



Technical e-Newsletter

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

Financial Reporting Standards

Looking Into FRS 101 & 102

Compliance Checklists and Sample Notes

Proposed Auditing Standard

Planning An Audit of Financial Statements

Goods And Services Tax: Are You Ready?



**What's New on
FRS 101 and 102?**



**GST -
How to
prepare
for it?**

Challenges Ahead

Following the issuance of our maiden Technical *e*-Newsletter last month, which touched on the pros and cons of having a separate set of accounting standards for Small and Medium Enterprises, and some practical plan to better prepare ourselves for the tax audit and investigation, we shall, from this issue onwards, focus on the analysis and interpretation of FRSs from the practical aspects and also some tools available to better prepare ourselves for the upcoming GST.

Lack of technical staff to catch up with the latest FRSs development is always a challenge for many practitioners, coupled with high staff turnover and stiffer competition in the profession. With the introduction of this Technical *e*-Newsletter, we hope to 'free up' some of your time while still able to keep pace with the latest development in the financial reporting regime. Well, you would in turn have more time in strategizing better value added services for your clients, or perhaps a few more rounds of golf to clinch more businesses!

In this issue, we provide compliance checklists and sample financial statements which comply with FRS 101 Presentation of Financial Statements and FRS 102 Inventories for your reference. One of our co-editors, who has extensive experience in implementing GST for clients in Singapore, is also providing some practical tools to better prepare ourselves in the introduction of GST in Malaysia.

We hope you will find this Technical *e*-Newsletter useful. The Compliance Checklists and the Sample Financial Statements are also available in Microsoft Word and Excel, please feel free to contact our co-editors at enquiry@myAXP.com if you wish to obtain these complimentary copies.

If you have missed out our previous issue(s) or you wish to introduce this Technical *e*-Newsletter to your friends, do let us have their e-mail addresses so that we could include them in our future mailing lists, or you may want to visit our web-site at www.myAXP.com to grab a copy.

Editors
AXP Technical *e*-Newsletter

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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:

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FRS 101 Presentation of Financial Statements

SUMMARY OF OBJECTIVE OF THE REVISED FRS 101

The objectives of the revised FRS 101 are to reduce or eliminate alternatives, redundancies and conflicts within the Standard, to deal with some convergence issues and to make other improvements.

WHAT'S NEW IN THE FRS 101?

- ✚ Guidance on the meaning of “present fairly”;
- ✚ Specific disclosures where the management concludes that compliance with the standards would be misleading;
- ✚ Present assets and liabilities in order of liquidity only when it is more reliable and relevant than the current/non-current presentation;
- ✚ Liability held primarily for trade purposes to be classified as current;
- ✚ A liability shall be classified as current if there is no unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date;
- ✚ Disclose the management judgments in applying the accounting policies that have the most significant effect on the amounts recognized;
- ✚ The key assumptions concerning the future that have a significant risk of causing a material adjustment on the assets and liabilities within the next financial year;
- ✚ To include the following line items previously set out in other Standards:-
 - a. Biological assets;
 - b. Liabilities and assets for current tax, deferred tax liabilities and assets;
 - c. A single amount comprising the total of:-
 - i. Post-tax profit or loss of discontinued operations;
 - ii. Post-tax gain or loss on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group constituting the discontinued operation.
- ✚ Define “material”;
- ✚ Disclose “profit or loss attributable to minority interest” and “profit or loss attributable to equity holders of the parents” on the face of income statement and statement of changes in equity;
- ✚ Disclose total income and expenses showing separately the amounts attributable to equity holders of the parent and to minority interest on the face of the statement of changes in equity.

WHAT HAVE BEEN REMOVED?

- ✚ The requirements to disclose results of operating activities and number of employees have been omitted;
- ✚ The standard prohibits disclosure of “extraordinary items” in the financial statements.

SAMPLE COMPLIANCE CHECKLISTS, AND DISCLOSURE NOTES

REF.	COMPLIANCE CHECKLISTS	EXAMPLE / SAMPLE DISCLOSURES NOTES
<u>Components of Financial Statements</u>		
101.8	<p>A complete set of financial statements comprises:</p> <ul style="list-style-type: none"> (a) A balance sheet; (b) An income statement; (c) A statement of changes in equity showing either: <ul style="list-style-type: none"> ➤ All changes in equity; or ➤ Changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders. (d) A cash flow statement; and (e) Notes, comprising a summary of significant accounting policies and other explanatory notes. 	<p>Refer to Sample Balance Sheet Refer to Sample Income Statements</p> <p>Refer to Sample Statement of Changes in Equity</p> <p>Not Available Available in future issue on FRS107</p> <p>Refer to Sample Notes to Financial Statements</p>
<u>Fair Presentation and Compliance with FRSs</u>		
101.13	Financial statements shall present fairly the financial position, financial performance and cash flows.	Not Applicable
101.14	Financial statements shall include an explicit and unreserved statement to the effect that they comply with FRSs.	Refer to Sample Notes to Financial Statements
101.14	Financial statements shall not be described as complying with FRSs unless they comply with ALL the requirements of FRSs.	Not Applicable
101.16	Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.	Not Applicable
101.17	In the extremely rare circumstances in which management concludes that compliance with a requirement would be so misleading that it would conflict with the objective of financial statements, the entity shall depart from that requirement if the relevant regulatory framework requires, or does not prohibit, such a departure.	Not Applicable
101.18	<p>When an entity has departed from a requirement of a Standard or an Interpretation in accordance with FRS 101.17, it shall disclose:</p> <ul style="list-style-type: none"> (a) management has concluded that the financial statements present fairly the 	Not Applicable

	<p>financial position, financial performance and cash flows;</p> <p>(b) it has complied with applicable Standards and Interpretations, except for the departure from a particular requirement;</p> <p>(c)</p> <ul style="list-style-type: none"> (i) the title of the Standard or Interpretation from which it has departed; (ii) the nature of the departure (including the treatment that the Standard or Interpretation would require); (iii) the reason why that treatment would be so misleading that it would conflict with the objective of financial statements; and (iv) the treatment adopted; and <p>(d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.</p>	
101.19	When an entity has departed from a requirement in a prior period, and that departure affects the financial statements for the current period, it shall make the disclosures set out in FRS 101.18(c) and (d).	Not Applicable
101.21	<p>In the extremely rare circumstances in which management concludes that compliance with a requirement would be so misleading that it would conflict with the objective of financial statements, but the relevant regulatory framework prohibits departure from the requirement, the entity shall reduce the perceived misleading aspects of compliance by disclosing:</p> <ul style="list-style-type: none"> a) the title of the Standard or Interpretation in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements; and b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation. 	Not Applicable
	<u>Going Concerns</u>	
101.23	When management is aware of any material uncertainties related to events or conditions which may cast significant doubt upon the ability to continue as a going concern, those uncertainties shall be disclosed.	The Company incurred a net loss of ... during the year ended 31 December 20xx and, as of that date, the Company's current liabilities exceeded its current assets by ... These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.
101.23	When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, and the basis on which the financial statements are prepared and the reason why it is not considered to be a going concern.	The Company's financing arrangements expired and the amount outstanding was payable on <date>. The Company has been unable to renegotiate or obtain replacement financing and is considering filing for

		bankruptcy. These events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore, assets have been valued at net realizable value, and long term liabilities have been reclassified as current liabilities.
	<u>Accrual Basis of Accounting</u>	
101.25	An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.	Not Applicable
	<u>Consistency of Presentation</u>	
101.27	The presentation and classification of items in the financial statements shall be retained from one period to the next unless: a) it is apparent, following a significant change in the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate based on the criteria for the selection and application of accounting policies in FRS 108; or b) a Standard or an Interpretation requires a change in presentation.	Not Applicable
	<u>Materiality and Aggregation</u>	
101.29	Each material class of similar items shall be presented separately in the financial statements.	Editors' Comment: Certain classes of line items may not be required to be disclosed under FRS 101.68, 101.81 and 101.96. However, if they are material, it should be disclosed in accordance to FRS 101.29.
	<u>Offsetting</u>	
101.32	Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.	Note: Measuring assets net of valuation allowances (allowances for inventories obsolescence and allowance for doubtful debts) is not offsetting.
	<u>Comparative Information</u>	
101.36	Comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements.	Refer to Sample Financial Statements
101.36	Comparative narrative and descriptive information, which are relevant to understand current year's financial statements, shall be included.	Refer to Sample Financial Statements

101.38	When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless it is impracticable.	Not Applicable
101.38	When comparative amounts are reclassified, to disclose: (a) the nature of the reclassification; (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification.	Refer to Sample Notes to the Financial Statements
101.39	When it is impracticable to reclassify comparative amounts, to disclose: (a) the reason for not reclassifying the amounts; and (b) the adjustments would have been made if the amounts were reclassified.	Not Applicable
<u>Identification of the Financial Statements</u>		
101.44	The financial statements shall be identified clearly and distinguished from other information in the same published document.	Note: FRSs apply only to the financial statements, and not to other information presented in an annual report. It is important that users can distinguish information that is prepared using FRSs from other information but is not the subject of those requirements.
101.46	Each component of the financial statements shall be identified clearly.	Refer to Sample Financial Statements
101.46	The following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented: (a) the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date; (b) whether the financial statements cover the a company or a group; (c) the balance sheet date or the period covered, whichever is appropriate; (d) the presentation currency, as defined in FRS 121; and (e) the level of rounding used in presenting amounts.	Refer to Sample Financial Statements
<u>Reporting Period</u>		
101.49	When the balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose: (a) the period covered by the financial statements; (b) the reason for using a longer or shorter period; and (c) that comparatives for income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable.	Note: Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.
<u>Balance Sheet – Current/Non-current Distinction</u>		

101.51	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of the balance sheet except when a presentation based on liquidity provides information that is reliable and is more relevant.	Refer to Sample Balance Sheet
101.51	When a presentation based on liquidity provides information that is reliable and is more relevant than presentation on a current/non-current basis, assets and liabilities shall be presented broadly in order of their liquidity.	Not Applicable
101.52	Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the balance sheet date; and (b) an entity shall disclose the amount expected to be recovered or settled after more than 12 months.	Refer to Sample Balance Sheet
<u>Balance Sheet - Current Assets</u>		
101.57	An asset shall be classified as current when it satisfies any of the following: (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is expected to be realised within 12 months after the balance sheet date; or (d) it is cash or a cash equivalent unless it is restricted from settling a liability for at least 12 months after the balance sheet date. All other assets shall be classified as non-current.	Note: This Standard does not prohibit the use of alternative descriptions for "non-current" assets as long as the meaning is clear.
<u>Balance Sheet - Current Liabilities</u>		
101.60	A liability shall be classified as current when it satisfies any of the following: (a) it is expected to be settled in the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is due to be settled within 12 months after the balance sheet date; or (d) the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. All other liabilities shall be classified as non-current.	Note: Current liabilities which are part of the working capital used in the entity's normal operating cycle are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date.
101.63	An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the balance sheet date, even if: (a) the original term was for a period longer than 12 months; and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are	Not Applicable

	authorised for issue.	
101.64	If an entity expects to refinance or roll over an obligation for at least 12 months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would be due within a shorter period.	Not Applicable
101.65	When an entity breaches an undertaking under a long-term loan agreement on or before the balance sheet date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the balance sheet date and before the authorisation of the financial statements for issue, not to demand payment.	Not Applicable
101.65	The liability is classified as current because, at the balance sheet date, the entity does not have an unconditional right to defer its settlement for at least 12 months after that date.	Not Applicable
101.66	When an entity breaches an undertaking under a long-term loan agreement on or before the balance sheet date, with the effect that the liability becomes payable on demand, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least 12 months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.	Not Applicable
101.67	In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with FRS 110 <i>Events after the Balance Sheet Date</i> : (a) refinancing on a long-term basis; (b) rectification of a breach of a long-term loan agreement; and (c) receipt from the lender of a grace period to rectify a breach of a long-term loan agreement ending at least 12 months after the balance sheet date.	Not Applicable
	<u>Balance Sheet - Information to be Presented on the Face of the Balance Sheet</u>	
101.68	As a minimum, the face of the balance sheet shall present the following amounts to the extent that they are not presented in accordance with 101.68A: (a) property, plant and equipment; (b) investment property; (c) intangible assets; (d) financial assets (excluding amounts shown under (e), (h) and (i)); (e) investments accounted for using the equity method;	Refer to Sample Balance Sheet

	<ul style="list-style-type: none"> (f) biological assets; (g) inventories; (h) trade and other receivables; (i) cash and cash equivalents; (j) trade and other payables; (k) provisions; (l) financial liabilities (excluding amounts shown under (j) and (k)); (m) liabilities and assets for current tax; (n) deferred tax liabilities and deferred tax assets; (o) minority interest, presented within equity; and (p) issued capital and reserves attributable to equity holders of the parent. 	
101.68A	<p>The face of the balance sheet shall also include the following amounts:</p> <ul style="list-style-type: none"> (a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with FRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>; and (b) liabilities included in disposal groups classified as held for sale in accordance with FRS 5. 	Refer to Sample Balance Sheet
101.69	Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.	Refer to Sample Balance Sheet
101.70	When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	Refer to Sample Balance Sheet
	<u>Balance Sheet - Information to be Presented either on the Face of the Balance Sheet or in the Notes</u>	
101.74	An entity shall disclose, either on the face of the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.	Not Applicable
101.76	<p>An entity shall disclose, either on the face of the balance sheet or in the notes:</p> <ul style="list-style-type: none"> (a) for each class of share capital: <ul style="list-style-type: none"> (i) the number of shares authorised; (ii) the number of shares issued and fully paid, and not fully paid; (iii) par value per share, or that the shares have no par value; (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period; 	Refer to Sample Notes to the Financial Statements

	<ul style="list-style-type: none"> (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; (vi) shares held by the entity or by its subsidiaries or associates; and (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and <p>(b) a description of the nature and purpose of each reserve within equity.</p>	
101.77	An entity without share capital (e.g. a partnership or trust), shall disclose information equivalent to that required by FRS 101.76(a), showing changes during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.	Not Applicable
	<u>Income Statement - Profit or loss for the period</u>	
101.78	All items of income and expense recognised in a period shall be included in profit or loss unless a Standard or an Interpretation requires otherwise.	Not Applicable
	<u>Income Statement - Information to be Presented on the Face of the Income Statement</u>	
101.81	As a minimum, the face of the income statement shall include line items that present the following amounts for the period: <ul style="list-style-type: none"> (a) revenue; (b) finance costs; (c) share of the profit or loss of associates and joint ventures accounted for using the equity method; (d) tax expense; (e) a single amount comprising the total of: <ul style="list-style-type: none"> (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and (f) profit or loss. 	Refer to Sample Income Statement
101.82	The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period: <ul style="list-style-type: none"> (a) profit or loss attributable to minority interest; and (b) profit or loss attributable to equity holders of the parent. 	Refer to Sample Income Statement
101.83	Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.	Refer to Sample Income Statement

101.85	An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.	Not Applicable
	<u>Income Statement - Information to be Presented either on the Face of the Income Statement or in the Notes</u>	
101.86	When items of income and expense are material, their nature and amount shall be disclosed separately.	Refer to Sample Income Statement
101.88	An entity shall present the expenses either by the nature of expenses or their function, whichever provides information that is reliable and more relevant.	Refer to Sample Income Statement
101.93	Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.	Note: Disclose these items in the list of expenses required under 9 th Schedule of the Companies Act 1965
101.95	An entity shall disclose, either on the face of the income statement, or statement of changes in equity, or in the notes, the dividends recognised during the period, and the related amount per share.	Refer to Sample Notes to the Financial Statements
	<u>Statement of Changes in Equity</u>	
101.96	An entity shall present a statement of changes in equity showing on the face of the statement: (a) profit or loss for the period; (b) each item of income and expense for the period that is recognised directly in equity, and the total of these items; (c) total income and expense for the period showing separately the total amounts attributable to equity holders of the parent and to minority interest; and (d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with FRS 108.	Refer to Sample Statement of Changes in Equity
101.97	An entity shall also present, either on the face of the statement of changes in equity or in the notes: (a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders; (b) the balance of retained earnings at the beginning of the period and at the balance sheet date, and the changes during the period; and (c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing	Refer to Sample Statement of Changes in Equity

	each change.	
	<u>Notes - Structure</u>	
101.103	The notes shall: (a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with 101.108-101.115; (b) disclose the information required by FRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement; and (c) provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them.	Refer to Sample Notes to the Financial Statements
101.104	Notes shall, as far as practicable, be presented in a systematic manner.	Not Applicable
101.104	Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross-referenced to any related information in the notes.	Refer to Sample Financial statements
	<u>Notes - Disclosure of Accounting Policies</u>	
101.108	An entity shall disclose in the summary of significant accounting policies: (a) the measurement basis used in preparing the financial statements; and (b) the other accounting policies used that are relevant to an understanding of the financial statements.	Refer to Sample Notes to the Financial Statements
101.113	An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see 101.116), that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.	Refer to Sample Notes to the Financial Statements
	<u>Notes - Key Sources of Estimation Uncertainty</u>	
101.116	An entity shall disclose in the notes on the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.	Refer to Sample Notes to the Financial Statements
101.116	In respect of those assets and liabilities, the notes shall include details of: (a) their nature; and	Refer to Sample Notes to the Financial Statements

	(b) their carrying amount as at the balance sheet date.	
101.120	The disclosures in 101.116 are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty.	Refer to Sample Notes to the Financial Statements
101.122	When it is impracticable to disclose the possible effects of a key assumption or another key source of estimation uncertainty at the balance sheet date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability affected by the assumption.	Not Applicable
	<u>Notes - Other Disclosures</u>	
101.125	An entity shall disclose in the notes: (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution during the period, and the related amount per share; and (b) the amount of any cumulative preference dividends not recognised.	Refer to Sample Notes to the Financial Statements
101.126	An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements: (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office and principal place of business; (b) the nature of the operations and its principal activities; and (c) the name of the parent and the ultimate parent of the group.	Refer to Sample Notes to the Financial Statements
	<u>Effective Date</u>	
101.127	If an entity applies this Standard for a period beginning before 1 January 2006, it shall disclose that fact.	

FRS 102 Inventories

SUMMARY OF OBJECTIVE OF THE REVISED FRS 102

The revised FRS 102 is of limited revision with the main objective to reduce alternatives for the measurement of inventories. The fundamental approach to the accounting for inventories remains.

WHAT'S NEW IN THE FRS 102?

- ✚ Clear distinction between those inventories outside the scope of the standard, and those outside the scope of the measurement requirements but within the scope of the other requirements.
- ✚ When inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as **interest expense** over the period of financing.
- ✚ Describe the circumstances that would trigger a reversal of a write-down of inventories.
- ✚ Require disclosure of the carrying amount of inventories carried at fair value less costs to sell, and inventories written down recognized as an expense.

WHAT HAVE BEEN REMOVED?

- ✚ Not apply to the measurement of inventories of commodity broker-traders to the extent that they are measured at fair value less costs to sell.
- ✚ Last-in, first-out (LIFO) formula to measure inventories has been removed.
- ✚ Eliminate the reference to the matching principle.
- ✚ Eliminate the requirement to disclose the inventories carried at net realizable value.

SAMPLE COMPLIANCE CHECKLISTS, AND DISCLOSURE NOTES

REF.	COMPLIANCE CHECKLISTS	EXAMPLE / SAMPLE DISCLOSURES NOTES
	<u>Definition</u>	
102.6	Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.	
102.6	Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	Note: NRV is an entity-specific value; the latter is not. NRV for inventories may not equal fair value less costs to sell.
	<u>Measurement of Inventories</u>	
102.9	Inventories shall be measured at the lower of cost and net realisable value.	
102.10	The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.	Note: An entity may purchase inventories on deferred settlement terms. A difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.
	<u>Cost Formulas</u>	
102.23	The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.	Note: Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project. However, it is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable.
102.25	The cost of inventories, other than those dealt with in 102.23, shall be assigned by using the first-in, first-out (FIFO) or weighted average method. An entity shall use the same cost formula for all inventories having a similar nature and use. For inventories with a different nature or use, different cost formulas may be justified.	Note: For example, inventories used in one business segment may be different from the same type of inventories used in another business segment. However, a difference in geographical location of inventories or tax rules, is not sufficient to justify the use of different cost formulas.

	<u>Disclosure Requirements</u>	
102.36	<p>The financial statements shall disclose:</p> <ul style="list-style-type: none"> (a) the accounting policies adopted in measuring inventories, including the cost formula used; (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity; (c) the carrying amount of inventories carried at fair value less costs to sell; (d) the amount of inventories recognised as an expense during the period; (e) the amount of any write-down of inventories recognised as an expense in the period; (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period; (g) the circumstances or events that led to the reversal of a write-down of inventories; and (h) the carrying amount of inventories pledged as security for liabilities. 	Refer to sample notes to the financial statements
	<u>Effective Date</u>	
101.127	If an entity applies this Standard for a period beginning before 1 January 2006, it shall disclose that fact.	

SAMPLE FINANCIAL STATEMENTS

COMPLYING WITH **FRS 101 AND 102**



FRS Ref.

101.46(a)
101.8(a)
101.46(b),(c)

BE EFFICIENT SDN BHD (Company No. 123456-A)
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

			2006	2005
		Note	RM'000	RM'000
101.46(d),(e)				
101.51	NON CURRENT ASSETS			
101.68(a)	Property, plant and equipment	5		
101.68(b)	Investment property	6		
101.68(c)	Goodwill	7		
101.68(c)	Other intangible assets	8		
101.68(e)	Investment in associates	9		
101.69	Other investments	10		
101.68(n), .70	Deferred tax assets	11		
101.69	Derivative financial instruments	12		
			<u>-</u>	<u>-</u>
101.51	CURRENT ASSETS			
101.68(g)	Inventories	13		
101.68(h)	Trade and other receivables	14		
101.69	Due from directors	15		
101.69	Investments held for trading	16		
101.69	Derivative financial instruments	17		
101.68(i)	Fixed deposits with licensed banks	18		
101.68(i)	Cash and bank balances	19		
101.68A(a)	Assets held for sale	20		
			<u>-</u>	<u>-</u>
101.51	CURRENT LIABILITIES			
101.68(j)	Trade and other payables	21		
101.68(m)	Current tax liabilities			
101.69	Due to directors	22		
101.69	Hire purchase payables	23		
101.68(i)	Bank overdrafts	24		
101.69	Other bank borrowings	25		
101.68(k)	Provisions	26		
101.69	Derivative financial instruments	27		
101.68A(b)	Liabilities directly associated with assets held for sale	28		
			<u>-</u>	<u>-</u>
	NET CURRENT ASSETS		<u>-</u>	<u>-</u>
			<u>-</u>	<u>-</u>

Alternative 1 Expenses Analysed by Function

FRS Ref.

101.46(a)

BE EFFICIENT SDN BHD (Company No. 123456-A)

101.8(b)

CONSOLIDATED INCOME STATEMENT

101.46(b),(c)

FOR THE YEAR ENDED 31 DECEMBER 2006

			2006	2005
101.46(d),(e)		Note	RM'000	RM'000
Continuing Operations				
101.81(a)	Revenue	38		
101.88	Cost of sales		<u> </u>	<u> </u>
101.83	Gross profit		-	-
101.88	Other operating income			
101.88	Distribution costs			
101.88	Administrative expenses			
101.88	Other operating expenses			
101.81(b)	Finance costs			
101.81(c)	Share of profit of associates		<u> </u>	<u> </u>
101.83	Profit before tax	39	-	-
101.81(d)	Income tax expense	40	<u> </u>	<u> </u>
101.83	Profit for the year from continuing operations		-	-
Discontinuing Operations				
101.81(e)	Profit for the year from discontinuing operations	41	<u> </u>	<u> </u>
101.81(f)	Net Profit For The Year		<u><u> </u></u>	<u><u> </u></u>
Attributable to:				
101.82(b)	Equity holders of the parent			
101.82(a)	Minority interest		<u> </u>	<u> </u>
			<u><u> </u></u>	<u><u> </u></u>

Alternative 2 Expenses Analysed by Nature

FRS Ref.			2006	2005
		Note	RM'000	RM'000
101.46(a)	BE EFFICIENT SDN BHD (Company No. 123456-A)			
101.8(b)	CONSOLIDATED INCOME STATEMENT			
101.46(b),(c)	FOR THE YEAR ENDED 31 DECEMBER 2006			
101.46(d),(e)				
	Continuing Operations			
101.81(a)	Revenue	38		
101.88	Other operating income			
101.88	Changes in inventories of finished goods and work in progress			
101.88	Raw materials and consumable used			
101.88	Employee benefits expenses			
101.88	Depreciation of property, plant and equipment			
101.88	Amortisation charges			
101.88	Other operating expenses			
101.81(b)	Finance costs			
101.81(c)	Share of profit of associates			
101.83	Profit before tax	39	-	-
101.81(d)	Income tax expense	40		
101.83	Profit for the year from continuing operations		-	-
	Discontinuing Operations			
101.81(e)	Profit for the year from discontinuing operations	41		
101.81(f)	Net Profit For The Year		-	-
	Attributable to:			
101.82(b)	Equity holders of the parent			
101.82(a)	Minority interest			
			-	-

FRS Ref.

101.46(a) **BE EFFICIENT SDN BHD (Company No. 123456-A)**
1.8(e) **NOTES TO THE FINANCIAL STATEMENTS**
101.46(b), **FOR THE YEAR ENDED 31 DECEMBER 2006**
(c)

1. General Information

- 101.126(a) The Company is a private limited company incorporated in Malaysia. The registered office and principal place of business is located at 83A, Jalan Emas 1, Taman Sri Skudai, 81300 Johor Bahru, Johor.
- 101.126(b) The principal activities of the Company and its subsidiaries are that of research and development and commercialization of financial solutions for accounting and audit practitioners, and investments holding. There have been no significant changes in the nature of the activities during the financial year.
- 101.126(c) The Company is a subsidiary of Be Competent Sdn Bhd, a company incorporated in Malaysia. The ultimate holding company of the Company is Be Smart Pte Ltd, a company incorporated in the Republic of Singapore.

2. Adoption of new and revised Financial Reporting Standards

- 101.38 During the financial year, the Group and the Company adopted the new and revised Financial Reporting Standards and the Interpretations (collectively "FRS") issued by the Malaysian Accounting Standards Board that are relevant to the operations and effective for the financial periods beginning on 1 January 2006. The adoption of these FRS has resulted in changes to the accounting policies in the following areas:-

The impact of these changes in accounting policies is discussed later in this note.

(Note: This note is not complete at this stage, additional disclosures will be added later after incorporating requirements of other FRSs)

3. Significant Accounting Policies

- 101.14 The financial statements have been prepared in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965¹.
- 101.103(a) The financial statements have been prepared on the historical cost basis, except for the revaluation of certain property and financial instruments. The principal accounting policies adopted are set out below:-
- 102.36(a) **Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and overheads, where applicable, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the First-in First-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

¹ Additional requirement under the Companies Act 1965

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

101.113 **Critical Judgements in Applying the Accounting Policies**

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(Note: This note is not complete at this stage, additional disclosures will be added later after incorporating requirements of other FRSs)

101.116 **Key Sources of Estimation Uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(Note: This note is not complete at this stage, additional disclosures will be added later after incorporating requirements of other FRSs)

102.36(b) **13. Inventories**

	2006 RM'000	2005 RM'000
At cost:		
Raw materials		
Work-in-progress		
Finished goods		
At net realizable value:		
Finished goods		

Inventories with a carrying value of RM ____ have been pledged to a licensed bank for bank facilities granted to the Company.

101.76(a) **31. Share Capital**

	2006 RM'000	2005 RM'000
Authorised:		
500 million ordinary shares of RM1 each		
Issued and fully paid:		
At the beginning of the year		
Issued for cash		
At the end of the year		

On 31 March 2006, the Company issued 100 million ordinary shares of RM1 each at par for working capital purposes. The new shares issued rank pari passu in respect of the distribution of dividends and repayment of capital with the existing shares.

- 101.76(b) **32. Share Premium**
Share premium arose from issue of ordinary shares in excess of its par value. ²
- 101.76(b) **33. Revaluation Reserves**
Revaluation reserves arose from the revaluation of landed property of the Group.
- 101.76(b) **34. Translation Reserves**
Translation reserves arose from the exchange differences on translation of foreign operations.
- 101.76(b) **35. Retained Profits**
The company has sufficient Section 108 to frank the payment of dividends.³

39. Profit before tax

		2006 RM'000	2005 RM'000
101.93	Depreciation of property, plant and equipment		
101.93	Amortisation charge		
101.93	Employees benefit expenses		
102.36(d)	Cost of inventories recognized as expense		
102.36(e)	Inventories written down to net realizable value		
102.36(f)	Reversal of inventories written down*		
102.36(g)	* Inventories written down in prior year has been reversed during the financial year as the management has successfully secured a higher sales amount for those slow moving inventories.		

² In connection with the reforming of the Corporate Law, it has been proposed that all shares issued will be credited to "Contributed Capital" and the concept of "par value" has been removed. Thus, there will not have any share premium or share discount in future. However, before the effective date of the revised Corporate Law, this account is still applicable.

³ Additional requirement under 9th Schedule of the Companies Act 1965

44. Dividends

101.95 On 30 June 2006, the Directors declared a 10% interim tax exempt dividend (total dividend of RM50 million). The dividend was paid to the shareholders on 31 August 2006. The net dividend per share was 10 cents.

101.125 The Directors has proposed that a final dividend of 10 %, less tax 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 RM36 million, and the net dividend per share is 7.2 cents.

Comparative Figures

101.38 The following comparative figures have been reclassified to conform with the presentation in the current year:

Previously Reported RM'000	As Reclassified RM'000
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Proposed Auditing Standard ~ Planning An Audit of Financial Statements

AUDIT PLANNING is a **continual and iterating process** that should be commenced as soon as the completion of the previous audit up to the conclusion of the current audit.

OVERVIEW

MIA has released an exposure draft on “Planning An Audit of Financial Statements” for comments. This proposed auditing standard focuses on:-

1. Preliminary audit engagement activities
2. Audit planning activities
3. Additional consideration in initial audit engagements

With an efficient audit plan, audit risk can be reduced to a reasonably low level and assist the engagement partner to manage the timing of the audit engagements and determine the nature and extent of the audit tests. Adequate audit plan will help to devote attention to important areas and resolve issues in a timely manner.

Many people misunderstand that audit plan is a discrete phase of an audit. The fact is audit planning is a continual and iterating process that should be commenced as soon as the completion of the previous audit up to the conclusion of the current audit. The cycle, of course, continues.

In this issue, we highlight some audit planning activities which might be implemented by the audit practitioners to comply with this proposed auditing standard.

PRELIMINARY AUDIT ENGAGEMENT ACTIVITIES

Auditors should perform procedures for the client continuance and ethical requirements shortly after the completion of the previous audit. This is to ensure that the auditor has considered any events or circumstances that may adversely affect the auditors' ability to plan and perform the audit engagement to reduce audit risk to an acceptable low level.

Activities	Purposes
Procedures to evaluate the continuation of the client relationship	To ensure no issues with management integrity that may affect auditors' willingness to continue the engagement
Procedures for compliance with ethical requirements, including independence	Auditors maintain necessary independence and able to perform the engagement
To re-send letter of engagement	To ensure that there is no misunderstanding of the terms of the engagement

ADDITIONAL ACTIVITIES FOR INITIAL AUDIT ENGAGEMENT

The following are some of the additional activities that may be considered to develop an overall audit strategy:

1. **Communicate with outgoing auditors** according to the ethical requirements;
2. Consider to **review** the outgoing auditors' **working papers**;
3. Consider whether there are personnel with appropriate level of **capability and competence** to accept the engagements;
4. Discuss with management or outgoing auditors on **major issues**;
5. Develop audit procedures to obtain sufficient appropriate audit evidence of the **opening balances**;
6. Other procedures as required by the Firms' **quality control** or risk management procedures.

AUDIT PLANNING ACTIVITIES

The auditors should perform the following planning activities to comply with this proposed standard:

1. Establish the overall audit strategy for the audit.
2. Develop an audit plan in order to reduce audit risk to an acceptably low level.
3. The overall audit strategy and the audit plan should be updated and changed as necessary during the course of the audit.

4. Plan the nature, timing and extent of direction and supervision of engagement team members and review of their work.
5. Document the overall audit strategy and the audit plan, including any significant changes made during the audit engagements.

To comply with this standard, the audit practitioners should prepare an audit plan memorandum which should encompass at least the following areas:-

- 1. Determine the Scope of the Audit Engagement**
 - a. The financial reporting framework, Malaysian FRS, IFRS or US GAAP;
 - b. Industry-specific reporting requirements;
 - c. Expected audit coverage, such as number of branches to visit;
 - d. Structure of the companies and the extent of reliance on other auditors or specialists;
 - e. Availability of works of internal auditors and the extent of reliance on their works;
 - f. The effect of information technology on the audit procedures; and
 - g. Client personnel who will directly assist the audit engagement, and so on.
- 2. Reporting Objectives, Timing of the Audit and Communications Required**
 - a. Timetable for reporting and the audit field works;
 - b. Meetings with management to discuss the nature, extent and timing of the audit work, expected deliverables;
 - c. Nature and timing of communication with engagement team members;
 - d. Any other necessary communication.
- 3. Direction of Audit**
 - a. Setting materiality level;
 - b. Identify areas where there is higher risk of material misstatement and recommended audit steps;
 - c. Selection of appropriate engagement team;
 - d. Engagement budget based on MIA Guideline;
 - e. Results of previous audits;
 - f. Preliminary analytical review;
 - g. Risk assessment to identify inherent, and control risks;
 - h. Impact of assessed risk of material misstatement;
 - i. Significant changes in financial reporting framework; and
 - j. Other significant changes.

CONCLUSION

This proposed Auditing Standard is opened for comments up to 31 December 2005. Should you have any comments on this proposed Auditing Standard, you are encouraged to raise your comments to the MIA, or you may write to us to accumulate the comments.

ARE YOU READY FOR GST?



OVERVIEW

Our Prime Minister unveiled in Budget 2005 that the current sales and service taxes will be replaced with the Goods and Services Tax ("GST") effective 1 Jan 2007. Since then, GST has become one of the most discussed issues amongst the Malaysian business community.

Essentially, GST is a multi-stage consumption tax imposed on a wide range of goods and services, from the purchase of raw materials to sale of finished goods. Under this regime, tax is collected on the value added at each level of the supply chain as they move through the chain. A fundamental feature of GST is the ability of taxpayers to claim a credit for 'input tax'. This is what currently lacking of in both the service and sales taxes regime.

GST is perceived to be a more structured and transparent form of transaction taxation. Drawing from the experiences of countries such as Australia, Britain and neighboring countries in South-East Asia, where GST has been successfully introduced in the past decades, it is also proven to be an efficient tool for revenue collection for government. However, for the business community at the introduction stage, there is general anxiety that the GST will have adverse impacts on businesses and firms, particularly those smaller ones. Therefore, it is imperative that companies start evaluating their position and assessing the nature and magnitude of the impact of GST on their businesses.

EXEMPTION OF SMALL BUSINESSES

For easy administration, certain businesses are exempted from registration under the GST regime. Exempting a business means that its sales are not taxed, but it cannot claim a tax credit for the GST incorporated in its inputs. Generally, the revenue loss and the distortions introduced by exempting small businesses are not large. However, **there are great savings in administrative costs associated with a significant reduction in the number of taxable businesses.**

Nevertheless, the revenue authorities would encourage voluntary registration for GST, because it is advantageous for some businesses. Companies making sales to others have an incentive to register because registered companies would be reluctant to purchase from unregistered ones, and so be ineligible for input tax credits on these purchases.

Although the government has not given a registration threshold at this point of time, companies should consider and analyze carefully the costs and benefits of registering for GST should they fall within the exemption limit.

Identify Type of Supplies

The proposed GST, which has been widely speculated to be in the range of 5% to 10%, will apply to a very broad range of goods and services. Apart from those that are subject to standard tax rate, certain goods and services will be exempted, meaning the outputs will be relieved from GST burden but the input will be taxed; and certain other goods and services will be zero-rated, meaning the outputs will not be taxed and full credit for input taxes incurred will be allowed. **For instance, domestic transportation and finance services will likely be exempted while basic foodstuff and exports will probably be zero-rated.**

For registered companies making zero-rated supplies, the extent of tax is likely to remain the same as those under existing sales tax regime, or may even enjoy a noticeable net decrease, largely due to the input tax relief. For registered companies making standard-rated supplies, although they will probably pay more GST on their inputs, most of them could claim back the GST suffered on their purchases.

Under the existing regime, those sales and/or service taxes embedded in the cost of purchases are not entitled to tax relief. On the contrary, such inefficiency will be removed under the GST regime, which may result in lower cost of doing business.

However, for large companies with a multitude of supplies, GST preparation can be complicated. If some of the supplies are exempted, compliance costs would increase inevitably as the company has to keep separate details of invoices of exempt as well as non-exempt supplies, and to apportion joint input costs between them.

Companies with limited supplies, perhaps all of standard rated, should not underestimate the level of complexity in GST preparation simply due to the fact that certain items like gifts, incentive products, fringe benefits and the like also have GST impact.

The Way Business Operates

To ensure a smooth implementation and be GST-compliant, it is essential that a joint effort is being put in within the business organization. It is not just another tax issue to be left with the finance and accounts department. Rather, it is a cross-functional issue that can affect the entire business structure and, hence, requires input from all key business components. Upon implementation of GST, business operation may be changed in one way or another. Companies should evaluate the GST impacts on and **make necessary adjustments to existing customer management process, marketing strategy, procurement and supplier management system and legal contractual relationships.**



Furthermore, review and testing need also be undertaken during implementation, which include **system testing; registration and compliance; employee, customer and supplier communication; and management through the transition.**

Accounting System

Under a GST environment, the company needs to deploy an accounting system that is capable of processing and reporting all business transactions in an accurate, complete and timely manner. This is largely due to the reporting and filing deadlines set by the revenue authority. The company also needs to ensure that the human resource is sufficient to cope with the increased workload brought upon by the implementation.

The company's system will have to accommodate changes such as the **introduction of tax codes, GST accounts and clearing account, identify supplies**

or purchases on which GST has been charged or paid, identify credit or debit notes in which there is a GST component, changes to documents and processes, as well as future changes to the GST rate etc.

Cash Flows



Cash flow implications should also be taken into consideration under the GST regime. Businesses will have to *pay GST on purchases but only claim a credit against their output tax subsequently.* This may further upset those companies with tight cash flows.

In the case of service tax, cancellation of the license would also give rise to outstanding service tax to be payable even though payments have not been received from customers.

Tax Audit

As mentioned above, GST is expected to replace the existing sales and service tax. This means that existing sales and service tax licensees may have to cancel their licenses on or after 31 December 2006.

One of the current practices of the Customs authorities is to conduct an examination of the sales tax and service tax records prior to actual cancellation of the licenses. It is thus important that licensed businesses examine their records to ensure that they have been compliant and prepare themselves for any audit, should the Customs authorities decide to conduct one.

CONCLUSION

The discussions above are not exhaustive, but from the light of the issues identified, companies should begin planning and preparing for the implementation of GST as early as possible. The most important of all is to minimize business disruptions and remain competitive at the same time.

While the government will continue to have dialogues, sessions and meetings with the business community, we certainly hope that the government would ultimately come out with a regime that is simple to comprehend and comply with, easy to administer, and does not distort the pattern of production and consumption.

Furthermore, as the government expects its revenue collection to increase with the introduction of GST, we also hope that the corporate and individual income tax rates to further reduce in the near future and thus reduce the cost of doing business in Malaysia.

