Technical e-Newsletter

April 2007 Issue

Sample Disclosure and Disclosure Checklist for Directors' Report and Auditors' Report

Technical Diagnostic Centre

Proposed IFRS for SMEs – Issued by the International Accounting Standards Board

A Monthly e-Newsletter published by the Technical Support Unit of AXP Solutions Sdn. Bhd. (693866-X)

www.myAXP.com

Editors' Notes ~ Deadline? or "Dead" line?

Greetings!!

30 April 2007 - another tax filing deadline again!

As a practitioner, we always try to meet all sort of deadlines stipulated by the government agencies, clients, etc. Sometimes, we have forgotten one key reason to stay in the practicing line ~ **client service**.

Operational issues, such as human resources, insignificant matters, are always surrounding us, and we are breathless to resolve the issues. Have we ever sit down calmly and study what actually constitute "client service"? How do we serve our clients better? How can we exceed our clients' expectations?

To enable us to sustain or grow in this highly competitive and globalised environment, the adoption of useful system is no longer an option to serve our clients better.

Back to this month's topics, we have studied the requirements of the directors' report, auditors' report, statement by directors and statutory declaration required under the Companies Act, 1965 (CA) and Standard of Auditing.

For those financial statements to be submitted to Companies Commission of Malaysia, they are required to comply with the provisions of the CA and ninth schedule of the CA. Thus, we have specially design the disclosure checklist in compliance with the provisions of the CA.

Companies incorporated under the CA are required to appoint auditors in accordance with Section 172. Furthermore, under Section 174, auditors are required to report to the members on the financial statements required to be laid before the company in general meeting and on the company's accounting and other records relating to those financial statements.

In addition, AI 700 also stipulated the prescribed contents of the auditors' report. The requirements of the CA and AI are included in the disclosure checklist found in this *e*-Newsletter.

In the AXP Technical Diagnostic Centre, we have studied the questions for comments of the proposed IFRS for SMEs issued by IASB.

As we are invited by the MASB to be the commentator of the public hearing on IFRS for SMEs to be held on 18 May 2007, we hope to hear from you by 14 May 2007 if you have additional comments on the proposed IFRS for SMEs.

The Disclosure Checklists in this *e*-Newsletter are also available in Microsoft Word. Please feel free to contact us at enquiry@myAXP.com if you wish to obtain these complimentary copies.

Editors
AXP Technical *e*-Newsletter
April 2007

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AXP Technical *e*-Newsletter is distributed to AXP's clients and selected accounting and audit practitioners in Malaysia. The views in this *e*-Newsletter do not necessarily represent those of AXP's. Whilst every effort has been made to ensure accuracy, the extracted compliance checklists and Sample Financial Statements in this *e*-Newsletter do not necessarily reflect full compliance with FRSs. You are advised not to rely solely on this *e*-Newsletter.

Contributions & Comments

AXP Technical *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. Your contributions or comments may be sent directly to us at:

AXP Technical Support Unit

Corporate Headquarters
83A, Jalan Emas Satu, Taman Sri Skudai, 81300 Johor Bahru, Johor.
Tel: 07-557 5722 Fax: 07-557 7697

Central Malaysia
C-2-16, SME Technopreneur Centre Cyberjaya, 2270, Jalan Usahawan 2, 63000 Cyberjaya, Selangor.
Tel: 03-8315 6168 Fax: 03-8315 6198

Singapore
1, Science Centre Road, #09-38 The Enterprise, Singapore 609077.
Tel: 65-6565 0852 Fax: 65-6565 1880

E-mail: enquiry@myAXP.com
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SAMPLE DIRECTORS' REPORT, AUDITORS' REPORT AND OTHER REPORTS REQUIRED BY COMPANIES ACT, 1965

SAMPLE REPORTS REQUIRED BY COMPANIES ACT, 1965:

CA Ref.

The directors hereby submit their report together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2006.

169(6)(b) **PRINCIPAL ACTIVITIES**

The principal activities of the Company are that of investment holding and provision of management services to its subsidiaries. The principal activities of the subsidiaries are described in Note 10 to the Financial Statements. There have been no significant changes in the nature of the activities during the financial year.

169(6)(c) **RESULTS**

	THE GROUP RM'000	THE COMPANY RM'000
Profit for the year		
Less: Attributable to minority interest		
Profit for the year attributable to equity holders of the parent		

169(6)(p) In the opinion of the directors, the results of the operations of the Group and the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

169(6)(h) **DIVIDENDS**

On 1 April 2006, the Company paid a 10% final tax exempt dividend (total dividend of RM___) in respect of the previous financial year. The net dividend per share was 10 sen.

On 31 August 2006, the directors declared a 10% interim tax exempt dividend (total dividend of RM___) in respect of the current financial year. The dividend was paid to the shareholders on 31 October 2006. The net dividend per share was 10 sen.

The directors have proposed a 10% final tax exempt dividend in respect of the current financial year. The dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in the financial statements. Total dividend payable is RM___, and the net dividend per share is 10 sen.

169(6)(d) **RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions except as disclosed in the Financial Statements.

169(6)(e) **SHARES AND DEBENTURES**

During the financial year, the Company has issued the following shares:

Date of Issue	No. of Shares Issued	Issue Price	Purposes

The new shares issued rank pari passu in respect of the distribution of dividends and repayment of capital with the existing shares.

The Company did not issue any debentures during the financial year.

If the Company did not issue any new shares or debentures:
The Company did not issue any new shares or debentures during the financial year.

169(11), (12) **EMPLOYEES' SHARE OPTION SCHEME**

The Company has an Employees' Share Option Scheme ("ESOS"), which was approved at the Extraordinary General Meeting on 31 October 2001 by its members, for all the eligible employees of the Group.

The details of the ESOS are contained in the By-Laws and the salient features of ESOS are disclosed in Note 34 to the Financial Statements.

The Company has obtained approval from the Companies Commission of Malaysia for the exemption from disclosing name of the option holders as at 31 December 2006.

The movements in the Company's ESOS during the financial year are as follows:

		No. of ordinary shares of RM1 each covered under options			
Grant Date	**Option Price**	**At 1.1.2006**	**Granted**	**Exercised**	**At 31.12.2006**

If the Company did not have share options, to disclose the following information:

169(11), (12) **SHARE OPTIONS**

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

169(6)(a) **DIRECTORS**

The directors who held office since the date of the last report are:

[To list the name of directors]

DIRECTORS' BENEFITS

169(6)(f) During and at the end of the financial year, no arrangements subsisted to which the Company or its subsidiaries is a party, with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

169(8) Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

169(6)(g) **DIRECTORS' INTERESTS**

According to the register of directors' shareholding, the interests of directors in office at the end of the financial year in the ordinary shares of the Company and its related corporations during the financial year are as follows:

	No. of Ordinary Shares of RM1,000 each			
	At 1.1.2006	**Bought**	**Sold**	**At 31.12.2006**
[To list the directors interest]				

None of the other directors in office at the end of the financial year held any shares in the Company or in any related corporations during the financial year ended 31 December 2006.

OTHER STATUTORY INFORMATION

Before the income statement and the balance sheet of the Group and the Company were made out, the directors took reasonable steps:

169(6)(i) (a) to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts, and have satisfied themselves that all known bad debts had been written-off and that adequate allowance had been made for doubtful debts; and

169(6)(k) (b) to ensure that any current assets which were unlikely to be realized at their book values in the ordinary course of business have been written down to their estimated realisable values.

As of the date of this report, the directors are not aware of any circumstances:

169(6)(j) (a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent in the financial statements of the Group and the Company; or

169(6)(l)(i) (b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or

169(6)(l)(ii) (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate; or

169(6)(o) (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and the Company misleading.

169(6)(m) As of the date of this report, there does not exist:

(a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year and secures the liability of any other person; or

(b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

169(6)(n) No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and the Company to meet its obligations as and when they fall due.

169(6)(q) In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and the Company for the succeeding financial year.

HOLDING COMPANIES

169(10) The Company is a subsidiary of Be Competent Sdn. Bhd., a company incorporated in Malaysia. The ultimate holding company of the Company is Be Brilliant Sdn. Bhd., a company incorporated in Malaysia.

AUDITORS

The retiring auditors, Messrs. Auditors & Co., have indicated their willingness to be re-appointed in accordance with Section 172(2) of the Companies Act, 1965.

Signed on behalf of the Board
in accordance with a resolution of the directors,

____

____

Kuala Lumpur
[Date of report]

STATEMENT BY THE DIRECTORS
Pursuant to Section 169 (15) of the Companies Act, 1965

The directors of **Model Group Berhad** state that, in their opinion, the financial statements set out in page __ to __ are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006 and of the results of their businesses and the cash flows of the Group and the Company for the year ended on that date.

Signed on behalf of the Board
in accordance with a resolution of the directors,

Kuala Lumpur
[Date of report]

STATUTORY DECLARATION
Pursuant to Section 169 (16) of the Companies Act, 1965

I, ____, the director primarily responsible for the financial statements set out in page __ to __ are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the above named ____ at)
KUALA LUMPUR on [Date])

Before me,

COMMISSIONER FOR OATHS

REPORT OF THE AUDITORS TO THE MEMBERS OF MODEL GROUP BERHAD (Company No.: 12345678-A)

AI700 We have audited the financial statements of the Group and the Company as set out on pages __ to __ of **Model Group Berhad**. These financial statements are the responsibility of the Company's directors.

RPG 6 It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

AI700 We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

AI700 In our opinion:

174(2)(a) (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:

(i) the state of affairs of the Group and the Company as at 31 December 2006 and of the results and the cash flows of the Group and the Company for the year ended 31 December 2006; and

(ii) the matters required by Section 169 of the Act to be dealt with in the financial statements of the Group and the Company; and

174(2)(b) (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

174(2)(c)(ii) We have considered the financial statements and the auditors' reports of the subsidiaries for which we have not acted as auditors, as indicated in Note 10 to the Financial Statements, being financial statements that have been included in the consolidated financial statements.

174(2)(c)(iii) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

174(2)(c)(iv) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Malaysia, did not include any comment made under Section 174 (3) of the Act.

AI700

Auditors & Co.	Auditors
(AF – 99999)	No. 9999/88/08(J)
Chartered Accountants	Partner of the Firm

Kuala Lumpur

AI700 [Date of auditors' report]

SAMPLE DISCLOSURE CHECKLIST

No.	Disclosure	Reference
	DIRECTORS' REPORT	
1.	**Directors** The name of directors in office since the date of the last report.	169(6)(a)
	Principal activity ✓ The principal activity of the company in the course of the financial year; and ✓ Any significant change in the nature of those activities during that period.	169(6)(b)
	Result The net amount of the profit or loss of the company for the financial year after provision for income tax.	169(6)(c)
	Reserves or provisions The amounts and particulars of any material transfer to or from reserves or provisions.	169(6)(d)
	Shares or debentures During the financial year, if the company has issued shares or debentures, to disclose: ✓ Purposes of the issue; ✓ Classes of shares or debentures issued; ✓ Number of shares of each class and amount of debentures of each class; and ✓ Term of issue of the shares and debentures of each class.	169(6)(e)
	Directors' benefit At the end of that financial year, whether: (i) There subsist arrangements to which the company is a party, being arrangements with the object or objects of enabling directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate. (ii) There have, at any time in that year, subsisted such arrangements as aforesaid to which the company was a party, and if so, the report shall contain a statement explaining the effect of the arrangements and giving the names of the persons who at any time in that year were directors of the company and held, or whose nominees held, shares or debentures acquired in pursuance of the arrangements.	169(6)(f)

	<u>Directors' Interests</u> In respect of each person who, at the end of the financial year, was a director of the company: (i) If the directors have interest in shares in, or debentures of, the company or any other such body corporate (*the company's subsidiary or holding company or a subsidiary of the company's holding company*) at the end of the year, the number and amount of shares in, and debentures of, each body in which he was then interested. (ii) If the directors have interest in shares in, or debentures of, the company or any other such body corporate at the beginning of the year (*or if he was not then a director, at the date he became a director*), the number and amount of shares in, and debentures of, each body in which he was interested at the beginning of the year or when he became a director. (iii) Total number of shares in or debentures of the company or any other such body corporate bought and sold by him during the year.	169(6)(g)
	<u>Dividends</u> ✓ Any amount which the directors recommended should be paid by way of dividend; and ✓ Any amount which have been paid or declared by way of dividend since the end of the previous financial year, indicating which of those amounts if any have been shown in a previous report.	169(6)(h)
	<u>Bad and doubtful debts</u> Before the income statement and balance sheet were made out, whether the directors took reasonable steps to ascertain what action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts has been written off and that adequate allowance had been made for doubtful debts.	169(6)(i)
	Whether at the date of the report, the directors are aware of any circumstances which would render the amount written off for bad debts or the amount of allowance for doubtful debts inadequate to any substantial extent and, if so, giving particulars of the circumstances.	169(6)(j)
	<u>Current assets</u> Before the income statement and balance sheet were made out, whether the directors have taken reasonable steps to ensure that any current assets which were unlikely to be realized in the ordinary course of business including their value as shown in the accounting records of the company have been written down to an amount which they might be expected so to realize.	169(6)(k)

	Valuation of assets and liabilities Whether at the date of the report, the directors are aware of any circumstances: (i) Which would render the values attributed to current assets in the financial statements misleading; and (ii) Which have arisen which render adherence to the existing method of valuation of assets or liabilities of the company misleading or inappropriate, and, if so, giving particulars of the circumstances.	169(6)(l)
	Charge on the assets and contingent liability Whether there exists at the date of the report: (i) Any charge on the assets of the company which has arisen since the end of the financial year which secures the liabilities of any other person and, if so, giving particulars of any such charge and, so far as practicable, of the amount secured; and (ii) Any contingent liability which has arisen since the end of the financial year and, if so, stating the general nature thereof and, so far as practicable, the maximum amount, or an estimate of the maximum amount, for which the company could become liable in respect thereof.	169(6)(m)
	Contingent and other liability Whether any contingent or other liability has become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the company to meet its obligations when they fall due, and if so, giving particulars of any such liability.	169(6)(n)
	Other circumstances Whether at the date of the report the directors are aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements misleading and, if so, giving particulars of the circumstances.	169(6)(o)
	Material and unusual items Whether the results of the company's operations during the financial year were, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature and, if so, giving particulars of that item, transaction or event and the amount or the effect thereof, if known or reasonably ascertainable.	169(6)(p)

	Subsequent event Whether there has arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the company's operations for the financial year in which the report is made and, if so, giving particulars of the item, transaction or event.	169(6)(q)
	Directors' benefit Whether a director of the company has since the end of the previous financial year received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements or the fixed salary of a full-time employee of the company) by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, and, if so, the general nature of the benefit.	169(8)
	Holding company Whether at the end of a financial year, the company is the subsidiary of another corporation, the directors of the company shall state the name of the corporation regarded by the directors as being the company's ultimate holding company and if known to them the country in which it is incorporated.	169(10)
	Options Where any option has been granted during the period covered by the income statement to take up unissued shares of a company, to state the: (a) Name of the person to whom the option has been granted *; (b) Number and class of shares in respect of which the option has been granted; (c) Date of expiration of the option; (d) Basis upon which the option may be exercised; (e) Whether the person to whom the option has been granted has any right to participate by virtue of the option in any share issue of any other company. *Note: * this sub-section shall not apply in any case where the option to take up shares of the company has been conferred generally on all the holders of a class of shares or debentures of the company. [S 169 (13)]*	169(11)

	Shares under option (a) Particulars of shares issued during the year to which the report relates by virtue of the exercise of options to take up unissued shares of the company, whether granted before or during that period. (b) Number and class of unissued shares of the company under option as at the end of that period, the price, or method of fixing the price, of issue of those shares, the date of expiration of the option and the rights, if any, of the persons to whom the options have been granted to participate by virtue of the options in any share issue of any other company.	169(12)
	STATEMENT BY DIRECTORS / STATUTORY DECLARATION	
	Statement by directors The financial statements laid before a company in general meeting shall be accompanied by a statement signed on behalf of the directors by two directors of the company, stating that in their opinion: (a) The income statement and, consolidated income statement if any, is or are drawn up so as to give a true and fair view of the results of the business of the company and, if applicable, of all the companies the financial statements of which are dealt with in the consolidated income statement for the period covered by the financial statements; and (b) The balance sheet and consolidated balance sheet if any, is or are drawn up so as to exhibit a true and fair view of the state of affairs of the company and, if applicable, of all the companies the affairs of which are dealt with in the consolidated balance sheet as at the end of that period.	169(15)
	Statutory declaration The financial statements laid before a company in general meeting shall be accompanied by a statutory declaration by a director or, where that director is not primarily responsible for the financial management of the company, by the person so responsible, setting forth his opinion as to the correctness or otherwise of the financial statements and, where applicable, consolidated financial statements.	
	REQUIREMENT OF AUDITORS' REPORT ~ COMPANIES ACT 1965	
	Every auditor shall report to the members on the financial statements required to be laid before the company in general meeting and on the company's accounting and other records relating to those financial statements and if it is a holding company for which consolidated financial statements are prepared shall also report to the members on the consolidated financial statements.	174(1)

	Contents of the auditors' report An auditor shall state: (a) Whether the financial statements and, if the company is a holding company for which consolidated financial statements are prepared, the consolidated financial statements are in his opinion properly drawn up: (i) So as to give a true and fair view of the matters required by section 169 to be dealt with in the financial statements and, if there are consolidated financial statements, in the consolidated financial statements.; and (ii) In accordance with the provisions of the Act so as to give a true and fair view of the company's affairs; (b) Whether the accounting and other records and the registers required by the Act to be kept by the company and, if it is a holding company, by the subsidiaries other than those of which he has not acted as auditors have been, in his opinion, properly kept in accordance with the provisions of the Act.	174(2)
	Contents of auditors' report for company with consolidated financial statements An auditor shall state: (i) Name of the subsidiaries (if any) of which he has not acted as auditor; (ii) Whether he has considered the financial statements and auditors' report of all subsidiaries of which he has not acted as auditors, being financial statements that are included in the consolidated financial statements; (iii) Whether he is satisfied that the financial statements of the subsidiaries that are consolidated with other financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and whether he has received satisfactory information and explanations as required by him for those purposes; and (iv) Whether the auditors' report on the financial statements of any subsidiary was made subject to any qualification (other than a qualification that is not material in related to the consolidated financial statements), or included any comment made under Section 174(3), and if so, particulars of the qualification or comment.	174(2)(c)

	<u>Contents of the auditors' report on other matters</u> (a) Any defect or irregularity in the financial statements or consolidated financial statements and any matter not set out in the financial statements or consolidated financial statements without regard to which a true and fair view of the matters dealt with by the financial statements or consolidated financial statements would not be obtained. (b) If he is not satisfied as to any matters mentioned in Section 174 (a), (b) or (c), his reasons for not being so satisfied.	174(2)(d) & (e)
	<u>Duty of auditors</u> It is the duty of an auditor of a company to form an opinion as to each of the following matters: (a) Whether he has obtained all the information and explanations that he required; (b) Whether proper accounting and other records (including registers) have been kept by the company as required by the Act; (c) Whether the returns received from branch offices of the company are adequate; and (d) Whether the procedures and methods use by a holding company or a subsidiary in arriving at the amount taken into any consolidated financial statements were appropriate to the circumstances of the consolidation.	174(3)
	FORMAT OF AUDITORS' REPORT ~ STANDARDS OF AUDITING	
	<u>Title</u> The auditor's report should have an appropriate title.	AI700
	<u>Addressee</u> The auditor's report should be appropriately addressed, i.e., to the shareholders of the company.	AI700
	<u>Opening or Introductory Paragraph</u> Identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.	AI700
	The following clarification wording are recommended to be included in the statement of auditor' s responsibility of the auditor's report prepared for the purpose of satisfying the requirement in section 174 of the Companies Act 1965: *"It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility towards any other person for the*	RPG 6

	content of this report."	
	A statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.	AI700
	Scope Paragraph Describe the scope of the audit by stating that the audit was conducted in accordance with the Standards of Auditing issued by Malaysian Institute of Accountants.	AI700
	Include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.	AI700
	Describe the audit as including: (a) examining, on a test basis, evidence to support the financial statement amounts and disclosures; (b) assessing the accounting principles used in the preparation of the financial statements; (c) assessing the significant estimates made by management in the preparation of the financial statements; and (d) evaluating the overall financial statement presentation.	AI700
	A statement by the auditor that the audit provides a reasonable basis for the opinion.	AI700
	Opinion paragraph Clearly indicate the financial reporting framework used to prepare the financial statements (*including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards*) and state the auditor's opinion as to whether the financial statements give a true and fair view in accordance with that financial reporting framework and whether the financial statements comply with statutory requirements.	AI700
	Date of Auditors' Report Date the report as of the completion date of the audit.	AI700
	Date the report should not be earlier than the date on which the financial statements are signed or approved by management.	AI700

	Auditor's address Name a specific location, which is ordinarily the city where the auditor maintains the office that has responsibility for the audit.	AI700
	Auditor's signature Signed in the name of the audit firm, the personal name of the auditor or both, as appropriate.	AI700

AXP TECHNICAL DIAGNOSTIC CENTRE

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR SMALL AND MEDIUM ENTITIES (SME)

~ Issued by International Accounting Standards Board

Part One: Items proposed to be included in Malaysian Private Entity Reporting Standards

We recommend that the following sections of the proposed *IFRS for SMEs* should be included in the Malaysian proposed PERS (ED 52):

1. Scope (Paragraph 1.1, 1.2 of Section 1)

The scope of the "Private" Entity Reporting Standards (PERS) be re-defined, i.e., we suggest that MASB adopts the definition of "SMEs" and "public accountability" found in the proposed *IFRS for SMEs*. This is due to the following reasons:

- ✓ There are companies which are required to lodge the financial statements under the laws administered by the Securities Commission or the Bank Negara Malaysia (BNM), but they do not have any "public accountability". For instance, MSC-Status companies or certain other companies are required to lodge their financial statements to BNM under the Foreign Exchange Control Act, 1958. We believe that the lodgement of the financial statements to BNM is to control the foreign exchange transactions, and thus, preparation of the financial statements in accordance with FRS is not necessary.

- ✓ Although private entities running programs for charities and other social and publicly accountable activities are accountable to the public for the funds managed by them, we are of the opinion that they are not required to prepare the financial statements in accordance with FRS. Our reasons can be found in the comments on ED 52 submitted by us to MASB earlier.

- ✓ Furthermore, under the existing definition, all the "public" companies are required to comply with FRS. We noted that there are certain "public" companies, which are primarily family business with more than 50 members, are also required to comply with FRS as they are not "private" companies. Please note that they do not have any public accountability.

2. Statement of income and retained earnings (Paragraph 3.16 of Section 3 and Paragraph 6.4, 6.5 of Section 6)

If the only changes to the equity of an entity are profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies, the entity may present a combined statement of income and retained earnings in place of the income statement and statement of changes in equity.

3. Equity (Section 21)

This section should be included, after the necessary modification to suit the Malaysian requirements, in the proposed Malaysian PERS. This is because of the lack of a reporting standard in this area although financial reporting for equity is relatively straight-forward.

4. Analysis of Expenses [Paragraph 5.8 (b) of Section 5]

The analysis of expenses by their function should be continued to be allowed as substantial number of SMEs are using this format to present the analysis of expenses in Malaysia. Unnecessary costs will be incurred to change the presentation format of analysis of expenses.

Part Two: Comments on Proposed *IFRS for SMEs*

QUESTION 1 – STAND-ALONE DOCUMENT

In deciding on the content of the proposed *IFRS for SMEs*, the IASB focused on the types of transactions and other events and conditions typically encountered by SMEs with about 50 employees. For such entities, the proposed *IFRS for SMEs* is intended to be a stand-alone document, with minimal cross-references to full IFRSs.

With the objective of a stand-alone document in mind, are there additional transactions, other events or conditions that should be covered in the proposed standard to make it more self-contained? Conversely, is there guidance in the draft standard that should be removed because it is unlikely to be relevant to typical SMEs with about 50 employees?

Our Comments

We propose that the Board should revisit the following areas (which are not covered elsewhere in this document) which should be removed as we are of the opinion that these topics are less relevance to SMEs:

(a) **Foreign Currency Translation (Section 30)**

We are of the opinion that the requirement to identify the **functional currency** should be removed, and the accounting records should be recorded using the presentation currency to reduce the burden of the SMEs.

This is because recording of transactions by using the functional currency may be very "costly" for the SMEs. Furthermore, the cost of translating the functional currency to presentation currency may also outweigh the benefits as certain countries' legislation do not allow presenting the financial statements using currencies other than that of the home countries' currencies.

(b) **Related Party Transactions (Section 33)**

We proposed that the disclosure of related party transactions on the financial statements be removed. This is due to:

- ✓ Most of the users do not require the understanding of these transactions;
- ✓ It may be very costly to identify all the related party transactions since most of the SMEs may not have a good accounting system; and
- ✓ Most of the local authorities will have their own method of identifying of related party transactions for tax compliance or transfer pricing purposes.

(c) **Combined financial statements (Paragraph 9.21 and 9.22 of Section 9)** – We are of the opinion that combined financial statements are not normally required for SMEs, and thus, this requirement should be silent in *IFRS for SMEs*. If SMEs are required to prepare the combined financial statements, they should prepare them in accordance with Paragraph 10.2 and 10.3 of the proposed *IFRS for SMEs.*

QUESTION 2 – RECOGNITION AND MEASUREMENT SIMPLIFICATIONS THAT THE BOARD ADOPTED

The draft *IFRS for SMEs* was developed by:
(a) extracting the fundamental concepts from the IASB *Framework* and the principles and related mandatory guidance from full IFRSs (including Interpretations), and
(b) considering the modifications that are appropriate in the light of users' needs and cost-benefit considerations.

Paragraphs BC70–BC93 of the Basis for Conclusions describe the simplifications of recognition and measurement principles contained in full IFRSs that have been made in the proposed *IFRS for SMEs* and explain the Board's reasoning.

Are there other recognition or measurement simplifications that the Board should consider? In responding, please indicate:
(a) the specific transactions, other events or conditions that create a specific recognition or measurement problem for SMEs under IFRSs;
(b) why it is a problem; and
(c) how that problem might be solved.

Our Comments

Generally, we propose that the "cost-based" measurement approach be adopted for the *IFRS for SMEs* as we are of the opinion that this approach is more appropriate and relevant for SMEs in reporting their financial statements. First, SMEs may not have sufficient resources to understand and to implement the measurement base other than cost base. Second, fair value approach may not be relevant to and understandable by the users to make their economic decisions.

Thus, we propose the following measurement bases subsequent to initial recognition:
(a) **Financial assets** – at the lower of cost and net realizable value.
(b) **Financial and other liabilities** – at the best estimate of the amount that would be required to settle the obligation at the reporting date.
(c) **Non-financial assets** – lower of the depreciated or impaired cost, and net realizable value or replacement value. Furthermore, the computation of value in use should be simplified.
(d) **Quoted assets** – lower of cost and market value. Market value should be based on mid-market price (no transaction costs).

Furthermore, in respect of the simplifications of recognition and measurement principles described in paragraphs BC 70 ~ 93 of the Basis for Conclusions, we are of the opinion that the following topics should be further simplified / removed:

(a) **Financial Instruments (BC 71 ~ 78)**

The recognition and measurement principles under FRS 139 should be removed entirely from the *IFRS for SMEs* as SMEs will generally lack the knowledge to understand or implement the recognition and measurement principles, and they are too complicated and of little benefit to the users of most SMEs.

Measurement of financial assets and liabilities using fair value approach has limited relevance to SMEs. Thus, we proposed that the financial instruments be measured at the basis stated above.

(b) **Treat All Research and Development Costs as Expenses (BC 81 ~ 82)**

Although it may be difficult for SMEs to ascertain the commercial viability of the products under development, we are of the opinion that capitalization method should be the preferred measurement base, and expensing should be an allowed alternative. This is due to the following reasons:

- ✓ Capitalization method is a more reliable method of recognizing development expenditure as it will match revenue to be generated in future. The financial statements may not fairly present the position if the costs incurred are expensed off without corresponding revenue, provided that the products under development meet the commercial viability test.

- ✓ Expenses incurred to develop proposed products will increase the wealth of the entity in long run, thus, the capitalization of the costs incurred as assets for viable development is essential.

QUESTION 3 – RECOGNITION AND MEASUREMENT SIMPLIFICATIONS THAT THE BOARD CONSIDERED BUT DID NOT ADOPT

Paragraphs BC94–BC107 identify some recognition and measurement simplifications that the Board considered but decided not to adopt, for the reasons noted.

Should the Board reconsider any of those and, if so, why?

Our Comments

Yes, we recommend that the Board should reconsider the following areas:

Preparation of Cash Flow Statement (BC 94)

We propose the presentation of cash flow statement to be made optional for the following reasons:-

- ✓ Cash flow statement may not add benefit to the users (including lenders and other short term creditors) of the financial statements of SMEs, and the cost of preparing cash flow statement may outweigh the benefits derived. For lenders and other creditors, they should be more concern of the repayment abilities, which may not be evident from the cash flow statement prepared under the IFRS.

- ✓ Since the significant users of the financial statements are owners-managers, it is more important for them to manage their cash flows on a day-to-day basis, and the format of the cash flow may be unique among the SMEs.

- ✓ As for other users, their main objective in using the financial statements is not normally reviewing the cash flows of the SMEs. Even if they are relying on the cash flows information of the SMEs, they may wish to obtain current cash flow movements instead of the historical cash flow movements.

Non-recognition of Deferred Taxes (BC 102)

We support the 'taxes payable method' of accounting for income taxes for the following reasons:-

- ✓ It may not be useful information for the users, especially the most significant users, i.e., owners-managers, tax authorities, or creditors, for their management needs.

- ✓ Computation of deferred tax will normally require sufficient expertise and judgment. With this exemption, it would reduce the burden of the smaller SMEs as their accounting staff may possess less technical knowledge.

- ✓ Furthermore, the independence and objectivity of the external auditors may be impaired when they are asked by these SMEs to compute the deferred tax on their behalf. This is largely due to the fact that these entities do not have personnel with sufficient expertise and judgment to compute the deferred tax.

Option to prepare consolidated financial statements (BC 104)

We proposed that the presentation of consolidated financial statements to be made optional. This is due to:-

- ✓ The consolidated financial statements may not add benefits to the users, for instance, government agent, customers and suppliers, owners-managers, etc, particularly if the parent company is merely an investment holding company or hold the investment for operational reasons.

- ✓ Preparation of the consolidated financial statements will normally require substantial expertise and judgment. With this alternative availed, it can reduce the burden of the smaller SMEs as their accounting staff will normally possess less technical knowledge and may not be competent in preparing the consolidated financial statements.

- ✓ Furthermore, the independence and objectivity of the external auditors may be impaired when asked by these SMEs to prepare the consolidated financial statements on their behalf. This is largely due to the fact that these entities do not have personnel with sufficient expertise and judgment to prepare consolidated financial statements.

However, we proposed that the SMEs shall obtain unanimous approval from all the shareholders at members' meeting on an annual basis to exempt from the preparation of the consolidated financial statements, if the SMEs opt not to prepare the consolidated financial statements. Furthermore, full disclosure must be made in the financial statements on the non-presentation of the consolidated financial statements.

QUESTION 4 – WHETHER ALL ACCOUNTING POLICY OPTIONS IN FULL IFRSS SHOULD BE AVAILABLE TO SMES

The draft *IFRS for SMEs* proposes that accounting policy options available under full IFRSs should generally also be available to SMEs. As explained more fully in paragraphs BC108–BC115 of the Basis for Conclusions, the Board concluded that prohibiting SMEs from using an accounting policy option that is available to entities using full IFRSs could hinder comparability between SMEs and entities following full IFRSs. At the same time, the Board recognised that most SMEs are likely to prefer the simpler option in the proposed *IFRS for SMEs*. Therefore, the Board concluded that in six circumstances in which full IFRSs allow accounting policy options, the *IFRS for SMEs* should include only the simpler option, and the other (more complex) option(s) should be available to SMEs by cross-reference to the full IFRSs.

Do you agree with the Board's conclusions on which options are the most appropriate for SMEs? If not, which one(s) would you change, and why?

Should any of these options that would be available to SMEs by cross-reference to the full IFRSs be eliminated from the draft *IFRS for SMEs* and, if so, why?

Our Comments

We agreed with the Board's conclusion on which options are the most appropriate for SMEs, except for the topics mentioned in other questions and the following topic:

Borrowing cost (BC 113)

We are of the opinion that the capitalization model of recognizing borrowing cost should be simplified and made available in the IFRS for SMEs. In our opinion, this model presents the borrowing costs more relevantly and reliably since the borrowing costs are incurred for qualifying capital expenditures which are not expected to generate income for a substantial period of time.

QUESTION 5 – BORROWING COSTS

IAS 23 *Borrowing Costs* currently allows entities to choose either the expense model or the capitalisation model to account for all of their borrowing costs. In May 2006 the IASB published an Exposure Draft proposing to amend IAS 23 to prohibit the expense model and to require the capitalisation model. Section 24 *Borrowing Costs* of the draft *IFRS for SMEs* proposes to allow SMEs to choose either the expense model or the capitalisation model.

Do you agree or disagree with the proposal to allow SMEs to choose either the expense model or the capitalisation model for borrowing costs, and why?

Our Comments

Yes, we agree with the proposal to allow SMEs to choose either the expense model or the capitalization model for borrowing costs. This is primarily due to the necessary judgements and technical competencies which are required for the capitalization model when assessing the recognition and measurement criteria.

Furthermore, the expense model will remove any deferred tax implication. However, we propose that a note (outside the scope of the financial statements) could be presented to indicate the management view of the amount which would otherwise have been capitalized if the entity choose the expense model.

To ensure that SMEs do not change the accounting policy to window-dress their financial statements, and misuse the "impracticable" reason to adjust the effects of changes in accounting policies retrospectively, we propose stricter transitional provisions for the change of accounting policy in respect of the for borrowing costs.

QUESTION 6 – TOPICS NOT ADDRESSED IN THE PROPOSED IFRS FOR SMES

Some topics addressed in full IFRSs are omitted from the draft *IFRS for SMEs* because the Board believes that typical SMEs are not likely to encounter such transactions or conditions. These are discussed in paragraphs BC57–BC65 of the Basis for Conclusions. By a cross-reference, the draft standard requires SMEs that have such transactions to follow the relevant full IFRS.

Should any additional topics be omitted from the *IFRS for SMEs* and replaced by a cross-reference? If so, which ones and why?

Our Comments

We are of the opinion that the following topic should be omitted from the *IFRS for SMEs* and replaced by a cross-reference:

Defined Benefits Plans

Accounting for defined benefits plans should be omitted as SMEs do not normally have defined benifits plans for their employees.

Should the accounting for defined benefits plans be remained, we propose to simplify the measurement principles.

QUESTION 7 – GENERAL REFERRAL TO FULL IFRSS

As noted in Question 1, the *IFRS for SMEs* is intended to be a stand-alone document for typical SMEs. It contains cross-references to particular full IFRSs in specific circumstances, including the accounting policy options referred to in Question 4 and the omitted topics referred to in Question 6. For other transactions, events or conditions not specifically addressed in the ***IFRS for SMEs***, paragraphs 10.2–10.4 propose requirements for how the management of SMEs should decide on the appropriate accounting. Under those paragraphs, it is not mandatory for SMEs to look to full IFRSs for guidance.

Are the requirements in paragraphs 10.2–10.4, coupled with the explicit cross-references to particular IFRSs in specific circumstances, appropriate? Why or why not?

Our Comments

For those transactions identified to be less applicable to SMEs, cross-references to particular full IFRSs is appropriate as it is not necessary to spend unnecessary time to set the standards for these areas.

For other transactions, events or conditions not specifically address in the *IFRS for SMEs*, we are of the opinion that the entity should follow the following sequence of references:

(a) An entity should follow the requirements of the IFRS if the requirement therein provide relevant and reliable information in reporting the financial statements, otherwise, the management should proceed to item (b); and

(b) Management shall use its judgement in developing and applying an accounting policy, considering the recent pronouncement of other standard-setting bodies as stipulated in Paragraph 10.4 of Section 10.

QUESTION 8 – ADEQUACY OF GUIDANCE

The draft *IFRS for SMEs* is accompanied by some implementation guidance, most notably a complete set of illustrative financial statements and a disclosure checklist. A sizeable amount of guidance that is in full IFRSs is not included. Accordingly, additional guidance especially tailored to the needs of SMEs applying the proposed IFRS may be required.

Are there specific areas for which SMEs are likely to need additional guidance? What are they, and why?

Our Comments

If the following topics are included in the *IFRS for SMEs*, we believe that additional implementation guidance or examples should be available for the measurement of the following transactions:

(a) Equity-settled share-based payments;
(b) Impairment of non-financial assets;
(c) Defined contribution plan;
(d) Deferred taxes; and
(e) Foreign currency translation.

This is because the above topics are relatively complex in nature, and are generally not "understandable" by SMEs, and relevant (i.e., not too simple nor overly complex) examples should be provided. Where different scenarios exist, the same example should be based on each scenario to highlight the impact. This approach will facilitate the understanding of how the implications affect the outcome.

In addition to the disclosure checklist, we believe it will be very useful if the Board could develop a set of compliance checklist for selected topics which are more complex.

QUESTION 9 – ADEQUACY OF DISCLOSURES

Each section of the draft *IFRS for SMEs* includes disclosure requirements. Those requirements are summarised in the disclosure checklist that is part of the draft implementation guidance *Illustrative Financial Statements and Disclosure Checklist*.

Are there disclosures that are not proposed that the Board should require for SMEs? If so, which ones and why? Conversely, do you believe that any of the proposed disclosures should not be required for SMEs? If so, which ones and why?

Our Comments

We are of the opinion that the following disclosures should be removed:

(a) **Information about judgements and information about key sources of estimation uncertainty (Paragraph 8.6 and 8.7 of Section 8)** – these disclosures should be removed as we are of the opinion that this information might not be useful for the users of financial statements, and generally, the transactions entered into by SMEs are not complex in nature. It may pose undue burden for SMEs to disclose this information.

(b) **Disclosure of the reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the period (Paragraph 16.29 (e) Section 16)**– we propose that comparative information for the reconciliation need not be disclosed, similar to the disclosure exemption found in Section 20 Provisions and Contingencies.

(c) **Business combination effected after the end of the reporting period but before the financial statements are authorized for issue (Paragraph 18.24 of Section 18)** – We propose the disclosures required by paragraph 18.23 for each business combination effected after the end of the reporting period but before the financial statements are authorized for issue be removed entirely, although there is an "impracticable" clause available.

QUESTION 10 – TRANSITION GUIDANCE

Section 38 Transition to the *IFRS for SMEs* provides transition guidance for SMEs that move (a) from national GAAP to the *IFRS for SMEs* and (b) from full IFRSs to the *IFRS for SMEs*.

Do you believe that the guidance is adequate? If not, how can it be improved?

Our Comments

We are of the opinion that the transitional guidance should not be applicable to entities' if they are using full IFRS to prepare their financial statements previously. This is mainly due to the following reasons:

(a) The concepts and pervasive principles of both *IFRS for SMEs* and *IFRS* are similar; and
(b) All the options available in *IFRS for SMEs* are also available in *IFRS*.

QUESTION 11 – MAINTENANCE OF THE IFRS FOR SMES

The Board expects to publish an omnibus exposure draft of proposed amendments to the *IFRS for SMEs* approximately every other year. In developing such exposure drafts, the Board expects to consider new and amended IFRSs that have been adopted in the previous two years as well as specific issues that have been brought to its attention regarding possible amendments to the *IFRS for SMEs*. On occasion, the Board may identify a matter for which amendment of the *IFRS for SMEs* may need to be considered earlier than in the normal two-year cycle.

Is this approach to maintaining the proposed *IFRS for SMEs* appropriate, or should it be modified? If so, how and why?

Our Comments

We are of the opinion that, since the proposed *IFRS for SMEs* is intended to be a stand-alone document, its contents should not be too dependent on the development of the IFRSs, which are intended for the larger companies with more complex transactions. The financial reporting needs of the SMEs are entirely different from those of larger companies.

As highlighted in the Basis of Conclusion, SMEs do not normally have adequate resources to understand and update in line with the development in IFRS, and it may create undue burden to the SMEs. Thus, we propose that the aim of the exposure draft should be to "update" the entire *IFRS for SMEs* where necessary.

If the original *IFRS for SMEs* is "sound", the reviews should be "minor" since most new *IFRS* is less relevant to SMEs. If it is not, a 2-yearly review can eliminate the inconsistencies or bad practices and establish a "set" time-table for application rather than an "ad-hoc" approach.

Overall emphasis of the proposed amendments should be on ease of application for "standard" transactions whilst ensuring it does not go back to the old problem of off balance sheet financing.

It is better to focus on obligations and commitments rather than asset recognition or valuation. If these are considered important, these aspects can be adequately dealt with outside the scope of financial statements which reduces the element of subjectivity in the financial statements. Whilst accounting should be tax driven, the treatments should be consistent to remove any associated deferred tax problems.