1/6 ... ..

First and foremost, we wish to thank all our readers who have participated in Quiz 1/6. However, there is only 1 participant who has answered both questions correctly. Congratulation! **En. Noriazizi bin Mohd Samuri** from **Ahmad Abdullah & Goh, Johor Bahru** for winning RM50 Jusco Cash Voucher. We trust that you find this voucher just in time for the Hari Raya Aidilfitri.

The correct answers for Quiz 1/6 are as follows:

1. Titi Eco Farm Resort (Source: [www.titieco.com.my](http://www.titieco.com.my))
2. Berjaya Hills (Source: [www.berjayahills.com](http://www.berjayahills.com))

Good news! In this Issue, we have included a more well-known location and hopefully, participants will find it easier to get the correct answer.

Further good new! Since there was only one winner in Quiz 1/6, we have accumulated another prize worth RM50 to Quiz 2/6, i.e., the first two participants who answer both questions correctly will each win a RM75 gift voucher.

### Prize

Each issue: 2 x RM50 gift vouchers for the first two correct answers  
 Grand Prize: 1 x RM1,000 holiday voucher

### Special Prize

**What? More good news? Yes, we are very pleased to announce that Titi Eco Farm Resort has kindly sponsored a one night stay package worth **RM420** to our Quiz. Hence, we have added an additional question. Participants who answer this simple question correctly will be entitled to lucky draw for this special prize. Don't miss the chance to stay at this greenery land! (Tips: the answer is available from our AXP e-Newsletters)**

**See next page for the Quiz of this Issue and Entry Form**



*Travel and Vacation Quiz - cont'd*

**Quiz 1**

1. It is located in Batu Gajah, Perak.
2. It was used as a setting in the 1999 film Anna and the King.
3. According to differing accounts, it was built by a Scottish planter for his wife or a home for his son.

**Quiz 2**

1. It is located in the state of Johor, District of Kluang.
2. It is the first and only Certified Organic Rice Farm in Malaysia.
3. It is a fully integrated organic agro eco farm with pollution free river water.

**Quiz 3 (for Special Prize)**

Identify one of the advantages of using **Observation and Recommended Audit Steps** available in *Audit Express* for performing audit engagement.

**Entry Form**

<p><b>AXP e-Newsletter's Travel and Vacation Quiz - November/December 2009 Issue [Quiz 2/6]</b>                  Entry Form (E-mail to <a href="mailto:support@myAXP.com">support@myAXP.com</a> or Fax to 03-8315 6198 / 07-557 7697)</p>	
<p><b>Answers</b></p>	
<p>Quiz 1: _____</p>	<p>Quiz 2: _____</p>
<p>Quiz 3: (Special Prize) _____</p>	
<p>_____</p>	
<p><b>Personal Details</b></p>	
<p>Name: _____</p>	<p>I/C No: _____</p>
<p>Company: _____</p>	<p>Address: _____</p>
<p>E-mail Add: _____</p>	<p>_____</p>
<p>Contact No.: _____</p>	<p>_____</p>
<p>Fax No.: _____</p>	<p>_____</p>

**Rules and Regulations**

1. All completed entries must be faxed to **03-8315 6198** or **07-557 7697**, or e-mailed to [support@myAXP.com](mailto:support@myAXP.com) before 11.59 p.m. on **18 November 2009**. AXP will not be responsible for blocked or lost faxes and e-mails. Uncompleted Entry Form will be rejected.
2. The Quiz is open to individuals residing in Malaysia or Singapore only.
3. The gift vouchers will be delivered only in Malaysia or Singapore.
4. Gift vouchers are not transferable, and cannot be exchanged for cash.
5. The names of the prize winners, along with the answers, will be published in the following issue of e-Newsletter and winners will be notified by e-mail.
6. Queries regarding the quiz can be sent to [support@myAXP.com](mailto:support@myAXP.com).
7. Employees and relatives of employees of AXP Solutions Sdn. Bhd. and AXP Solutions Pte. Ltd. cannot participate in the Quiz.
8. The first two participants with the correct **official names** of the venues win the RM50 bi-monthly prizes.
9. All participants who have answered our **Travel and Vacation Quiz** correctly for 6 consecutive issues are eligible for our Grand Prize draw to win a RM1,000 holiday voucher. In the event that no participant correctly answers all six consecutive quizzes, participants who answer the most quizzes correctly shall be eligible for the Grand Prize draw.
10. AXP's decision on the results and winners is final. **AXP**

