

# Technical e-Newsletter

December 2006 Issue

## COMPLIANCE CHECKLISTS &/OR SAMPLE DISCLOSURE NOTES

**FRS 120<sub>2004</sub>** *Accounting for Government Grants and Disclosure of Government Grants*

**FRS 134<sub>2004</sub>** *Interim Financial Reporting + Bursa Malaysia Listing Requirements on interim financial reporting*

## TECHNICAL DIAGNOSTIC CENTRE

**Recognition of Tangible and Intangible Assets on Acquisition of A Subsidiary**

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



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## *Editors' Notes ~ Season Greeting!*

Greetings!!

2006 is coming to a close. Are we prepared to welcome 2007?

We shall take this opportunity to review year 2006 which has been a full and eventful year, from the field of politics to the arena of economics and technology. In politics, the most notable issue has been the "argument" between our ex-premier and the current premier. We sincerely hope that the "war" can be ended soon for the sake of the development of Malaysia, if not anything else.

We have also witnessed some waves in the corporate world with the announcement of the Ninth Malaysian Plan (NMP). Furthermore, the government has also announced a major plan to turn southern Malaysia into a world class hub. What great news for Johorians! Hopefully, the plan will not turn out to be another Cyberjaya - a white elephant!

Another significant event is the success of Genting Group in winning the bid for another Integrated Resort (IR) licence, this time in Singapore. We believe this to be another good news for Johorians as we would not have to travel over 4 hours to contribute to the success of Genting Group!

On the other hand, while Singapore is moving towards wireless internet access countrywide, we were disappointed to hear from the Minister of Energy, Water and Communications that the Ministry was applying the brakes on the tender of WiMax licenses after the bidders had submitted their proposals to the Ministry.

Microsoft has confirmed the release of Windows Vista to the public in early 2007,

which may again significantly change our work or lifestyle. However, we hope this time, Microsoft will ensure that its products are fully debugged before they are released to the end users!

Coming back to the e-Newsletter - in the final issue for 2006, we have looked into accounting for government grants and also developed some alternative disclosures in compliance with FRS 120<sub>2004</sub>, for your reference.

Another standard analysed is FRS 126<sub>2004</sub> Interim Financial Reporting. In addition to the requirements of FRS 126<sub>2004</sub>, we have also added the compliance requirements of the Bursa Malaysia when submitting interim financial reports.

Having analysed all the FRSs effective for the annual financial period beginning on or after 1 January 2006, we will issue a Model Financial Statements and disclosure checklist for FRS for the benefit of interested parties by the end of January 2007. Please visit our web-page during mid of January 2007 for more details.

*The Compliance Checklists and the Sample Notes to the Financial Statements illustrated in this e-Newsletter are also available in Microsoft Word and Excel. Please feel free to contact us at [enquiry@myAXP.com](mailto:enquiry@myAXP.com) if you wish to obtain these complimentary copies.*

On behalf of the Management of AXP Solutions, we wish you Merry Christmas and Happy New Year!!

**Editors**  
**AXP Technical e-Newsletter**  
December 2006

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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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# **SAMPLE NOTES TO THE FINANCIAL STATEMENTS**

**COMPLYING WITH *FRS 120*<sub>2004</sub>**

**EXTRACTS OF NOTES TO THE FINANCIAL STATEMENTS:**

**FRS Ref. 3. Significant Accounting Policies**

*Government Grants*

120.40 (a) Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Government grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate.

Government grants related to assets are presented in the balance sheet by setting up the grant as deferred income while government grant related to income is presented as a credit in the income statement separately.

*Alternative presentation format*

Government grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset, while government grants related to income are deducted against the related expenses.

**9. Other Intangible Assets**

THE GROUP	Software Development costs RM'000	Patents and Trademarks RM'000	Total RM'000
<b><u>Cost</u></b>			
138.118(c) At 1 January 2005			
138.118(e)(i) Additions			
138.118(c) At 31 December 2005			
138.118(e)(i) Additions			
138.118(e)(i) Arising on acquisition of a subsidiary			
138.118(e)(vii) Exchange differences			
)			
138.118(e)(ii) Transfer to assets held for sale			
138.118(e)(ii) Disposals			
138.118(c) At 31 December 2006			
<b><u>Amortization and Impairment Losses</u></b>			
138.118(c) At 1 January 2005			
138.118(e)(iv) Impairment losses recognized			
138.118(e)(vi) Amortization charge for the year			
138.118(c) At 31 December 2005			
138.118(e)(vii) Exchange differences			
)			
138.118(e)(v) Impairment losses reversed			
138.118(e)(ii) Transfer to assets held for sale			
138.118(e)(ii) Disposals			
138.118(e)(vi) Amortization charge for the year			
138.118(c) At 31 December 2006			
<b><u>Carrying amount</u></b>			
At 31 December 2005			
At 31 December 2006			

120.40 (b) Government grant related to assets is deducted in arriving at the carrying amount of the assets  
 During the financial year, the Company obtained a research and development grant under the R & D Scheme up to a maximum of RM1 million on the approved research and development expenditures.

120.40(c) The government grant granted is subject to the fulfillment of the condition that the percentage of the knowledge workers should attain 20% of the total workforce by 30 June 2007. The Company has, subsequent to the financial year, achieved this condition.

120.25 The reconciliation of the amortization before and after deduction of related government grant recognized as income is as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Amortisation charge before deduction of the grant				
Effective of the grant on the amortization charge				
Amortisation charge for the year				

138.122 (a) The Group's other intangible assets of RM\_\_\_ (2005: RM\_\_\_) are assessed to have indefinite useful life due to \_\_\_.

138.122(b) The carrying amount of the Group's patent to protect the computer software developed by the Group in Malaysia, Singapore, United States, United Kingdom and Japan is RM\_\_\_ (2005: RM\_\_\_) at the balance sheet date. The average remaining amortization period of these patents is 9 years.

138.122 (c) In year 2004, the Group acquired the patent by way of a government grant in Hong Kong SAR. This intangible asset is initially recognized at fair value of RM\_\_\_, and subsequently measured using the cost model subsequently. The carrying amount of the said patent at the balance sheet date is RM\_\_\_ (2005: RM\_\_\_).

138.122 (d) The carrying amount of the other intangible assets whose title is restricted is RM\_\_\_ (2005: RM\_\_\_).

138.122 (d) The carrying amount of the other intangible assets pledged as securities for liabilities is RM\_\_\_ (2005: RM\_\_\_).

***An entity is encouraged, but not required, to disclose the following information:***

138.128(a) The gross carrying amount of fully amortized intangible assets of the Group is RM\_\_\_ (2005: RM\_\_\_).

138.128(b) The Group is the registered trademark owner of the XYZ computer software. However, the said intangible asset is not recognized as the cost of the asset cannot be measured reliably due to the uncertainty of the marketability of the said computer software.

**38. Profit before tax**

**a) Profit before tax is stated after charging / (crediting):-**

		THE GROUP		THE COMPANY	
		2006	2005	2006	2005
		RM'000	RM'000	RM'000	RM'000
2.51(a)	Value of services rendered by employees for issue of share options				
101.93	Depreciation of property, plant and equipment				
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*				
111.40(b)	Contract costs recognized				
201.50(b)	Property development costs recognized				
116.74(d)	Compensation for impaired property, plant and equipment				
118.36(b)(iii)	Interest income from bank deposits				
118.36(b)(v)	Dividend income from other investment				
119.47	Contribution to defined contribution plan:				
	- Employees				
	- Directors				
101 / 119	Termination benefits				
120.30	Government grant recognized as other income *1				
120.30	Government grant deducted against promotional expenses *2				
121.52(a)	Exchange loss (gain):				
	- Realised				
	- Unrealised				
136.126(a)	Impairment losses, included in other expenses, of:-				
	- goodwill				
	- property, plant and equipment				
136.126(b)	Reversal of impairment losses, included in other operating income, of:-				
	- property, plant and equipment				
138.126	Research and development costs				
138.118(d)	Amortization of other intangible assets included in:				
	- cost of sales				
	- other expenses				
	Direct operating expenses arising from investment properties:				
140.75(f)(ii)	- that generated rental income				
140.75(f)(iii)	- that did not generate rental income				

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102.36(g) \* Inventories written down in prior year have been reversed during the financial year as the management has successfully secured a higher sales amount for those slow moving inventories.

**c) Government Grants:-**

120.40 (b) \*1 If the government grant related to income is presented as a credit in the income statement  
 During the financial year, the Company obtained a grant of RM100,000 in respect of approved promotional expenditure for promoting Malaysian brand in Singapore. The grant is presented as a component of the other income on the income statement.

120.40 (b) \*2 If the government grant related to income is deducted in reporting the related expense  
 During the financial year, the Company obtained a grant of RM100,000 in respect of approved promotional expenditure for promoting Malaysian brand in Singapore.

120.30 The grant is deducted in reporting the related promotional expenditures, included in other operating expenses.

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Promotional expenses before deduction of grant				
Grant recognized				
Promotional expenses after deduction of grant				

## SAMPLE COMPLIANCE CHECKLIST

REF.	COMPLIANCE CHECKLISTS	EXAMPLE/ SAMPLE DISCLOSURES NOTES
	<b><u>SCOPE</u></b>	
120.1	Applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.	
	<b><u>DEFINITION</u></b>	
120.3	<p><b><u>Government</u></b> – government, government agencies and similar bodies whether local, national or international.</p> <p><b><u>Government assistance</u></b> – action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. But <b><u>EXCLUDE</u></b> benefits provided ONLY indirectly through action affecting general trading conditions.</p> <p><b><u>Government grant</u></b> – assistance by government in the form of transfers of resources in return for past or future compliance with certain conditions relating to the operating activities. <b><u>EXCLUDE</u></b> forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transaction of the entity.</p> <p><b><u>Grants related to assets</u></b> – government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.</p> <p><b><u>Grants related to income</u></b> – government grants OTHER THAN those related to assets.</p> <p><b><u>Fair value</u></b> – amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction.</p> <p><b><u>Forgivable loans</u></b> – loans which the lender undertakes to waive repayment of under certain prescribed conditions.</p>	
	<b><u>GOVERNMENT GRANTS</u></b>	
120.7, 9 ~ 10	Government grant, including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that: (a) The entity will comply with the conditions attaching to them; and (b) Grants will be received.	<p>✓ Grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.</p> <p>✓ Forgivable loan is treated as a government grant when there is reasonable assurance that the entity will meet the terms.</p>
120.12	Government grant → recognized as <b>income over the periods</b> necessary to match	

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	them with the related costs which they are intended to compensate, on a systematic basis. They should <b>NOT</b> be credited directly to shareholders' interests.
120.20	Government grant that becomes receivable as <i>compensation for expenses or losses already incurred</i> or for the purpose of giving <i>immediate financial support to the entity with no future related costs</i> → recognized as <b>income of the period in which it become receivable</b> .
	<b><u>GOVERNMENT GRANTS - Non-monetary Government Grants</u></b>
120.23	It is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value.
	<b><u>GOVERNMENT GRANTS - Presentation of Grants Related to Assets</u></b>
120.24, 27~29	Presented in balance sheet either: <ul style="list-style-type: none"> <li>✓ By setting up the grant as deferred income, or</li> <li>✓ By deducting the grant in arriving at the carrying amount of the asset → disclose additional information similar to setting up the grant as deferred income.</li> </ul> <div style="float: right; width: 40%;"> <p><b><u>Deferred income approach</u></b> Recognized as income on a systematic and rational basis over the useful life of the asset.</p> <p><b><u>Deducting the carrying amount of the asset approach</u></b> Recognized as income over the life of a depreciable asset by way of a reduced depreciation charge.</p> <p><b><u>For cash flow statement</u></b> Movements are disclosed as separate items regardless of which approach is adopted.</p> </div>
120.25	<b><u>Presenting grant by deducting the grant in arriving at the carrying amount of the assets</u></b> For each class of assets and the total of these classes → disclose a reconciliation of depreciation before and after deduction of related government grant recognized as income.
	<b><u>GOVERNMENT GRANTS - Presentation of Grants Related to Income</u></b>
120.30	Presented as a credit in the income statement, either <ul style="list-style-type: none"> <li>✓ Separately, or</li> <li>✓ Under a general heading, such as "other income".</li> </ul> <p>Alternatively, grant shall be deducted in reporting the related expense → disclose a reconciliation of the related expense before and after deduction of the grant. In addition, provide reason why this alternative approach is adopted.</p>

	<b><u>GOVERNMENT GRANTS – Revocation of Government Grants</u></b>
120.33	<p>Accounted for as a revision to an accounting estimate.</p> <p>Repayments of grant <b>related to income</b> shall be:</p> <ul style="list-style-type: none"> <li>✓ First applied against any unamortized deferred credit set up in respect of the grant.</li> <li>✓ Where repayment exceeds deferred credit or where there no deferred credit exists → recognized immediately as an expense.</li> </ul> <p>Repayments of grant <b>related to asset</b> shall be:</p> <ul style="list-style-type: none"> <li>✓ Recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.</li> <li>✓ Cumulative additional depreciation that would have been recognized to date → recognized immediately as an expense.</li> </ul>
	<b><u>GOVERNMENT ASSISTANCE</u></b>
120.37	Significance of the benefit may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.
	<b><u>DISCLOSURE</u></b>
120.40	<p>In addition to those disclosures required by FRS 120.24, 25 and 30, the following matters shall be disclosed:</p> <ul style="list-style-type: none"> <li>(a) <b>Accounting policy</b> adopted for government grants, including the methods of presentation adopted in the financial statements;</li> <li>(b) <b>Nature and extent of government grants recognized</b> in the financial statements and an <b>indication of other forms of government assistance</b> from which the entity has directly benefited; and</li> <li>(c) <b>Unfulfilled conditions and other contingencies</b> attaching to government assistance that has been recognized.</li> </ul>
	<b><u>EFFECTIVE DATE</u></b>
120.42	This standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2004.

# FRS 134<sub>2004</sub> Interim Financial Reporting + Bursa Malaysia Listing Requirements on interim financial reporting

## SAMPLE DISCLOSURE CHECKLIST

No.	Compliance Procedures	Ref.
<b>1</b>	<b>REQUIREMENTS OF FRS 134<sub>2004</sub></b>	
<b>1.1</b>	<b>Minimum Components of an Interim Financial Report</b>	
1.1.1	An interim financial report shall include, at a minimum, the following components: <ul style="list-style-type: none"> <li>➤ condensed balance sheet;</li> <li>➤ condensed income statement;</li> <li>➤ condensed statement of changes in equity;</li> <li>➤ condensed cash flow statement; and</li> <li>➤ selected explanatory notes.</li> </ul>	134.8
1.1.2	<b>Complete set of financial statements</b> If an entity publishes a complete set of financial statements, the form and content shall conform to the requirements of FRS 101 for a complete set of financial statements.	134.9
1.1.3	<b>Condensed financial statements</b> If an entity publishes a set of condensed financial statements, these shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their significance in the overall context of the entity has changed since the most recent annual financial report and their omission would make the condensed interim financial statements misleading.	134.10
1.1.4	<b>Basic and diluted earnings per share</b> Shall be presented on the face of an income statement for an interim period.	134.11
<b>1.2</b>	<b>Selected Explanatory Notes</b>	
	Include the following information, at a minimum, if material and if not disclosed elsewhere in the interim financial report. The information should normally be reported on a FINANCIAL YEAR-TO-DATE BASIS. However, the entity should also disclose any events or transactions that are material to an understanding of the CURRENT INTERIM PERIOD:	134.16
1.2.1	<b>Accounting policies and methods of computation</b> A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements, or if those policies or methods have been changed, a description of the nature and effect of the change.	134.16 (a)
1.2.2	<b>Audit report of the preceding annual financial statements</b> Where the audit report of the preceding annual financial statements was qualified, disclosure of the qualification and the current status of the matters giving rise to the qualification.	134.16 (b)
1.2.3	<b>Seasonality or cyclicity of interim operations</b> To provide explanatory comments.	134.16 (c)
1.2.4	<b>Unusual nature and amount of items</b> Nature and amount of items affecting assets, liabilities, equity, net income,	134.16 (d)

	or cash flows that are unusual because of their nature, size or incidence.	
1.2.5	<b>Nature and amount of changes in estimates</b> The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.	134.16 (e)
1.2.6	<b>Debt and equity securities</b> Issuance, cancellation, repurchase, resale and repayment of debt and equity securities.	134.16 (f)
1.2.7	<b>Dividends paid</b> Aggregate or dividends per share separately for ordinary shares and other shares.	134.16 (g)
1.2.8	<b>Segmental information</b> Segment revenue and segment result for business segments or geographical segments (whichever is the enterprise's primary basis of segment reporting).	134.16 (h)
1.2.9	<b>Valuations of property, plant and equipment</b> Where valuations of property, plant and equipment have been brought forward, without amendment from the previous annual financial statements, a statement to that effect should be given.	134.16 (i)
1.2.10	<b>Material subsequent events</b> Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.	134.16 (j)
1.2.11	<b>Effect of changes in the composition of the enterprise</b> The effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinued operations.	134.16 (k)
1.2.12	<b>Contingent liabilities or assets</b> Changes in contingent liabilities or contingent assets since the last annual balance sheet date.	134.16 (l)
<b>1.3</b>	<b>Other Disclosure</b>	
1.3.1	<b>Compliance with standard</b> If the interim financial report is in compliance with this Standard, that fact should be disclosed. Where the interim financial report contains a complete set of financial statements, it should not be described as complying with FRS unless it complies with all of the requirements of each applicable Standard.	134.19
1.3.2	<b>Condensed financial statements</b> If condensed financial statements are used in its interim financial report, those condensed financial statements must be clearly labelled as such.	134.20
1.3.3	<b>Statement on interim financial report</b> The interim financial report containing condensed financial statements must prominently display an explicit statement that the interim financial report is to be read in conjunction with the most recent annual financial report.	134.21
<b>1.4</b>	<b>Presentation of Interim Financial Statements</b>	
1.4.1	<b>Balance Sheet</b> <i>Current</i> – as of the end of the current interim period; <i>Comparative</i> – as of the end of the immediately preceding financial year.	134.23 (a)
1.4.2	<b>Income Statements</b> <i>Current</i> – current interim period AND cumulatively for the current financial year-to-date; <i>Comparative</i> – comparable interim period (current AND year-to-date) of the immediately preceding financial year.	134.23 (b)
1.4.3	<b>Statement of changes in Equity</b>	134.23 (c)

	<i>Current</i> – cumulatively for the current financial year-to-date; <i>Comparative</i> – comparable year-to-date period of the immediately preceding financial year.	
1.4.4	<b>Cash Flow Statement</b> <i>Current</i> – cumulatively for the current financial year-to-date; <i>Comparative</i> – comparable year-to-date period of the immediately preceding financial year.	134.23 (d)
2	<b>REQUIREMENTS OF BURSA MALAYSIA LISTING REQUIREMENTS</b>	
2.1	<b>Components of Quarterly Report</b>	
2.1.1	A listed issuer must give the Exchange for public release, an interim financial report that is prepared on a quarterly basis (or “quarterly report), as soon as the figures have been approved by the board of directors of the listed issuer, and in any event <b>not later than 2 months after the end of each</b> quarter of a financial year.	9.22 (1)
2.1.2	<b>Information on Part A of Appendix 9B</b> Quarterly report must include the information set out in Part A of Appendix 9B or Appendix 9B of Listing Requirements for MESDAQ Market (Please refer to Section 2.2 of this Checklist), and any other information as may be required by the Exchange.	9.22 (2)(a)
2.1.3	<b>Change in the financial year</b> If a change in the financial year is proposed by a listed issuer, such listed issuer must consult the Exchange as to the period to be covered by the quarterly report.	9.22 (2)(b)
2.2	<b>Requirements of Part A of Appendix 9B or Appendix 9B of Listing Requirements for MESDAQ Market</b>	
2.2.1	<b>Review of the performance</b> A review of the performance of the company and its principal subsidiaries, setting out material factors affecting the earnings and/or revenue of the company and the group for the current quarter and financial year-to-date.	
2.2.2	<b>Material change in profit before taxation</b> An explanatory comment on any material change in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter.	
2.2.3	<b>Commentary of the prospects</b> A commentary on the prospects, including the factors that are likely to influence the company’s prospects for the remaining period to the end of the financial year or the next financial year if the reporting period is the last quarter.	
2.2.4	<b>Profit forecast or profit guarantee</b> An explanatory note for any (only applicable to the final quarter for companies which have provided a profit forecast or profit guarantee in a public document):- ➤ variance of actual profit after tax and minority interest and the forecast profit after tax and minority interest (where the variance exceeds 10%); ➤ shortfall in the profit guarantee.	
2.2.5	<b>Tax charge</b> A breakdown of tax charge and an explanation of the variance between the effective and statutory tax rate for the current quarter and financial year-to-date.	
2.2.6	<b>Sale of unquoted investments and/or properties</b> The amount of profits/(losses) on any sale of unquoted investments and/or properties respectively for the current quarter and financial year-to-date.	
2.2.7	<b>Purchase or disposal of quoted securities</b> The following particulars of any purchase or disposal of quoted securities	

	<p>other than securities in existing subsidiaries and associated companies by all companies except closed-end funds, a company whose activities are regulated by any written law relating to banking, finance companies or insurance and are subject to supervision by Bank Negara Malaysia, Participating Organisations and such other companies as may be exempted by the Exchange:-</p> <ul style="list-style-type: none"> <li>➤ total purchase consideration and sale proceeds of quoted securities for the current quarter and financial year-to-date and profit/loss arising therefrom;</li> <li>➤ investments in quoted securities as at the reporting period:- <ul style="list-style-type: none"> <li>➤ at cost;</li> <li>➤ at carrying value/book value; and</li> <li>➤ at market value.</li> </ul> </li> </ul>																									
2.2.8	<p><b>Status of corporate proposal and utilisation of proceeds</b></p> <ul style="list-style-type: none"> <li>➤ The status of corporate proposals announced but not completed at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report.</li> <li>➤ Where applicable, a brief explanation of the status of utilisation of proceeds raised from any corporate proposal.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Purpose</th> <th>Proposed Utilisation RM'000</th> <th>Actual Utilisation RM'000</th> <th>Deviation Amount RM'000</th> <th>Deviation Amount %</th> <th>Explanations</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>(ii)</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>(iii)</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	Deviation Amount %	Explanations	(i)						(ii)						(iii)						
Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	Deviation Amount %	Explanations																					
(i)																										
(ii)																										
(iii)																										
2.2.9	<p><b>Borrowings and debt securities</b></p> <p>The group borrowings and debt securities as at the end of the reporting period:-</p> <ul style="list-style-type: none"> <li>➤ whether secured or unsecured, and a breakdown between secured and unsecured, if applicable;</li> <li>➤ breakdown between short-term and long-term borrowings; and</li> <li>➤ whether denominated in foreign currency, and a breakdown of the debt/borrowings in each currency, if applicable.</li> </ul>																									
2.2.10	<p><b>Financial instruments with off balance sheet risk</b></p> <p>A summary of financial instruments with off balance sheet risk by type and maturity profile at the latest practicable date which shall not be earlier than 7 days from the date of issue of the quarterly report, including the following information:-</p> <ul style="list-style-type: none"> <li>➤ the face or contract amount (or notional principal amount if there is no face or contract amount); and</li> <li>➤ the nature and terms, including at minimum, a discussion of:- <ul style="list-style-type: none"> <li>➤ the credit and market risk of those instruments;</li> <li>➤ the cash requirement of those instruments; and</li> <li>➤ the related accounting policies.</li> </ul> </li> </ul>																									
2.2.11	<p><b>Changes in material litigation</b></p> <p>Change in material litigation (including status of any pending material litigation) since the last annual balance sheet date which shall be made up to a date not earlier than 7 days from the date of issue of the quarterly report.</p>																									
2.2.12	<p><b>Dividend</b></p> <p>Dividend: To be completed if a decision regarding dividend has been made. (State whether dividend amount is before tax, net of tax or tax exempt and if before tax or net of tax, state the tax rate):-</p> <ul style="list-style-type: none"> <li>➤ an interim/final ordinary dividend has/has not been declared/recommended;</li> <li>➤ the amount per share.....sen;</li> <li>➤ the previous corresponding period.....sen;</li> <li>➤ the date payable.....; and</li> </ul>																									

	<ul style="list-style-type: none"><li>➤ in respect of deposited securities, entitlement to dividends will be determined on the basis of the record of depositors as at dd/mm/yyyy; and</li><li>➤ the total dividend for the current financial year..... sen.</li></ul>	
2.2.13	<p><b>Earnings per share (EPS)</b></p> <p>To disclose the following in respect of EPS:-</p> <ul style="list-style-type: none"><li>(a) amount used as the numerator in calculating basic and diluted EPS and a reconciliation of those amounts to the net profit or loss for the reporting period; and</li><li>(b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other.</li></ul>	





# AXP TECHNICAL DIAGNOSTIC CENTRE

## A CASE STUDY ~

*Recognition of Tangible and Intangible Assets on  
Acquisition of A Subsidiary*



## Issue

Holding Sdn. Bhd. operates a nation-wide drug store chain. During the year, Holding Sdn. Bhd. acquired entity Subsidiary Sdn. Bhd., which operates a rival chain of drug stores in the southern Malaysia. The majority of Subsidiary Sdn. Bhd.'s stores are located in area where Holding Sdn. Bhd. does not have stores.

The management of Holding Sdn. Bhd. has decided to slowly replace Subsidiary Sdn. Bhd.'s brand name over a five-year period and during this time it will change the storefront signs with its own brand name. The management has also engaged an independent valuer to value the brand name and the signage acquired. The fair values are determined to be RM15 million and RM4 million respectively.

The fair value of the Subsidiary Sdn. Bhd.'s brand name represents the value that a third party would be willing to pay in an arm's length transaction. The fair value of the signage to be replaced has been calculated based on depreciated replacement cost. These fair values are determined in accordance with the guidance prescribed in Appendix B of **FRS 3** Business Combinations.

The CFO of Holding Sdn. Bhd. proposes to recognize Subsidiary Sdn. Bhd.'s brand name and signage at only RM4 million and RM1 million respectively in its purchase accounting under **FRS 3** because they plan to phase out the brand name and replace the signage over the next five years. Another reason for such proposal is that the net fair values of the identified assets and liabilities of Subsidiary Sdn. Bhd. have exceeded the acquisition price. When the brand name and signage are recognized in lower amounts, the shortage of net fair values over acquisition price can be recognized within goodwill according to **FRS 3** which the CFO believes that the benefits that Holding Sdn. Bhd. will receive from the acquisition will be derived largely from synergy benefits of the complementary geographical spread of Subsidiary Sdn. Bhd.'s stores.

**Is the proposed accounting treatment by the CFO in accordance with FRS?**



## Standard Reference

Under **FRS 3.36**, the acquirer is required to recognize the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date. The fair values should not be adjusted to reflect the acquirer's intentions for their use except for those non-current assets that are classified as held for sale in accordance with **FRS 5** Non-current Assets Held for Sale and Discontinued Operations, which shall be recognized at fair value less costs to sell.

Furthermore, under **FRS 3.51**, the acquirer shall recognize a goodwill, initially measured at the excess of the cost of the acquisition over the net fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date. After initial recognition, the acquirer shall test the goodwill acquired for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with **FRS 136** Impairment of Assets (**FRS 3.55**).

If the identifiable assets, liabilities and contingent liabilities recognized exceeds the cost of the acquisition, the acquirer shall, under **FRS 3.56**, reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. If there is any excess remaining after the reassessment, the acquirer shall recognize immediately in profit or loss. (**That is No More negative goodwill!**)



## Conclusion

The proposed accounting treatment by the CFO is not acceptable. Holding Sdn. Bhd. should recognize Subsidiary Sdn. Bhd.'s brand name as an intangible asset at RM15 million and the signage as Property, Plant and Equipment at RM4 million in its purchase accounting and thus recognizing a goodwill acquired measured at the excess of the acquisition cost over the net fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

Due to the fact that the acquired signage of Holding Sdn. Bhd. will be phased out over a period of five years, Subsidiary Sdn. Bhd. can also incorporate in the cost of the signage the estimated costs of its eventual dismantlement ("decommissioning costs"). That is, "grossing up" the cost of the signage for these estimated terminal costs, with the offsetting credit being posted to a liability. However, it is important to stress that this only applies when all the criteria set forth in **FRS 137**<sup>2004</sup> Provision, Contingent Liabilities, and Contingent Assets, for the recognition of provisions are met.

Subsequently, the brand name should then be amortized and depreciated to their residual value over their expected useful lives in accordance with **FRS 138.90(a)** and **FRS 116.56(a)**.

When each signage is replaced during the five-year period, the cost of the new signage should be capitalized and any carrying amount of the replaced signage should be written off ("derecognized").