



Technical e-Newsletter

JULY 2006 ISSUE

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COMPLIANCE CHECKLISTS & SAMPLE DISCLOSURE NOTES

FRS 112₂₀₀₄

Income Taxes

FRS 129₂₀₀₄

Financial Reporting in Hyperinflationary Economies

TECHNICAL DIAGNOSTIC CENTRE

NEW

ED 52 Private Entity Reporting Standards

Proposed Amendments to IAS 23 Borrowing Costs



From the Editors ~ Practice Review

Welcome, readers!!

Finally, FIFA World Cup 2006 has concluded. At the same time, the traditional peak season for the audit firms is also approaching the end!! Hurray!! At last, we can have a better sleep again for the next few months!!

Nevertheless, in July 2006, the Practice Review Department of MIA has issued a 23-pages common findings on the results from the practice review, which may again make some of the practitioners sleepless to get prepare for the future practice review!!

Indeed, we have developed a set of engagement-orientated programmes which are in compliance with the International Standards on Auditing, with our initial intention to distribute to our customers.

However, with this latest development and in line with our mission to assist audit practitioners in resolving the contemporary issues encountered, please feel free to contact us if you are interested to find out more on the programmes developed by us.

In this issue of the *e*-Newsletter, we have reviewed two Financial Reporting Standards, i.e., FRS 112₂₀₀₄ and FRS 129₂₀₀₄.

[FRS 112₂₀₀₄ \(or MASB 25\) Income Taxes](#) deals with various types of temporary differences to be recognised as deferred tax assets or liabilities. It prohibits the deferral method and requires balance sheet liability method. Practically, FRS 112₂₀₀₄ (or MASB 25) has been effective for annual financial statements covering periods beginning on or after 1 July 2002.

Another FRS we dealt with in this issue of *e*-Newsletter is [FRS 129₂₀₀₄ \(or IAS 29\) Financial Reporting in Hyperinflationary Economies](#) ~ a FRS which is rarely

applicable, especially in Malaysia. However, we analyze this FRS as it may still be applicable to some Malaysian companies whose investments are situated in hyper-inflationary economies.

In this very first issue of the AXP Technical Diagnostic Centre (AXP TDC), we have reviewed and commented on two exposure drafts issued by MASB and IASB, namely [ED 52 Private Entity Reporting Standards \(PERS\)](#) and [IAS 23 Borrowing Costs](#) respectively.

ED 52 PERS is regarded as the most influential and important exposure draft ever as it may be applicable to more than 90% of the companies in Malaysia. We have looked into the application issues and impacts from the point of view of small and medium enterprises (SMEs) in Malaysia, and hope that our comments will further enhance your understanding of the proposed PERS.

Furthermore, we have also expressed our view on the minor amendments proposed by IASB to [IAS 23 Borrowing Costs](#), which prohibits the recognition of borrowing costs as an expense if the borrowing costs directly attributable to the acquisition, construction or production of a qualified asset, and the resulting transitional issue.

[The Compliance Checklists and the Sample Notes to the Financial Statements illustrated in this Technical 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.](#)

Editors
AXP Technical e-Newsletter
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Contents

FINANCIAL REPORTING STANDARDS

1 *Sample Notes to the Financial Statements Complying with FRS 112₂₀₀₄*

FRS 112₂₀₀₄ Income Taxes

6 *Diagrammatic illustration of FRS 112₂₀₀₄*

7 *Sample Compliant Checklists*

FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies

25 *Diagrammatic illustration of FRS 129₂₀₀₄*

26 *Sample Compliant Checklists*

AXP TECHNICAL DIAGNOSTIC CENTRE

33 *Introduction*

35 *Comments on ED 52 PERS ~ Issued by MASB*

43 *Comments on Proposed Amendments to IAS 23 Borrowing Costs ~ Issued by IASB*

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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 112*₂₀₀₄

Note: No sample financial statements nor disclosure notes for FRS 129₂₀₀₄ as this FRS is rarely applicable, and the disclosure requirements of this FRS is simple.



EXTRACTS OF NOTES TO THE FINANCIAL STATEMENTS:

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

Income Tax

112 Income tax comprises of current tax and deferred tax.

Current tax and deferred tax are charged or credited to equity if the tax relates to items that are credited or charged directly to equity.

Current tax liabilities are measured based on the amounts expected to be paid, using the tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences which are the differences between the carrying amount in the financial statements and the corresponding tax base of an asset or liability at the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities and assets are not recognized if the temporary differences arise from goodwill and for initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit. Deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the entity expect to recover or settle the carrying amounts of its assets and liabilities and are measured using the tax rates that have been enacted or substantially enacted by the balance sheet date.

The carrying amount of the deferred tax assets are reviewed at each balance sheet date, and the carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. The reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

14. Deferred Tax Assets / (Liabilities)

112.79(f) The following are the movements of deferred tax assets and liabilities (before offsetting):-

THE GROUP	At 1-1-06 RM'000	Charge (credit) to			Exchange difference RM'000	At 31-12-06 RM'000
		Profit or loss RM'000	Equity ~ 112.79(a) RM'000			
Deferred tax assets						
Property, plant and equipment						
Retirement benefits obligation						
Unused tax losses						
Deferred tax liabilities						
Property, plant and equipment						
Investment properties						
Deferred development costs						
Trade receivables						

	At 1-1-05 RM'000	Charge (credit) to Profit or loss RM'000	Equity ~ 112.79(a) RM'000	Exchange difference RM'000	At 31-12-05 RM'000
Deferred tax assets					
Property, plant and equipment					
Retirement benefits obligation					
Unused tax losses					

Deferred tax liabilities
Property, plant and equipment
Investment properties
Deferred development costs
Trade receivables

	At 1-1-06 RM'000	Charge (credit) to Profit or loss RM'000	Equity ~ 112.79(a) RM'000	At 31-12-06 RM'000
THE COMPANY				

Deferred tax assets
Property, plant and equipment
Retirement benefits obligation
Unused tax losses

Deferred tax liabilities
Property, plant and equipment
Investment properties
Deferred development costs
Trade receivables

	At 1-1-05 RM'000	Charge (credit) to Profit or loss RM'000	Equity ~ 112.79(a) RM'000	At 31-12-05 RM'000
Deferred tax assets				
Property, plant and equipment				
Retirement benefits obligation				
Unused tax losses				

Deferred tax liabilities
Property, plant and equipment
Investment properties
Deferred development costs
Trade receivables

112.72 Deferred tax assets and liabilities are offset when the Group and the Company have a legally enforceable right to set off current tax assets against current tax liabilities and deferred taxes relate to income taxes levied by the same taxation authority on the same taxable entity. The amounts of deferred tax assets and liabilities, after appropriate offsetting, are included in the balance sheet, as follows:-

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets				
Deferred tax liabilities				

112.79(e) The following temporary differences have not been recognized:-

	THE GROUP	
	2005	2005
	RM'000	RM'000
Deductible temporary differences		
Unused tax losses		

112.26, 37 Deferred tax assets are not recognized for the above temporary differences as it is not probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized by the Group as the future profit streams are unpredictable. However, the unused tax losses may be carried forward indefinitely.

38. Income Tax Expense

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
112.77 Current tax expense				
112.78(a) Current year				
112.78(b) Under (over) provision in prior years				
Deferred tax expense				
112.78(c) Temporary differences				
112.78(d) Changes in tax rates				
112.78(f) Previously unrecognized tax losses				
Income tax expense				

112.79(c)(i) The income tax expense can be reconciled to the accounting profit at the applicable tax rate as follows:-

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Profit before tax from:-				
Continuing operations				
Discontinuing operations				

Tax at domestic income tax of 28% (2005:

28%)

Tax effects of:

- 112.79(d) Effect of changes in tax rates
 - Non-taxable income
 - Non-deductible expenses
 - Utilization of previously unrecognized tax losses
 - Differential tax rate for small and medium enterprise in Malaysia
 - Differential tax rate in foreign countries in which the subsidiaries operate
 - Tax expense
-
-

101.76(b) **32. Retained Profits**

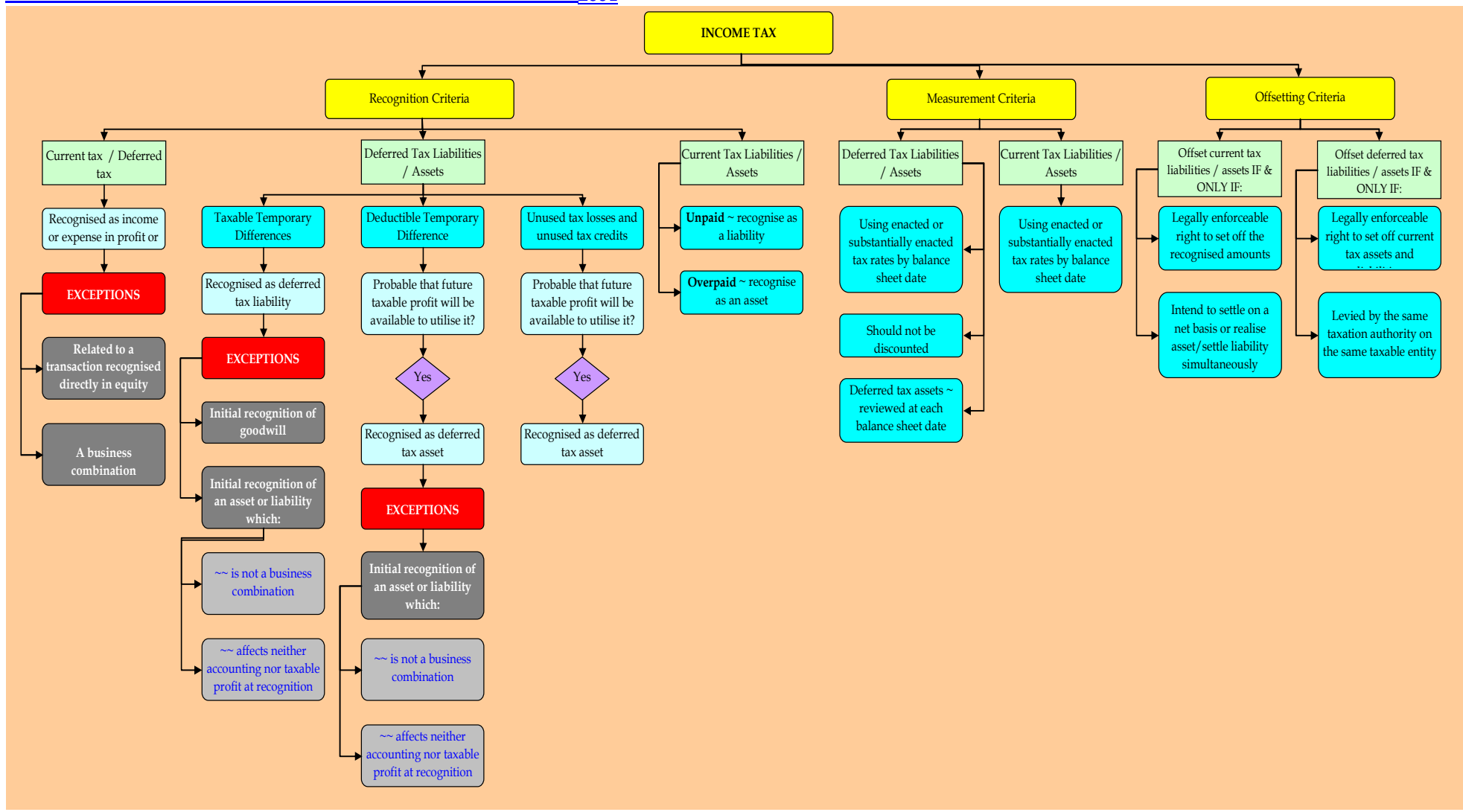
121.52(b) At the balance sheet date, (to disclose either of the following disclosure notes, where appropriate):-

- 112.81 1. Subject to the agreement by the Inland Revenue Board, the Company has sufficient tax credit under Section 108 (6) of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits.
- 2. Subject to the agreement by the Inland Revenue Board, the Company has sufficient tax credit under Section 108 (6) of the Income Tax Act, 1967 to frank the payment of dividends up to RM__ (2005: RM__) of its retained profits. The Company is required to pay an additional tax of RM__ (2005: RM__) to frank the payment of dividends out of all its retained profits.



FRS 112₂₀₀₄ Income Taxes

DIAGRAMMATIC ILLUSTRATION OF FRS 112₂₀₀₄



SAMPLE COMPLIANCE CHECKLIST

REF.	COMPLIANCE CHECKLISTS	EXAMPLE/ SAMPLE DISCLOSURES NOTES
112.1, 3 ~ 4	<p><u>SCOPE</u></p> <p>FRS 112₂₀₀₄ applied in accounting for income taxes.</p>	<p>Income taxes include:</p> <ul style="list-style-type: none"> → All domestic and foreign taxes which are based on taxable profits, → Other taxes, such as withholding taxes, which are payable by a foreign subsidiary, associate or joint venture on distributions to the reporting entity, and → Real property gain taxes payable on disposal of properties. <p>FRS 112₂₀₀₄ does NOT deal with the methods of accounting for government grants or investment tax credits, BUT deal with the accounting for temporary differences that may arise from such grants or investment tax credits.</p>
112.5 ~ 11	<p><u>DEFINITION</u></p> <p><u>Accounting profit</u> ~ Profit or loss for a period before deducting tax expense.</p> <p><u>Current tax</u> ~ Amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.</p> <p><u>Deferred tax assets</u> ~ Amounts of income taxes recoverable in future periods in respect of:</p> <ul style="list-style-type: none"> (a) Deductible temporary differences; (b) Carryforward of unused tax losses; and (c) Carryforward of unused tax credits. <p><u>Deferred tax liabilities</u> ~ Amounts of income taxes payable in future periods in respect of taxable temporary differences.</p> <p><u>Tax expense (tax income)</u> ~ Aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.</p> <p><u>Taxable profit (tax loss)</u> ~ Profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).</p> <p><u>Temporary differences</u> ~ Differences between the carrying amount of an asset or liability and its tax base. Temporary differences may be either:</p> <ul style="list-style-type: none"> (a) <u>Taxable temporary differences</u> ~ temporary differences that will <i>result in taxable amounts in determining taxable profit (tax loss)</i> of future periods when the carrying amount of the asset or liability is recovered or settled; or 	

	<p>(b) Deductible temporary differences ~ temporary differences that will result in <u>amounts that are deductible in determining taxable profit (tax loss)</u> of future periods when the carrying amount of the asset or liability is recovered or settled.</p> <p>Tax base ~ Amount attributed to that asset or liability for tax purposes.</p> <ul style="list-style-type: none"> → Tax base of an asset ~ Amount that will be <i>deductible</i>, for tax purposes, <i>against any taxable economic benefits</i> that will flow to an entity when it recovers the carrying amount. ~ If those economic benefits will not be taxable, the tax base of the asset = carrying amount. → Tax base of a liability ~ <i>Carrying amount, less</i> any <i>amount that will be deductible for tax purposes</i> in respect of that liability in future periods. ~ For <i>revenue which is received in advance</i>, the tax base of the resulting liability = <i>carrying amount, less</i> any amount of the <i>revenue that will not be taxable in future periods</i>. → Items that have tax base BUT not recognized as assets and liabilities in the balance sheet ~ For example, <i>research costs recognized as an expense BUT may not be permitted as a deduction in determining taxable profit (tax loss) until a later period.</i> ~ DIFFERENCE BETWEEN tax base of the research costs AND the carrying amount of NIL is a deductible temporary difference → deferred tax asset. → Tax base of an asset or liability is NOT immediately apparent ~ Consider the fundamental principle ~ recognize a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. → Consolidated financial statements ~ Temporary differences are determined by COMPARING the carrying amounts of assets and liabilities in the consolidated financial statements WITH the appropriate tax base. ~ Unrealized profits or losses which are eliminated on consolidation create temporary differences in the consolidated financial statements between carrying amounts of assets and liabilities and their corresponding tax bases.
	<p>RECOGNITION OF CURRENT TAX LIABILITIES & CURRENT TAX ASSETS</p>
<p>112.12 ~ 13</p>	<p>Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability.</p> <p>If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset.</p> <p>Over or under-provision for current income taxes →</p> <ul style="list-style-type: none"> → Accounted for as a change in estimate and adjusted for when IRB has made an assessment of the current tax payable. <p>Tax loss of a current period →</p> <ul style="list-style-type: none"> → Not permit to be used to recover current tax of a previous period, except for some circumstances as specified in Budget 2006. → Maybe used to offset taxable income in a future period, and, accordingly, represents only potential tax savings in future periods which shall be accounted for in accordance with FRS 112.37.

RECOGNITION OF DEFERRED TAX LIABILITIES & DEFERRED TAX ASSETS	
- Taxable Temporary Differences	
112.14 ~ 15	<p>Deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:</p> <ul style="list-style-type: none"> (a) Initial recognition of goodwill; or (b) Initial recognition of an asset or liability in a transaction which: <ul style="list-style-type: none"> (a) Is not a business combination; and (b) At the time of the transaction, affect neither accounting profit nor taxable profit (tax loss).
112.16 ~ 17	<p>Asset recognition → inherent that its carrying amount will be recovered in the form of economic benefits in future.</p> <p>Taxable temporary difference → carrying amount of the asset > tax base → pay the resulting income taxes in future → DEFERRED TAX LIABILITY.</p> <p>In future period → entity will recover the carrying amount of the asset, the taxable temporary difference will reverse → will have taxable profit → economic benefits will flow from the entity in the form of tax payments.</p> <p>Timing Difference - a type of temporary differences Arise when income and expense is included in: → accounting profit in one period BUT → taxable profit in a different period.</p> <p>Example:</p> <ul style="list-style-type: none"> (a) Interest revenue: include in accounting profit on a time proportion basis BUT may be included in taxable profit when cash is collected. <u>Tax base</u> of any interest receivable recognized in balance sheet → NIL. (b) Depreciation: difference between the carrying amount of the asset and tax base. <u>Tax base</u> → original cost less all deductions permitted by IRB. <u>Taxable temporary difference</u> → accelerated capital allowance. (c) Development costs: may be capitalized for accounting profit BUT deducted in determining taxable profit in the period in which they are incurred. <u>Tax base</u> → NIL as they have already been deducted from taxable profit. <u>Taxable temporary difference</u> → Difference between carrying amount of the development costs and its tax base of NIL. <p>Temporary differences also arise:</p> <ul style="list-style-type: none"> (a) Cost of a business combination → allocated by recognizing the identifiable assets acquired and liabilities assumed at their fair values → NO equivalent adjustment is made for tax purposes. (b) Revalued assets → NO equivalent adjustment is made for tax purposes. (c) Goodwill arises in a business combination. (d) On initial recognition → <u>tax base</u> of an asset or liability differs from its initial carrying amount. <p>Please refer to the following for details.</p>

112.18
~ 25

Business Combination

Temporary differences → tax bases of the identifiable assets acquired or liabilities assumed are **NOT affected** by the business combination **or** are affected differently.

Example:

Carrying amount of an asset increased to fair value BUT the tax base remains at cost to the previous owner. The resulting deferred tax liability affects goodwill.

Assets Carried at Fair Value

FRSs permit or require certain assets to be carried at fair value or to be revalued → revaluation or restatement does not affect taxable profit in the period of the revaluation or restatement → **tax base is not adjusted**.

Difference between the carrying amount of a revalued asset and tax base → **temporary difference** → **deferred tax liability or asset**.

*Illustration for a **depreciable property, plant and equipment**:*

- (a) **No intention to dispose of the asset** → revalued carrying amount will be **recovered through use** → generate taxable income which exceeds the capital allowance that will be deductible for tax purposes in future; or
- (b) **Upon disposal of the revalued asset** → reflected in the tax effect of a balancing charge and/or real property gain tax → tax will ultimately become **payable on sale of the revalued asset**.

*Illustration for a **non-depreciable property, plant and equipment** or **investment property** which will result in taxes payable upon disposal:*

- (a) No recovery through use as the asset is not subject to depreciation.
- (b) Tax effect of upward revaluation relates **ONLY** to real property gain tax:
 - (i) **Firm commitment** to dispose of the revalued property in the foreseeable future → used expected property gain tax payable to recognize the deferred tax liability on the surplus.
 - (ii) **NO firm commitment** to dispose of the revalued property in the foreseeable future → used minimum property gain tax of 5% to recognize the deferred tax liability on the surplus.

*Illustration for a **building that does not qualify for tax allowances**:*

- (a) Tax base of NIL → temporary difference arises on initial recognition.
- (b) FRS 112.14(b) → **NOT permit** to recognize deferred tax liability on **initial recognition and subsequently**.
- (c) However the exemption **DOES NOT apply** to any **subsequent revaluation**

surplus → as building is a depreciable asset → tax liability on the revaluation surplus will crystallize when the carrying amount is recovered through use or by disposal:

- (i) **Firm commitment** to dispose of the revalued property in the foreseeable future → deferred tax liability = **sum of** the income tax rate based on the additional depreciation arising from the surplus prior to the disposal date **and** real property gain tax payable on disposal.
- (ii) **All other circumstances** → deferred tax liability = income tax rate on the revaluation surplus arising from the revaluation of the building → future economic benefits generated from the use of the revalued building is subject to income tax.

Goodwill

Goodwill arising in a business combination = **EXCESS** of the cost of the combination **OVER** the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

- (a) In determining taxable profit, goodwill is not allowed to be a deductible expense; and
- (b) Cost of goodwill is often not deductible when a subsidiary disposes of its underlying business.
 - Tax base for goodwill = NIL → difference between carrying amount and tax base = taxable temporary difference.
 - HOWEVER, FRS 112 **DOES NOT PERMIT the recognition of the resulting deferred tax liability** → goodwill is measured as a residual and the recognition of goodwill will increase the carrying amount of goodwill.
- (c) **Subsequent reductions in a deferred tax liability that is unrecognized** because it arises from the initial recognition of goodwill
 - Also regarded as arising from the initial recognition of goodwill → NOT recognized under FRS 112.14(a).
- (d) **Recognize deferred tax liabilities** for taxable temporary differences relating to goodwill → to the extent they **DO NOT** arise from the initial recognition of goodwill. *Example, when goodwill is deductible for tax purposes.*

Initial Recognition of an Asset or Liability

Temporary difference may arise on INITIAL recognition of an asset or liability, for example, if part or all of the cost of an asset will not be deductible for tax purposes:

- (a) **In a business combination** → recognizes any deferred tax liability or asset and this affect the amount of goodwill or the amount of any excess

		<p>over the cost of the combination.</p> <p>(b) Transaction affects either accounting profit or taxable profit → recognizes deferred tax liability or asset and the resulting deferred tax expense or income in the income statement.</p> <p>(c) Not a business combination, and affect NEITHER accounting profit NOR taxable profit → NOT PERMIT to recognize it as deferred tax liability or asset, either on initial recognition or subsequently. Also, entity DOES NOT recognize subsequent changes in the unrecognized deferred tax liability or asset as the asset is depreciated.</p> <p><i>Example 1</i> A <u>depreciable leasehold property</u> that are not qualified for any tax allowances: <u>Tax base</u> = NIL on initial recognition and subsequently. <u>Temporary difference</u> = difference between tax base and its carrying amount. HOWEVER, <i>no deferred tax liability shall be recognized.</i></p> <p><i>Example 2</i> A <u>compound financial instrument</u> → classifies the liability component as a liability and the equity component as equity. <u>Tax base of the liability component</u> on initial recognition = initial carrying amount of the sum of the liability and equity components. <u>Resulting taxable temporary difference</u> = initial recognition of the equity component separately from the liability component. THEREFORE, <i>exception in FRS 112.14(b) does not apply</i> → recognizes the resulting deferred tax liability → FRS 112.59 → charged directly to the carrying amount of the equity component. FRS 112.56 → subsequent changes in the deferred tax liability are recognized in the income statement as deferred tax expense (income).</p>
	<p><u>RECOGNITION OF DEFERRED TAX LIABILITIES & DEFERRED TAX ASSETS</u> <u>- Deductible Temporary Differences</u></p> <p>112.26 ~ 27</p> <p>Deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:</p> <p>(a) Is not a business combination; and (b) At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).</p>	<p>Liability recognition → inherent that its carrying amount will be settled through an outflow of resources embodying economic benefits in future.</p> <p>Part or all of the amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognized → <i>carrying amount of the liability > tax base</i> or <i>carrying amount of the asset < tax base</i> → DEFERRED TAX ASSET.</p> <p>In future period → income taxes will be recovered when that part of the liability is allowed as a deduction in determining taxable profit.</p>

<p>112.28</p>	<p><u>Deductible temporary differences which result in deferred tax assets</u></p> <p>Example:</p> <p>(a) Retirement benefit costs: <i>Accounting</i> ~ may be deducted in determining accounting profit as service is provided by the employee, BUT <i>Tax purpose</i> ~ deducted either when contributions are paid to an approved fund or retirement benefits are paid. <i>Temporary difference</i> = difference between the carrying amount and tax base (usually NIL) → <i>deferred tax asset</i> → economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid.</p> <p>(b) Research costs: <i>Accounting</i> ~ recognize as an expense in determining accounting profit in the period in which they are incurred, BUT <i>Tax purpose</i> ~ may NOT be permitted as a deduction in determining taxable profit (tax loss) until a later period. <i>Temporary difference</i> = difference between carrying amount of NIL and tax base (permitted by the IRB) → <i>deferred tax asset</i></p> <p>(c) Cost of a business combination: <i>Accounting</i> ~ when a liability assumed is recognized at the acquisition date, or an identifiable asset acquired is carried at fair value, BUT <i>Tax purpose</i> ~ related costs are not deducted in determining taxable profits until a later date, or fair value of an identifiable asset is less than tax base. <i>Temporary difference</i> → <i>deferred tax asset</i> affect goodwill (FRS 112.64).</p> <p>(d) Assets carried at fair value or revalued amount: <i>Accounting</i> ~ assets are revalued or carried at fair value, BUT <i>Tax purpose</i> ~ no equivalent adjustment being made for tax purposes. <i>Temporary difference</i> → tax base of the asset exceeds carrying amount will arise in a deferred tax asset.</p>
<p>112.29 ~ 36</p>	<p><u>Reversal of deductible temporary differences</u></p> <p>Results in deductions in determining taxable profits of future periods:-</p> <ul style="list-style-type: none"> → Economic benefits will flow to the entity ONLY IF it earns sufficient taxable profits against which the deductions can be offset. → Recognize deferred tax assets ONLY WHEN it is probable that taxable profits will be available against which the deductible temporary differences can be utilized:- <ul style="list-style-type: none"> → When there are sufficient taxable temporary differences relating to the same taxation authority and taxable entity which are expected to reverse:

- (i) In the same period as the expected reversal of the deductible temporary difference; or
- (ii) In periods into which a tax loss arising from the deferred tax asset can be carried forward.

→ In such circumstances, deferred tax asset is **recognized in the period in which the deductible temporary differences arise.**

Insufficient taxable temporary differences

Deferred tax asset is recognized to the extent that:

- (a) **PROBABLE** that the entity will have **sufficient taxable profit** relating to the same taxation authority and taxable entity in the same period as the reversal of the deductible temporary difference (*or in the periods into which a tax loss arising from the deferred tax asset can be carried forward*) → ignores taxable amounts arising from deductible temporary differences that are expected to originate in future → will itself require future taxable profit in order to be utilized; or
- (b) Tax planning opportunities are available to create taxable profit in appropriate periods. *E.g., taxable profit may be created or increased by:-*
 - (i) *interest income* are taxed on either a received or receivable basis;
 - (ii) *Deferring the claim* for certain deductions from taxable profit;
 - (iii) *Selling, or leasing back, assets* that have appropriated but for which the tax base has not been adjusted to reflect such appreciation; and
 - (iv) *Selling an asset that generates non-taxable income* in order to purchase another investment that generates taxable income.

Entity has a history of recent losses

Refer to FRS 112.38 and 39.

Initial Recognition of an Asset or Liability

Non-taxable government grant related to an asset

Accounting ~ deducted in arriving at the carrying amount of the asset.

Tax purpose ~ NOT deducted from the asset's depreciable amount.

Temporary difference ~ carrying amount of the asset < tax base.

Government grant set up as deferred income

Temporary difference ~ difference between the deferred income and tax base of Nil.

Whichever method is adopted → **NOT recognize the resulting deferred tax assets** (FRS 112.23) → traditionally been applied to permanent differences → including *expense which is permanently disallowed for income tax purposes.*

		<p><u>Asset qualified for re-investment or other allowances in excess of its normal capital allowances</u> Carrying amount < tax base on initial recognition → deductible temporary difference → NOT recognize deferred tax assets (FRS 112.23).</p>
112.37 ~ 39	<p><u>RECOGNITION OF DEFERRED TAX LIABILITIES & DEFERRED TAX ASSETS</u> <u>- Unused Tax Losses and Unused Tax Credits</u></p> <p>Deferred tax asset should be recognized for the carryforward of unused tax losses and tax credits to the extent that it is PROBABLE that future taxable profit will be available against which the unused tax losses and tax credits can be utilized.</p>	<p>Criteria for recognition → same as the criteria for recognizing deferred tax assets arising from deductible temporary differences.</p> <p>Entity has a history of recent losses Recognizes a deferred tax asset arising from unused tax losses or tax credits ONLY to the extent that:-</p> <ul style="list-style-type: none"> ✓ It has sufficient taxable temporary differences; or ✓ Convincing other evidence that sufficient taxable profit will be available to utilize the unused tax losses or tax credits. ✓ Refer to FRS 112.80 for disclosure requirements. <p>Criteria in assessing the probability that taxable profit will be available</p> <ol style="list-style-type: none"> (a) Sufficient taxable temporary differences in the SAME taxation authority and taxable entity → can unused tax losses or tax credits be utilized before they expire? (b) Is it PROBABLE that the entity will have taxable profits before the unused tax losses or tax credits expire? (c) Are the unused tax losses result from identifiable causes unlikely to recur? (d) Are tax planning opportunities (FRS 112.32) available to create taxable profit in the period in which the unused tax losses or tax credits can be utilized? <p>To the extent that it is NOT PROBABLE that taxable profit will be available → deferred tax asset is NOT recognized.</p>
112.40	<p><u>RECOGNITION OF DEFERRED TAX LIABILITIES & DERERRED TAX ASSETS</u> <u>- Re-assessment of Unrecognised Deferred Tax Assets</u></p>	<p>At each balance sheet date:-</p> <ul style="list-style-type: none"> ✓ Re-assesses unrecognized deferred tax assets. ✓ Recognizes a previously unrecognized deferred tax assets → to the extent that it has become PROBABLE that future taxable profit will

	allow the deferred tax asset to be recovered.
	<p><u>RECOGNITION OF DEFERRED TAX LIABILITIES & DERERRED TAX ASSETS</u> <u>-Investments in Subsidiaries, Branches & Associates, & Interests in Joint Ventures</u></p>
112.41 ~ 43	<p><u>In consolidated financial statements</u> Temporary difference of an investment in a subsidiary, branch, associate or a joint venture may be \neq the temporary difference associated with that investment in the parent's separate financial statements → If the parent carries the investment in its separate financial statements at cost or revalued amount.</p> <p>Investments in local subsidiaries, associates or joint ventures → Rare for temporary differences to arise → cost = tax base.</p> <p>Investments in subsidiaries, associates or joint ventures → Capital in nature → not tax-deductible or taxable on a subsequent disposal.</p> <p>NO DEFERRED TAX ASSET OR LIABILITY TO BE PROVIDED ON INITIAL RECOGNITION AND SUBSEQUENTLY.</p> <p><u>In the investor's separate financial statements</u> Investments are accounted for at under the COST METHOD → NO deferred tax liability.</p> <p><u>Circumstances where tax effects may arise</u></p> <ul style="list-style-type: none"> → Dividend receivable from overseas subsidiaries, associates and joint ventures. → There exists a difference in the income tax rates between Malaysia and the overseas jurisdictions. → Normally accounted as a current tax expense (or tax income) in the period in which the dividend income is recognized. <p>NO DEFERRED TAX TO BE RECOGNIZED IN THE SEPARATE ACCOUNTS OF THE INVESTOR FOR THE UNDISTRIBUTED PROFITS OF OVERSEAS SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES.</p> <p><u>Control of dividend policy by the parent</u></p> <ul style="list-style-type: none"> → Able to control the timing of the reversal of temporary differences.

		<p>→ Often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses → Amount of income tax payable depends on numerous complex factors:</p> <ul style="list-style-type: none"> ✓ Whether there is any tax treaties; ✓ Differential tax rates; and ✓ Intended period(s) in which the profits would be remitted. <p>NO DEFERRED TAX LIABILITY TO BE RECOGNISED IF:</p> <ul style="list-style-type: none"> → Parent has determined that those profits will not be distributed in the foreseeable future, or → When remittance will not attract additional income tax liability. <p>Non-monetary assets and liabilities measured at functional currency Taxable profit or tax loss is determined in a different currency → changes in the exchange rate give rise to temporary differences that result in a recognized deferred tax liability or asset → <u>Deferred tax is charged or credited to profit or loss.</u></p>
112.44, 46	<p>MEASUREMENT</p> <p>Current tax liabilities (assets) for the current and prior periods are measured at → Amount expected to be paid to (recovered from) the taxable authorities, using the tax rates/laws that have been enacted or substantially enacted by the balance sheet date.</p>	<p>Tax rate that have been substantially enacted → announcement by the Government in the yearly Budget.</p>
112.45, 47 ~ 48	<p>Deferred tax assets and liabilities are measured at → Tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantially enacted by the balance sheet date.</p>	<p>Different tax rates apply to different levels of taxable income Deferred tax assets and liabilities → measured using the average rates that are expected to apply in the period in which the temporary differences are expected to reverse.</p> <p>With sufficient tax credits</p> <ul style="list-style-type: none"> → NOT attract additional tax liabilities for distribution of profits as dividends. → NO current or deferred tax liabilities shall be recognized for the undistributed profits. <p>With No or insufficient tax credits</p> <ul style="list-style-type: none"> → May attract additional tax liabilities for distribution of profits as dividends. → When the entity recognized a declared or proposed dividends as an equity item → CURRENT liability is recognized to the extent of the declared or proposed dividends not franked by its available tax credits.

112.49 ~ 50	Measurement of deferred tax liabilities and assets → reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.	Manner in which the carrying amount of an asset (liability) are recovered (settled) may affect either or both of: (a) Tax rate applicable when the carrying amount of the asset (liability) are recovered (settled); and (b) Tax base of the asset (liability). USE THE TAX RATE AND THE TAX BASE THAT ARE CONSISTENT WITH THE EXPECTED MANNER OF RECOVERY OR SETTLEMENT.
112.51, 53	Deferred tax assets and liabilities shall not be discounted .	Temporary differences are determined by reference to the carrying amount of an asset or liability → EVEN where the carrying amount is itself determined on a discounted basis, e.g., retirement benefit obligations.
112.54	Carrying amount of deferred tax asset → → Reviewed at each balance sheet date. → Reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. → Such deduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.	
<u>RECOGNITION OF CURRENT AND DEFERRED TAX – Income Statement</u>		
112.56 ~ 58	Current and deferred tax → recognized as income or an expense and included in the profit or loss for the period, except to the extent that the tax arises from: (a) A transaction or event which is recognized, in the same or a different period, directly in equity (FRS 112.59 ~ 63). (b) A business combination (FRS 112.64 ~ 66).	<u>Circumstances that recognized deferred tax in income statement</u> Most deferred tax liabilities or assets arise where income or expense is included in accounting profit in one period, BUT is included in taxable profit (tax loss) in a different period → recognized in the income statement . <u>Circumstances that deferred tax may change</u> EVEN THOUGH there is no change in the amount of the related temporary differences → deferred tax is recognized in the income statement, except to the extent that it relates to items <i>previously charged or credited to equity</i> . <i>Examples:</i> (a) <i>Change in tax rates or tax laws;</i> (b) <i>Re-assessment of the recoverability of deferred tax assets; or</i> (c) <i>Change in the expected manner of recovery of an asset.</i>
<u>RECOGNITION OF CURRENT AND DEFERRED TAX – Items Credited or Charged Directly to Equity</u>		

112.59
~ 63

Current tax and deferred tax →

Charged or credited **directly to equity** if the tax **relates to items that are credited or charged directly to equity** in the same or a different period.

Items required or permitted to be credited or charged directly to equity

Examples:

- (a) *Change in carrying amount arising from the **revaluation** (FRS 116);*
- (b) *Adjustment to the opening balance of retained earnings resulting from **either** a change in accounting policy applied retrospectively **or** the correction of an error (FRS 118);*
- (c) *Exchange differences arising on the translation of the financial statements of a **foreign operation** (FRS 121); and*
- (d) *Amounts arising on **initial recognition of the equity component** of a **compound financial instrument** (FRS 112.25).*

Exceptional circumstances that are difficult to determine the current and deferred tax for items credited or charged to equity

Examples:

- (a) *Graduated tax rates and it is **impossible to determine** the rate at which a specific component of taxable profit (tax loss) has been determined;*
- (b) *Change in the tax rate or other tax rules affects a deferred tax asset or liability relating to an item that was previously charged or credited to equity; or*
- (c) *Deferred tax asset is recognized or no longer be recognized in full, and it relates in whole or in part to an item that was previously charged or credited to equity.*

These current and deferred taxes → based on a reasonable pro rata allocation of the current and deferred tax, or other method that achieves a more appropriate allocation.

Transfer from revaluation surplus to retained earnings for revalued property, plant and equipment

- FRS 116 DOES NOT specified whether to transfer the **difference between** the *depreciation or amortization based on the revalued amount* **and** the *cost of that asset* from revaluation surplus to retained earnings each year.
- If makes such a transfer → amount transferred is net of any related deferred tax.
- Similar considerations apply to transfers made on disposal of an item of property, plant and equipment.

Asset is revalued for tax purposes

- Revaluation is **related to an accounting revaluation** of an earlier period, or to one that is expected to be carried out in a future period → **Tax effects** of **both** the *asset revaluation* **and** the *adjustment of the tax*

	<p><i>base</i> → credited or charged to equity in the periods in which they occur.</p> <p>→ Revaluation is NOT related to an accounting revaluation of an earlier date, or to one that is expected to be carried out in a future period → Tax effects of the <i>adjustment of the tax base</i> → recognized in the income statement.</p>
<p>112.64 ~ 66</p>	<p><u>RECOGNITION OF CURRENT AND DEFERRED TAX - Deferred Tax Arising From A Business Combination</u></p> <p><u>Temporary differences arise in a business combination</u></p> <p>→ FRS 3 → recognizes any resulting deferred tax assets or liabilities as identifiable assets and liabilities at the acquisition date.</p> <p>→ FRS 112.14(a) → NOT recognize deferred tax liabilities arising from the initial recognition of goodwill.</p> <p><u>Probable to recover its own deferred tax asset that was not recognized before the business combination</u></p> <p><i>Example:</i> <i>Acquirer to utilize the benefit of its unused tax losses against the future taxable profit of the acquiree → acquirer recognizes a deferred tax asset, BUT does NOT include it as part of the accounting for the business combination.</i></p> <p><u>Potential benefit on deferred tax asset did not satisfy the criteria of FRS 3 for separate recognition initially BUT is subsequently realized</u></p> <p>→ Recognize the resulting deferred tax income in profit or loss.</p> <p>In addition, the acquirer shall:</p> <p>(a) Reduce the carrying amount of goodwill to the amounts that would have been recognized if the deferred tax asset had been recognized as an identifiable asset from the acquisition date; and</p> <p>(b) Recognizes the reduction in goodwill as an expense.</p> <p>HOWEVER, this procedure shall not result in the creation of an excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination, nor shall it increase the amount previously recognized for any such excess.</p>
	<p><u>RECOGNITION OF CURRENT AND DEFERRED TAX - Current and Deferred</u></p>

<u>Tax Arising From Share-based Payment Transactions</u>	
112.66 A ~ 66C	<p><u>Temporary differences on remuneration</u> Tax deduction on remuneration paid in shares and other equity instruments may DIFFER FROM the related cumulative remuneration expense and may arise in a later accounting period.</p> <p><i>Example:</i> Recognize an expense for the consumption of employee services received as consideration for share options granted (FRS 2), and Receive tax reduction when the share options are exercised based on the entity's share price at the date of exercise.</p> <p><u>DIFFERENCE BETWEEN</u> the tax base of the employee services received to date, <u>AND</u> the carrying amount of NIL → deductible temporary difference that results in a deferred tax asset.</p> <p>If the amount of the tax deduction <u>EXCEEDS</u> the amount of the related cumulative remuneration expense → indicates that the tax deduction relates NOT ONLY to remuneration expense BUT ALSO to an equity item → EXCESS of the associated current or deferred tax should be recognized directly in equity.</p> <p><u>Amount of tax deduction is not known</u> To estimate based on information available at the end of the period. <i>Example:</i> If the tax deduction is based on the entity's share price at a future date → deductible temporary difference should be based on the share price at the end of the period.</p>
<u>PRESENTATION - Tax Assets and Tax Liabilities (Offset)</u>	
112.69 ~ 71	<p>Offset current tax assets and current tax liabilities IF, AND ONLY IF, the entity:</p> <p>(a) Has a legally enforceable right to set off the recognized amounts; and (b) <u>Either</u> to settle on a net basis, <u>or</u> realize the asset and settle the liability simultaneously.</p> <p><u>Legally enforceable right to set off</u> Normally have a legally enforceable right to set off WHEN: → Relate to income taxes levied by the same taxation authority; and → Taxation authority permits to make or receive a single net payment.</p> <p><u>Consolidated financial statements</u> Current tax asset of one entity is offset against a current tax liability of another entity IF, AND ONLY IF: → They have a legally enforceable right to make or receive a single net payment, and → They intend to make or receive such a net payment or to recover the</p>

		asset and settle the liability simultaneously.
112.72	Offset deferred tax assets and deferred tax liabilities IF, AND ONLY IF , the entity: (a) Has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) Deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either: (i) The same taxable entity; or (ii) Different taxable entities which intend either to <i>settle current tax liabilities and assets on a net basis</i> , or to <i>realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered</i> .	
	<u>PRESENTATION - Tax Expense (Tax expense (Income) related to profit or loss from ordinary activities)</u>	
112.75	Tax expense (income) related to profit or loss from ordinary activities shall be presented on the face of the income statement.	
	<u>PRESENTATION - Tax Expense (Exchange differences on deferred foreign tax liabilities or assets)</u>	
112.76		FRS 121 → requires certain exchange differences to be recognized as income or expense BUT does not specify where such differences should be presented in the income statement → Where exchange differences on deferred foreign tax liabilities or assets are recognized in the income statement → classified as deferred tax expense (income) if that presentation is considered <i>to be the most useful to financial statements users</i> .
	<u>DISCLOSURE</u>	
112.77 ~ 78	Major components of tax expense (income) shall be disclosed separately.	Components of tax expense (income) may include: (a) Current tax expense (income); (b) Adjustments recognized in the period for current tax of prior periods ; (c) Amount of deferred tax expense (income) relating to the origination and reversal of temporary differences ; (d) Amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes ; (e) Amount of benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce

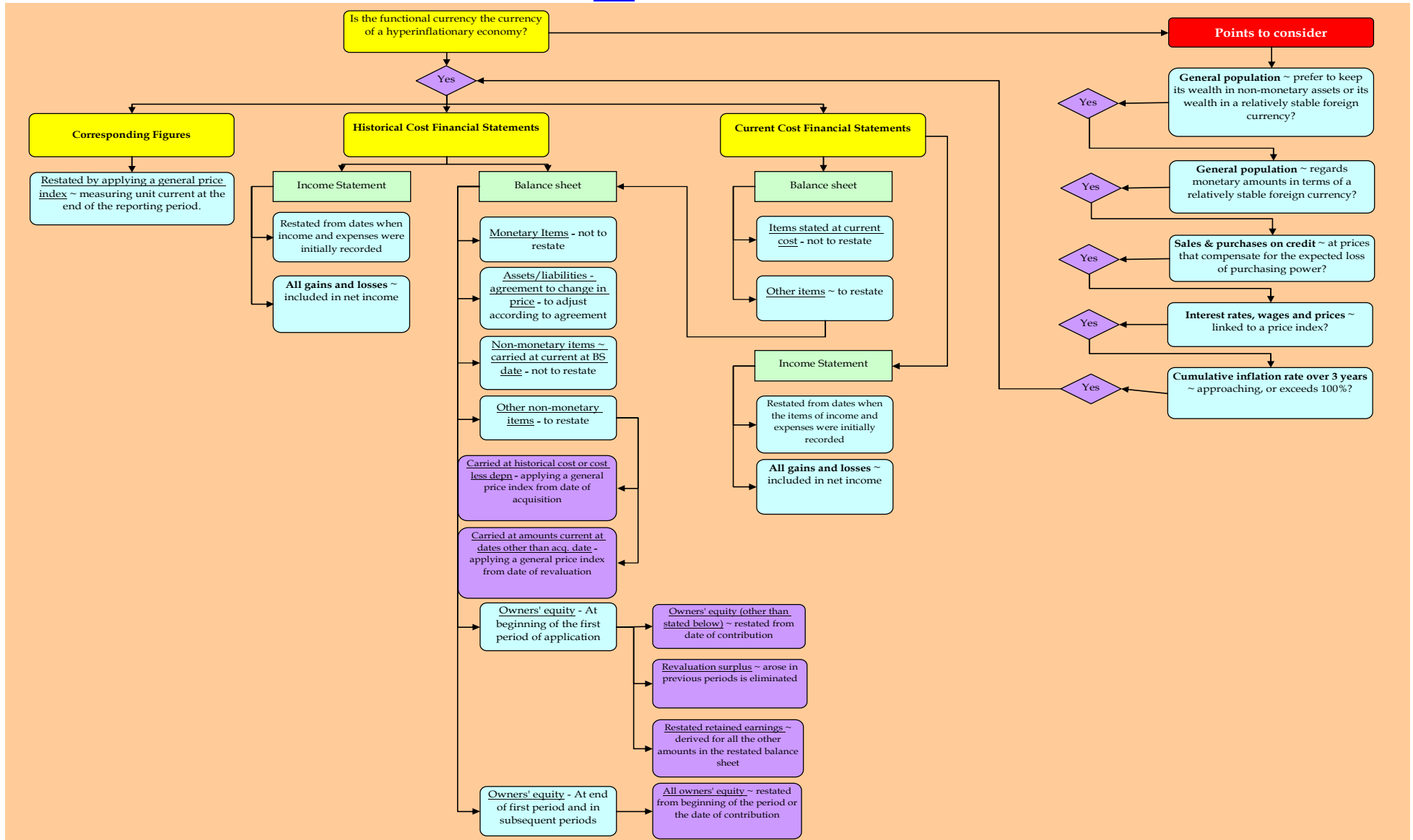
		<p>current tax expense;</p> <p>(f) Amount of benefit from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;</p> <p>(g) Deferred tax expense arising from write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with FRS 112.54; and</p> <p>(h) Amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with FRS 108, because they cannot be accounted for retrospectively.</p>
<p>112.79, 83 ~ 87</p>	<p>The following shall also be disclosed separately:</p> <p>(a) Aggregate current and deferred tax relating to items that are charged or credited to equity;</p> <p>(b) [deleted];</p> <p>(c) Explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:</p> <p>(i) Numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or</p> <p>(ii) Numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed</p> <p>(d) Explanation of changes in the applicable tax rate(s) compared to the previous accounting period;</p> <p>(e) Amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which NO deferred tax asset is recognized in the balance sheet;</p> <p>(f) In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:</p> <p>(i) Amount of the deferred tax assets and liabilities recognized in the balance sheet for each period presented;</p> <p>(ii) Amount of the deferred tax income or expense recognized in the income statement, if this is not apparent from the changes in the amounts recognized in the balance sheet; and</p> <p>(g) In respect of discontinued operations, the tax expense relating to:</p> <p>(i) Gain or loss on discontinuance; and</p> <p>(ii) Profit or loss from ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.</p>	<p>Disclosure requirement of FRS 112.79(c)</p> <p>Relationship between tax expense (income) and accounting profit may be affected by the factors, such as:</p> <p>(a) <i>Revenue that is exempt from taxation,</i></p> <p>(b) <i>Expenses that are not deductible for tax purposes,</i></p> <p>(c) <i>Effect of tax losses, and</i></p> <p>(d) <i>Effect of foreign tax rates.</i></p> <p>Applicable tax rate = provide the most meaningful information to the users of its financial statements →</p> <p>→ Often to be the domestic tax rate in the country in which the entity is domiciled → aggregating the tax applied for national taxes with the rates applied for any local rates which are computed on a substantially similar level of taxable profit (tax loss).</p> <p>→ For an entity operating in several jurisdictions → more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction.</p> <p>Average effective tax rate = tax expense (income) divided by the accounting profit.</p> <p>Unrecognized deferred tax liabilities arising from investments in overseas subsidiaries, branches and associates and interests in joint ventures</p> <p>→ Requires disclosure of the aggregate amount of any underlying temporary differences BUT does NOT REQUIRE disclosure of the deferred tax liabilities.</p> <p>→ Where practical → ENCOURAGE to disclose the amounts of the unrecognized deferred tax liabilities.</p> <p>Tax-related contingent liabilities and contingent assets</p> <p>→ May arise from unresolved disputes with the taxation authorities.</p> <p>→ Where changes in tax rates or laws are enacted or announced after the</p>

AXP Technical e-Newsletter July 2006 Issue

		balance sheet date → to disclose any significant effect of those changes on its current and deferred tax assets and liabilities.
112.80	Disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: (a) Utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and (b) Entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.	
112.81	Disclose whether there is sufficient tax credit to frank the distribution of its retained profits, and if there is insufficient tax credit, the extent of the retained profits not covered.	
	<u>TRANSITIONAL PROVISIONS</u>	
112.88	When the adoption of FRS 112 constitutes a change in accounting policy → → Applied retrospectively and adjusted against the opening retained earnings. → Corresponding amounts of prior periods → adjusted for the change in accounting policy.	
	<u>EFFECTIVE DATE</u>	
112.89	Effective date = annual financial statements covering periods beginning on or after 1 July 2002. Earlier application of the Standard is encouraged.	

FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies

DIAGRAMMATIC ILLUSTRATION OF FRS 112₂₀₀₄



SAMPLE COMPLIANCE CHECKLISTS

REF.	COMPLIANCE CHECKLISTS	EXAMPLE/ SAMPLE DISCLOSURES NOTES
129.1, 3 ~ 4	<p><u>SCOPE</u></p> <p>FRS 129₂₀₀₄ shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.</p>	<p><u>Indication of Hyperinflationary Economy</u> FRS 129₂₀₀₄ does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment.</p> <p>Hyperinflation is indicated by characteristics of a country's economic environment which include, but are not limited to, the following:</p> <ul style="list-style-type: none"> (a) General population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Local currency held are immediately invested to maintain purchasing power; (b) General population regards monetary amounts not in terms of the local currency BUT in terms of a <i>relatively stable foreign currency</i>. Prices may be quoted in that currency; (c) Sales and purchases on credit take place at prices that <i>compensate for the expected loss of purchasing power</i> during the credit period, even if the period is short; (d) Interest rates, wages and prices are <i>linked to a price index</i>; and (e) Cumulative inflation rate over 3 years is approaching, or exceeds 100%. <p><u>Application date of FRS 129₂₀₀₄</u> Preferable that all entities that report in the currency of the same hyperinflationary economy applies FRS 129₂₀₀₄ from the same date.</p> <p>Nevertheless, FRS 129₂₀₀₄ applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.</p>
129.7	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS</u></p>	<p><u>Usefulness of the financial statements</u> In a hyperinflationary economy, financial statements are useful ONLY IF they are expressed in terms of the measuring unit current at the balance sheet date.</p>

		Presentation of the information as a supplement to un-restated financial statements is not permitted . Furthermore, separate presentation of the financial statements before restatement is discouraged.
129.8, 10	<p>Financial statements' functional currency is the <i>currency of a hyperinflationary economy</i> → stated in terms of the measuring unit current at the balance sheet date.</p> <p>Corresponding figures for the previous period and any information for the earlier periods → stated in terms of the measuring unit current at the balance sheet date.</p> <p>For the purpose of presenting comparative amounts in a different presentation currency → FRS 121.42(b) and 43 apply.</p>	Consistent application of the procedures and judgments from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.
129.9	Gain or loss on the net monetary position → included in profit or loss and separately disclosed.	
	<u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Historical Financial Statements (Balance Sheet)</u>	
129.11	Balance sheet amounts NOT already expressed in terms of the measuring unit current at the balance sheet date → restated by applying a general price index .	
129.12	Monetary items (<i>money held and items to be received or paid in money</i>) → NOT restated because they are already expressed in terms of the monetary unit current at the balance sheet date.	
129.13	Assets and liabilities linked by agreement to changes in prices → adjusted in accordance with the agreement in order to ascertain the amount outstanding at the balance sheet date, and carried at this adjusted amount in the restated balance sheet.	
129.14	<p>All other assets and liabilities are non-monetary.</p> <p>Non-monetary items carried at amounts current at the balance sheet date (such as net realizable value and market value) → NOT restated.</p> <p>All other non-monetary items → restated.</p>	
129.15	Most non-monetary items are carried at cost or cost less depreciation → expressed at amounts current at their date of acquisition.	<p><i>Example:</i> <i>Property, plant and equipment, investments, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets</i> → restated from</p>

AXP Technical e-Newsletter July 2006 Issue

	<p>Restated cost, or cost less depreciation → determined by applying to its historical cost and accumulated depreciation the changes in a general price index from the date of acquisition to the balance sheet date.</p>	<p><i>the dates of purchase.</i></p> <p><i>Inventories of partly-finished and finished goods → restated from the dates on which the cost of purchase or of conversion were incurred.</i></p>
129.16	<p>If the detailed records of the acquisition dates of items of property, plant and equipment are not available or capable of estimation → use an independent professional assessment of the value of the items as the basis for their restatement.</p>	
129.17	<p>General price index may not be available for the periods for which the restatement of property, plant and equipment is required → may be necessary to use an estimate based on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.</p>	
129.18	<p>Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the balance sheet (eg. <i>revalued property, plant and equipment</i>) → carrying amounts are restated from the date of the revaluation.</p>	
129.19	<p>Restated amount of a non-monetary item is reduced when it exceeds the amount recoverable from the item's future use → restated amounts are reduced to recoverable amount (<i>for property, plant and equipment, goodwill, patents and trademarks</i>), net realizable value (<i>for inventories</i>), or market value (<i>for current investments</i>).</p>	
129.20	<p>Investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy → Balance sheet and income statement are restated in order to calculate the investor's share of its net assets and results of operations. Where the restated financial statements of the investee are expressed in a foreign currency → translated at closing rates.</p>	
129.21	<p>Impact of inflation is usually recognized in borrowing costs. It is not appropriate BOTH to restate the capital expenditure financed by borrowing AND to capitalize that part of the borrowing costs that compensates for the inflation during the same period → this part of the borrowing costs is recognized as an expense in the period in which the costs are incurred.</p>	
129.22	<p>Acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge, where it is impracticable to impute the interest → such assets are restated from the payment date and not the date of purchase.</p>	
129.24	<p>At the beginning of the first period of application,</p>	

AXP Technical e-Newsletter July 2006 Issue

	<ul style="list-style-type: none"> → Components of owners' equity, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. → Any revaluation surplus that arose in previous periods is eliminated. → Restated retained earnings are derived from all the other amounts in the restated balance sheet.
129.25	<p>At the end of the first period and in subsequent periods,</p> <ul style="list-style-type: none"> → <i>All components of owners' equity</i> → restated by applying a general price index from the beginning of the period or the date of contribution, if later. → <i>Movements for the period</i> in owner's equity are disclosed according to FRS 101.
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Historical Financial Statements (Income Statement)</u></p>
129.26	<p>All items in the income statement are expressed in terms of the measuring unit current at the balance sheet date → all amounts need to be restated by <i>applying the change in the general price index</i> from the date when the items of income and expenses were <i>initially recorded</i> in the financial statements.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Historical Financial Statements (Gain or Loss on Net Monetary Position)</u></p>
129.27	<p>In a period of inflation →</p> <ul style="list-style-type: none"> → Excess of monetary assets over monetary liabilities loses purchasing power → Excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. <p><u>Gain or loss on the monetary position</u> may be derived as the difference resulting from:</p> <ul style="list-style-type: none"> → the restatement of non-monetary assets, → the restatement of owners' equity, → the restatement of income statement items, and → the adjustment of index linked assets and liabilities. <p>Gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.</p>
129.28	<p><u>Gain or loss</u> on the net monetary position → included <i>in net income</i>.</p> <p><u>Adjustment to those assets and liabilities linked by agreement</u> to changes in price</p>

AXP Technical e-Newsletter July 2006 Issue

	<p>(FRS 129.13) → <i>offset</i> against the gain or loss on net monetary position.</p> <p><u>Other income statement items</u> (such as interest income and expense, foreign exchange differences on invested and borrowed funds) → <i>associated with the net monetary position</i>. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the income statement.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Current Cost Financial Statements (Balance Sheet)</u></p>
129.29	<p>Items stated at current cost → NOT restated. Other items → restated in accordance with FRS 129.11 ~ 25.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Current Cost Financial Statements (Income Statement)</u></p>
129.30	<p>Current cost income statement, before restatement, generally reports costs current at the time at which the underlying transactions or events occurred:-</p> <ul style="list-style-type: none"> → Cost of sales and depreciation → at <i>current costs at the time of consumption</i>; → Sales and other expenses → at their <i>money amounts when they occurred</i>. → All amounts need to be restated into the measuring unit current at balance sheet date by <i>applying a general price index</i>.
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Current Cost Financial Statements (Gain or Loss on Net Monetary Position)</u></p>
129.31	<p>Gain or loss on the net monetary position is accounted for in accordance with FRS 129.27 and 28.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Taxes</u></p>
129.32	<p>Restatement of financial statements may give rise to differences between the carrying amount of individual assets and liabilities in the balance sheet and their tax bases → differences are accounted for in accordance with FRS 112₂₀₀₄.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Cash Flow Statement</u></p>
129.33	<p>All items in the cash flow statement are expressed in terms of the measuring unit current at the balance sheet date.</p>
	<p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS - Corresponding Figures</u></p>

129.34	<p>Whether the corresponding figures are based on a historical cost or a current cost approach → restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period.</p> <p>Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period.</p> <p>Presenting comparatives in different presentation currency → FRS 121.42(b) and 43 apply.</p> <p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS – Consolidated Financial Statements</u></p>
129.35	<p>Parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies,</p> <ul style="list-style-type: none"> → Financial statements of any such subsidiary → restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. → When such a subsidiary is a foreign subsidiary → restated financial statements are translated at closing rate. → Financial statements of subsidiaries that do NOT report in the currencies of hyperinflationary economies are dealt with in accordance with FRS 121.
129.36	<p>If financial statements with different reporting dates are consolidated → all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.</p> <p><u>THE RESTATEMENT OF FINANCIAL STATEMENTS – Selection and Use of the General Price Index</u></p>
129.37	<p>Restatement of financial statements requires the use of a general price index that reflects changes in general purchasing power → preferable that all entities that report in the currency of the same economy use the same index.</p> <p><u>ECONOMIES CEASING TO BE HYPERINFLATIONARY</u></p>
129.38	<p>When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements in accordance with FRS 129₂₀₀₄ → treat the amounts expressed in the measuring unit current at the end of the</p>

AXP Technical e-Newsletter July 2006 Issue

	previous reporting period as the basis for the <i>carrying amounts in its subsequent financial statements</i> .
	<u>DISCLOSURE</u>
129.39	To disclose: (a) The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the balance sheet date; (b) Whether the financial statements are based on a historical cost approach or a current cost approach; and (c) Identity and level of the price index at the balance sheet date and the movement in the index during the current and the previous reporting period.
129.41	<u>EFFECTIVE DATE</u>
	FRS 129 ₂₀₀₄ becomes operative for financial statements covering periods beginning on or after 1 January 2003.

AXP Technical Diagnostic Centre



Introduction

Welcome to the inaugural issue of the AXP Technical Diagnostic Centre (AXP TDC)!!!

In AXP TDC, we aimed to help resolve the practical issues encountered by fellow accountants and to further enhance the understanding of the Malaysian financial reporting frameworks. In this very first issue, we are going to touch on one of the “hottest” topics in town – the Private Entity

Reporting Standards or PERS in short, by commenting on the **Exposure Draft (ED) 52** issued by the MASB. This long awaiting exposure draft is believed to impact significantly on the Malaysian financial reporting structure than the introduction of FRS since 1 January 2006 in view of the number of companies affected by it. Although this exposure draft comes more than one year after Hong Kong Institute of Certified Public Accountants has issued its Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards, but at least we are ahead of IASB. Hurray!!!

We have commented on ED 52 from the point of view of a SME and considered the practical application issues and difficulties in applying the proposed PERS, with the wishes that the ‘new’ PERS will simplify these areas.

In Malaysia, Small and Medium Practitioners (SMPs) are primarily the financial and tax consultants or auditors of the SMEs. In addition, majorities of the team members of the Working Group on this ED are neither SMPs nor representative of the majority SMEs. Thus, your views become inevitably important at this stage.

As the comments on the ED 52 should reach MIA and MASB by 15 August 2006 and 15 September 2006 respectively. Thus, you may want to furnish your comments to us **latest by 10 August 2006** for our onward submission to MIA and MASB.

In addition to ED 52, we have also zoomed into another exposure draft issued by the IASB ~~ **Proposed amendments to IAS 23 Borrowing Costs**, which eliminates the options to recognize borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. These amendments are aimed at improving financial reporting and moving closer to the recognition requirements of **FASB Statement No. 34 Capitalization of Interest Cost** as part of the convergence projects undertaken by IASB and FASB.

MASB and IASB ask that the comments for the Proposed Amendments to IAS 23 Borrowing Costs shall reach them by 30 August 2006 and 30 September 2006 respectively. Thus, you may wish to furnish your comments to us **latest by 20 August 2006** for our onward submission to MASB and IASB.

On the other hand, if you support our views, you may send us your details, such as name, member firm's or company's name, MIA number, etc. We will add in your details when we send our comments to the relevant bodies.

We believe that stronger voices from you will have a larger weight by the relevant bodies to consider the comments herein, since we will ultimately be the users or advisers to the users to comply with this PERS.

Alternatively, you may send your comments directly to MIA, MASB or IASB by the due date specified by the relevant bodies.

Comments on ED 52 PERS ~ Issued by MASB

Question 1 - Separate reporting standards for private entities

Do you agree that the Board should develop a separate set of reporting standards for private entities? If not, why not?

Our Comments:

Yes, we agree.

Question 2 - Objective of PERS

Chapter 1 of this PERS states that the objective of a separate set of reporting standard for private entities is to ensure that private entities provide high quality and understandable financial information to meet the proprietary needs of the private entities.

Are the objectives of the PERS set out in Chapter 1 of this Exposure Draft appropriate? If no, how should they be modified?

Our Comments:

In addition to the existing objectives, we proposed to include the following:-

- ✓ To provide a consistent accounting principles to facilitate comparison by the users of the financial statements of private entities.
- ✓ To satisfy different users' needs on the general purpose financial reporting by private entities.

Question 3 - Scope

Chapter 2 of this PERS states that a private entity running program for charities and other social and public accountable bodies should use the FRS and not PERS because it involves accountability to the public.

Do you agree with the proposal? If you disagree with the proposal, why and what alternative would you propose?

Our Comments:

No, we do not agree. This is due to:-

- ✓ These bodies may not be existed to attract public investors.
- ✓ The users of the financial statements may not require the financial statements to be prepared based on a more complex set of financial reporting standards, for instance, valuation of the financial assets based on their fair values may be redundant or irrelevant to the users.
- ✓ It may place undue burden on these entities, in particular, some of these bodies may be charitable or non-profit organizations, which do not have the necessary resources to comply with the FRS.
- ✓ Cost of the preparation of the financial statements may override its benefits derived as the users may be satisfied with the cost base financial statements prepared based on this PERS.

Thus, we proposed that the private entity running program for charities and other social and public accountable bodies be allowed to choose either to comply with FRS or this PERS, similar to that of other private entities.

AXP Technical e-Newsletter July 2006 Issue

In addition, we wish to comment on the scope of a private entity stipulated in paragraph 2 Chapter 2. We are of the opinion that a private entity should include:-

- ✓ A private company that is **not** itself, or is **not** a subsidiary or associate of, or jointly controlled by, an entity which is **in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market**, as they are “going to” have public accountability once the prospectus (which include the financial statements) is issued for public.

Question 4 – Transitional provision and effective date

Chapter 3 provides the transitional provisions for an entity to comply with the transition to this PERS. Chapter 4 proposes that the effective date is for annual periods beginning on or after 1 July 2007 with earlier adoption encouraged.

Are the proposed transitional requirements and effective date appropriate? If not, why not? What alternative would you propose?

Our Comments:

Yes, we agree. In addition to the transitional provisions provided in Chapter 3, we wish to comment on the transitional provisions stipulated in paragraph 1 Chapter 6.

In our opinion, on transition from this PERS to the full FRS, the private entity should apply the transitional provisions provided in the respective FRS instead of FRS 1 First-time Adoption of Financial Reporting Standards due to:-

- ✓ The PE-Framework uses the concepts enshrined in the MASB’s A Proposed Framework for the Preparation and Presentation of Financial Statements.
- ✓ The measurement bases available in this PERS also available in the FRS.

Question 5 – Framework for PERS

Chapter 5 of this PERS provides the reporting framework for private entities. It adopts the fundamental concepts from the MASB’s A Proposed Framework for the Preparation and Presentation of Financial Statements and extracts the principles from FRS (including Interpretations). In addition, Chapter 5 also explains the different users and their information needs. [See paragraphs 4 - 6 Chapter 5 of this PERS]

Do you agree with this approach? If not, why not and how should they be modified?

Our Comments:

- ✓ Yes, we agree.

Question 6 – Cost bases of measurement private entity

This Exposure Draft proposes the cost bases as the measurement basis for private entities [see paragraph 21 Chapter 5 of this PERS]. If an entity decides to use the fair value measurement, such entity shall revert to the respective FRS and apply that Standard in its entirety [see paragraph 2 Chapter 6 of this PERS].

Do you agree with the proposal? If not, why not, and what alternative would you propose?

Our Comments:

We are of the opinion that:

AXP Technical e-Newsletter July 2006 Issue

- ✓ To facilitate the transition from the previous PERS, we proposed that certain measurement bases available in the previous PERS be retained, for instance, the property, plant and equipment and investment properties should be allowed to be valued at valuation subsequent to initial recognition after the adoption of the PERS.

Question 7 - Standards covered in PERS

This PERS addresses the transactions, events or conditions commonly encountered by private entities. Standards relating to transactions, events or conditions not generally encountered by private entities are not included in this PERS. [See Appendix 1 of this PERS.]

Do you agree with the approach? If not, why not and what alternative would you propose?

Our Comments:

Yes, we agree. This approach will facilitate the understanding of this PERS by the private entity.

Question 8 - Accounting treatment not covered in PERS

If PERS does not address a particular accounting recognition or measurement issue that is addressed in an FRS, an entity shall consider the applicability of the FRS in resolving that particular issue. Such entity would continue to use PERS for the remainder of its reporting. The financial statements of the private entity should explicitly mention the fallback to FRS. [See paragraphs 4 - 5 Chapter 6 of this PERS.]

Do you agree that if this PERS does not address a particular accounting recognition or measurement issue, the private entity should be required to look to the appropriate FRS to resolve that particular issue? If not, why not, and what alternative would you propose?

Our Comments:

Yes, we agree.

Question 9 - Compliance with PERS

This Exposure Draft proposes that a private entity that has complied with the PERS and subsequently changed its policy to comply with the full set of the FRS shall not subsequently change from the FRS to PERS. It is highly unlikely that the frequent changes from one set of accounting standards to another set of accounting standards will result in an appropriate presentation of the financial statements. However, this PERS allows an entity that has changed from the PERS to FRS to revert to the PERS if it is as a result of a change in the structure of the entity [see paragraph 1 Chapter 6 of this PERS].

Do you agree with the proposal? If not, why not and what alternative would you propose?

Our Comments:

In view of our comment stated in Question 3 above, there may be circumstance where the private entity may wish to revert from FRS back to PERS while its structure remains unchanged. For instance, when a private entity, whose financial statements are previously prepared in accordance with FRS, ceases to have its instruments listed on a public market and wish to revert back to PERS. Under such circumstances, there is no change in the structure of the entity.

As a result, we believe that it is more appropriate to allow an entity that has changed from this PERS to FRS to revert to this PERS if it is no longer a non-private entity or it has changed its intention to become a non-private entity.

Question 10 - Optional reversion to FRS

If a Chapter in this PERS provides an exemption or simplification from a recognition or measurement requirement in the related FRS, a private entity would not be prohibited from applying the related FRS in its entirety, while otherwise continuing to use other Chapters of this PERS. If the private entity complies with specific FRS instead of the related Chapter in this PERS, it shall disclose the reason why that specific FRS is adopted. [See paragraph 2 Chapter 6 of this PERS.]

Should a private entity:

- (i) be permitted to revert to a FRS if the treatment in this PERS differs from the treatment in the FRS; or
- (ii) be required to choose only either the complete set of FRSs or the complete set of PERS with no optional reversion to individual FRSs?

Why?

Our Comments:

To ensure that the entity does not choose their preferred accounting policies to window-dress its financial statements for specific purposes and the financial statements are comparable among the entities, the entity should not have the freedom to comply with a particular FRS if the accounting treatment is available in PERS.

Question 11 - Changes in accounting policies

This Exposure Draft proposes that a change in accounting policy shall be applied retrospectively with the resulting adjustment to be included in the opening balance of retained earnings for the period. Comparative information shall be presented as reported in the financial statements of the prior period. A private entity is encouraged to present additional comparative information to show the profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied. [See paragraphs 8 - 9 Chapter 6 of this PERS.]

- (a) Do you agree with the proposal? If yes, do you agree that a private entity shall be encouraged, rather than be mandated, to present the additional pro-forma comparative information? or
- (b) If you disagree with the proposal, why and what alternative would you propose?

Our Comments:

Yes, we agree. We opined that the entity should be encouraged, rather than be mandated, to present the additional pro-forma comparative information due to the following reasons:-

- ✓ To reduce the reporting burden of the private entities in restating its comparative information.
- ✓ The pro-forma comparative information might not be relevant or necessary to the users other than those of owners-managers, who would have obtained this information from their day-to-day management.

Question 12 - Correction of prior period errors

This Exposure Draft proposes that the correction of material prior period error shall be included in the opening balance of retained earnings for the period. Comparative information shall be presented as reported in the financial statements of the prior period. A private entity is encouraged to present additional pro forma information to show the profit or loss of the current period and any prior periods presented as if the prior period error had been corrected in the period when it was made. [See paragraphs 17 - 18 Chapter 6 of this PERS]

- (a) Do you agree with the proposal? If yes, do you agree that a private entity shall be encouraged, rather than be mandated, to present the additional pro-forma information? or

(b) If you disagree with the proposal, why and what alternative would you propose?

Our Comments:

Yes, we agree. We opined that the entity should be encouraged, rather than be mandated, to present the additional pro-forma comparative information due to the reasons stated in Question 11.

Question 13 - Deferred tax

This PERS, similar to FRS 112 Income Taxes, requires a private entity to account for deferred tax using the balance sheet liability method which focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes [see paragraphs 182 - 184 Chapter 8 of this PERS].

However, there are views that a private entity shall account for deferred tax using the income statement liability method, as prescribed in the MASB Approved Accounting Standard IAS 12 Accounting for Taxes on Income, which focuses on timing differences. Timing differences are differences between taxable profit and accounting profit that originate in one period and reverse in one or more subsequent periods.

There are also views that a private entity shall not be required to account for deferred tax.

Do you agree with the proposal in this PERS that a private entity shall account for deferred tax using the balance sheet liability method? If not, why not?

Or, do you:

- (a) support the alternative view that a private entity shall account for deferred tax using the income statement liability method, and why? or
- (b) believe that it is sufficient for a private entity to disclose the deferred tax effects without the need to account for the deferred tax, and why? or
- (c) believe that a private entity shall not be required to account for deferred tax, and why?

Our Comments:

We support the alternative view that a private entity shall not be required to account for deferred tax for the following reasons:-

- ✓ It may not be useful information for the users, especially the most significant users, i.e., owners-managers, for their management needs.
- ✓ Computation of deferred tax will normally require sufficient expertise and judgment. With this exemption, it can reduce the burden of the smaller private entity as their accounts staff will normally possess less technical knowledge.
- ✓ Furthermore, the independence and objectivity of the external auditors may be impaired when they are asked by these private entities to compute the deferred tax on their behalf. This is largely due to the fact that these entities do not have personnel with sufficient expertise and judgment to compute the deferred tax.

Question 14 - Presentation of cash flow statement

This PERS requires a private entity to prepare and present cash flow statement. The private entity shall apply FRS 107₂₀₀₄ Cash Flow Statements in the preparation and presentation of the cash flow statement [see paragraph 2 Chapter 11 of this PERS].

However, there are views that a private entity shall not be mandated to prepare and present cash flow statement as such statement does not add benefit to users of PERS.

Do you agree that a private entity shall be required to prepare and present cash flow statement?

Or, do you:

- (a) support the alternative view that a private entity shall not be required to prepare and present cash flow statement, and why? or
- (b) believe that presentation of cash flow statement to be made optional in this PERS, and why?

Our Comments:

We support the view that presentation of cash flow statement to be made optional for the following:-

- ✓ As mentioned above, cash flow statement may not add benefit to users of the financial statements of private entities, and the cost of preparing cash flow statement may outweigh the benefits derived.
- ✓ Since the significant users of the financial statements are owners-managers, it is more important for them to manage their cash flows on day-to-day basis, and the format of the cash flow may be unique among the private entities.
- ✓ As for other users, their main purpose to use the financial statements is not normally reviewing the cash flows of the private entities. Even if they are relying on the cash flows information of the private entities, they may wish to obtain current cash flow movements instead of the historical cash flow movements.

Question 15 - Disclosure of financial risks

This PERS does not require disclosure of financial risks on financial instruments of private entity except for the limited disclosure relating to derivatives and hedging transactions as specified in Chapter 15.

- (a) Do you agree with the proposal in this PERS? If not, why not?
- (b) However, there are views that full disclosure of financial risks is an important information in financial statements of private entity.

If you are agreeable with the requirement for the disclosure of financial risks, the following paragraphs will be incorporated into the proposed PERS. Do you:

- (i) agree with the proposed paragraphs? If not, why not, and what alternative would you propose?
or
- (ii) believe that the disclosure of financial risks should be made optional in this PERS, and why?

Our Comments:

Yes, we agree that private entities are not required to disclose financial risks on financial instruments except for the limited disclosure relating to derivatives and hedging transactions. This is aimed at:-

AXP Technical e-Newsletter July 2006 Issue

- ✓ Reducing the complexity of this PERS in accordance with the objectives of this PERS.
- ✓ It is not uncommon that the smaller private entities do not formalize their risk management framework in view of the nature and extent of their businesses, and thus, the financial risks policies may be redundant for the users.

Question 16 - Presentation of consolidated financial statements

A private entity with a group structure shall prepare and present consolidated financial statements. The private entity shall apply FRS 127 Consolidated and Separate Financial Statements in the preparation and presentation of the consolidated financial statements for the group of entities under its control [see paragraph 3 Chapter 14 of this PERS]. However, there are views that a private entity shall not be mandated to present consolidated financial statements arguing that such consolidated financial statements does not add benefit to users of PERS.

Do you agree that a private entity shall be required to prepare and present consolidated financial statements? If not, why not?

Or, do you:

- (a) support the alternative view that a private entity shall not be required to prepare consolidated financial statements, and why?
- (b) believe a consolidated financial statements shall not be required if the private entity informed all its owners that it intends not to prepare such financial statements and none of the owners object to it. Why do you agree to this alternative?
- (c) believe that presentation of consolidated financial statements to be made optional in this PERS, and why?

Our Comments:

We support the alternative view that the presentation of consolidated financial statements to be made optional in this PERS. This is due to:-

- ✓ The consolidated financial statements may not add benefits to the users, for instance, government agent, customers and suppliers, owners-managers, etc, particularly if the parent company is merely an investment holding company.
- ✓ Preparation of the consolidated financial statements will normally require sufficient expertise and judgment. With this alternative availed, it can reduce the burden of the smaller private entities as their accounts staff will normally possess less technical knowledge and may not be competent in preparing the consolidated financial statements.
- ✓ Furthermore, for the independence and objectivity of the external auditors may be impaired when asked by these private entities to prepare the consolidated financial statements on their behalf. This is largely due to the fact that these private entities do not have personnel with sufficient expertise and judgment to prepare consolidated financial statements.

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

Question 17 - Modifications to PERS

This Exposure Draft proposes to simplify the measurement, disclosure and presentation requirements found in some FRS to address the balance between the cost of financial statement preparation and benefit obtained by the users of such financial information. Therefore this Exposure Draft, apart from those proposals mentioned in the above questions, also removes the use of functional currency in FRS 121 The Effects of Changes in Foreign Exchange Rates [see paragraph 73 Chapter 9 of this PERS].

Do you agree with the above modification? If not, why not, and what alternative would you propose?

Our Comments:

Yes, we agree that the use of functional currency be removed, and the accounting records to be recorded in the presentation currency, which is Ringgit Malaysia, for financial statements presented in Malaysia.

Question 18

Do you have any other comments?

Our Comments:

- ✓ **Chapter 8 paragraphs 107 to 108** → leases of land and buildings be continued to be recognized as finance lease instead of operating leases to facilitate the transition from the existing PERS and reduce the complexity of this PERS.
- ✓ **Chapter 8 paragraphs 132** → to clarify the recognition for and reversal of impairment loss on property, plant and equipment or investment properties recorded at revalued amounts under the previous PERS to avoid ambiguity in applying this PERS.
- ✓ **Chapter 9 paragraph 2** → this paragraph is redundant since all the companies incorporated under Companies Act 1965 are required to comply with the said Act. In addition, this paragraph was not found in previous PERS or FRS, and hence, it should not be existed in this PERS too.
- ✓ **Chapter 9 paragraph 4** → private entities should be allowed to continue to present the analysis of expenses using a classification based on the functions of expenses, as a significant number of private entities are presenting the analysis of expenses using this classification.
- ✓ **Chapter 12 paragraphs 11 and 12** → the disclosure requirements be deleted to be consistent with the previous PERS which exempted private exempt companies from disclosing the related parties transactions, as we are of the opinion that these related parties transactions are not relevant to most of the users of the financial statements. For example, since owners-managers are the person who manages the daily operations, they have a clear understanding of the related parties transactions and these information may be redundant for them. For other users, the information is not relevant for them to make their decisions.

Comments on Proposed Amendments to IAS 23 Borrowing Costs ~ Issued by IASB

Question 1 - Recognize of borrowing costs for a qualified asset

The Exposure Draft proposes to eliminate the option in IAS 23 of recognizing immediately as an expense borrowing costs directly attributable to the acquisition, construction or production of a qualified asset.

Do you agree with the proposal? If not, why? What alternative would you propose and why?

Our Comments:

Yes, we agree.

Question 2 - Effective date to apply the proposed amendment

The Exposure Draft proposes that entities should apply the amendments to borrowing costs for which the commencement date for capitalization is on or after the effective date. However, an entity would be permitted to designate any date before the effective date and to apply the proposed amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date.

Do you agree with the proposal? If not, why? What alternative would you propose and why?

Our Comments:

No, we do not agree with the proposed transitional provision due to:

- ✓ It may have a tendency that the entities may choose the commencement date that is most beneficial to them.
- ✓ It may impair the qualitative characteristics of the financial statements, such as reliability and comparability.

Thus, we propose that the entity shall apply the amendments in borrowing costs relating to qualifying assets for which it begins capitalization on or after the effective date, or from the date the entity commences adopting the accounting policy to recognize all the borrowing costs as expenses in the income statement.

Furthermore, the entity shall disclose:-

- ✓ Transitional provisions adopted, i.e., either retrospectively or prospectively;
- ✓ If the entity chooses to apply the amendments retrospectively, it should disclose the fact and recognize in accordance with the FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors; and
- ✓ If the entity chooses to apply the amendments prospectively for the qualifying assets for which it begins capitalization on or after the effective date, the entity shall disclose the amounts of the borrowing costs that would have been capitalized and a pro-forma income statement on the effects on the comparative periods presented.