

Technical e-Newsletter

October 2006 Issue

First Anniversary Issue...

COMPLIANCE CHECKLISTS & SAMPLE DISCLOSURE NOTES

FRS 119₂₀₀₄ Employee Benefits

FRS 126₂₀₀₄ Accounting and Reporting by Retirement Benefit Plans

TECHNICAL DIAGNOSTIC CENTRE

Revenue recognition for the golf club membership

Can the non-listed public company apply PERS?

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



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Editors' Notes ~ First Anniversary

Welcome readers!! Greeting from AXP Solutions!!

We are pleased to announce that this month marks the first anniversary of the AXP Technical *e*-Newsletter. This would not have been possible without your on-going support!! Thus, we wish to take this opportunity to express our gratitude to you on behalf of the Management of AXP Solutions. In connection with the first anniversary, we are pleased to present to you a new look on the design of the *e*-Newsletter.

In this issue of the *e*-Newsletter, we have analysed two reporting standards, i.e., **FRS 119₂₀₀₄** Employee Benefits and **FRS 126₂₀₀₄** Accounting and Reporting by Retirement Benefit Plans. Kindly note that the analysis of the revisions made to FRS119₂₀₀₄ have not been included in this issue but will be presented in a future issue.

FRS 126₂₀₀₄ is rarely applicable to the corporate world as this standard deals with retirement benefit plans. Thus, the relevant sample disclosure note has not been included. However, in Malaysia, employers are required by EPF Act, 1991 to contribute EPF on

behalf of the employees to the EPF Board, while in Singapore, CPF is a compulsory retirement scheme which employers similarly have to make contributions to, on behalf of their employees.

Hence, as EPF and CPF meet the definition of defined contribution plans, disclosure of EPF or CPF contributions must be made in the financial statements to comply with FRS 119₂₀₀₄. These necessary disclosures, which are sometimes omitted by companies, have been included in this issue.

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

Review of Prior Issues

Since the inception of the AXP Technical *e*-Newsletter, we have provided compliance checklists on 27 Financial Reporting Standards and sample disclosure notes on 25 Financial Reporting Standards. We have also

developed 7 templates to enable readers to apply certain tough reporting standards with ease and covered some specific topics, among others, goods and services tax, Sarbanes Oxley Act, auditing standards, corporate reform papers, etc, which are of interest to you.

Furthermore, since July 2006, we have added a new section to our *e*-Newsletter - **AXP Technical Diagnostic Centre (TDC)**. The introduction of TDC is aimed at:

- ✓ providing up-to-date development and active participation in the standard settings process, and
- ✓ diagnosing technical issues you might have in applying the reporting standards, and where applicable, other related issues.

We have received a number of technical enquiries from accountants in practice and in the commercial field on a variety of issues. To benefit other readers, we have published some of the commonly encountered issues in the *e*-Newsletter. We hope that this section will assist in enhancing your understanding of the treatment of technical issues.

Moving Forward

Following the review and analysis of the financial reporting standards, which will be completed by early next year, we have planned some other useful tools for use by, primarily, accountants in practice. Should you be interested in any other topics of discussion, please write or inform us and we will strive our best to study the possibility of including them in future issues of the *e*-Newsletter.

Reporting standards and other legislative requirements have been changing and developing very quickly in recent times, at a rate never experienced before. However, we believe that with the issuance of *e*-Newsletter, as we assist you in keeping track of these changes and developments, your precious time and resources will be freed up for other value-added activities.

Editors
AXP Technical *e*-Newsletter
October 2006

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Circulation Notice

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

Contributions & Comments

AXP Technical e-Newsletter welcomes your contributions on contemporary issues encountered by the profession. We also wish to hear from you on how this e-Newsletter can be improved for more timely and useful information. Your contributions or comments may be sent directly to us at:

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SAMPLE NOTES TO THE FINANCIAL STATEMENTS

COMPLYING WITH *FRS 119*₂₀₀₄



EXTRACTS OF NOTES TO THE FINANCIAL STATEMENTS:

FRS Ref. 3. Significant Accounting Policies

Short-term Employment Benefits

- 119.11 Short-term employment benefits, such as wages, salaries and social security contributions, are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.
- 119.12 Short term accumulating compensated absences, such as paid annual leave, are recognised when the employees render services that increase their entitlement to future compensated absences. Non-accumulating compensated absences, such as sick and medical leaves, are recognised when the absences occur.
- 119.15 The expected cost of accumulating compensated absences is measured as the additional amount expected to be paid as a result of the unused entitlement that has accumulated at the balance sheet date.
- 119.18 Profit-sharing and bonus plans are recognized when the Group and the Company have a present legal or constructive obligation to make payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when, and only when the Group and the Company have no realistic alternative but to make the payments.

Defined Contribution Plan

- 119.45 Contributions to the statutory pension scheme (*E.P.F. in Malaysia and C.P.F. in Singapore*) are recognised as an expense in the income statement in the year to which they relate.

Defined Benefit Plan

- 119.125(b) The Group operates a funded Retirement Benefit Plan (the Plan) for its eligible employees. Contributions to the Plan are made quarterly and are charged to the income statement so as to spread the cost of the Plan over the employees' working lives in the Company.
- 119.125(a) The Group's obligations under the Plan are determined based on triennial actuarial valuations where the amounts of benefits that the employees have earned in return for their services in the current and prior years are estimated. The present values of the Plan's obligations and the related current service and any past service cost are determined using the Projected Unit Credit Method.
- 119.93 Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the greater of the present value of the obligation and the fair value of Plan assets at the balance sheet date.
- 119.97 Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, the Plan, the past service cost is recognized immediately.
- 119.55 The Plan recognized in the balance sheet is the net total of the present value of the Plan adjusted for unrecognized actuarial gains or losses, unrecognized past service cost, minus the fair value of Plan assets. Any asset resulting from the computation is stated at the lower of the amount determined or the total of any cumulative unrecognized actuarial losses and past service cost, and the present value of available refunds and reductions in future contribution to the Plan.
- 119.114 Gains or losses on the curtailment or settlement of the Plan are recognized when the curtailment or settlement occurs.

Termination Benefits

- 119.138 Termination benefits are recognized when the Group and the Company are demonstrably committed to terminate the employment of the employees before the normal retirement date or provide termination benefits as a result of an offer made for voluntary redundancy.
- 119.145 Termination benefits in relation to the offer made for voluntary redundancy is measured based on the number of employees expected to accept the offer.

34. Retirement benefit obligation

- 119.125(c) The Group and the Company operate a funded Retirement Benefit Plan (the Plan) for its eligible employees in Malaysia. The amount recognized in the balance sheet of the Plan is as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
119.125(c)(i) Present value of funded obligations				
119.125(c)(iii) Less: Fair value of plan assets				
119.125(c)(iv) Unrecognized actuarial gains (losses)				
119.125(c)(v) Unrecognized past service cost				
Net liabilities recognized in balance sheet				

- 119.125(d) Changes in the fair value of the plan assets are as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At beginning of the year				
Expected return				
Fair value adjustment				
Contributions made				
Benefits paid				
At end of the year				

- 119.125(d)(i) The plan assets is analysed as follows:
- Equity instruments
- Cash and bank balances
- Landed properties
- Other assets

- 119.125(g) The actual return on plan assets was RM___ (2005 RM___).

- 119.125(d)(ii) None of the above plan assets is owned by the Group and the Company. The Group and the Company do not occupy any of the above properties or use any of the above assets.

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119.125(e) A reconciliation of the net liabilities recognized in the balance sheet is as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At beginning of the year				
Actuarial gains (losses)				
Service cost				
Interest cost				
Benefits paid				
At end of the year				

119.125(f) Total expense recognized in the income statement, including in administrative expenses (*expenses by function*) **or** employee benefits expenses (*expenses by nature*) are as follow:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
119.125(f)(i) Current service cost				
119.125(f)(ii) Interest cost				
119.125(f)(iii) Expected return on plan assets				
119.125(f)(iv) Expected return on reimbursement right recognized as an asset				
119.125(c)(v) Actuarial gains and losses				
119.125(c)(vi) Past service cost				
119.125(c)(vii) Effect on curtailment or settlement)				

119.125(h) The principal actuarial assumptions used as at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	%	%	%	%
119.125(h)(i) Discount rate				
119.125(h)(ii) Expected rate of return on plan assets				
119.125(h)(iii) Expected rate of return on reimbursement right recognized as an asset				
119.125(h)(iv) Expected rate of salary increases				
119.125(h)(v) Medical cost trend rate				

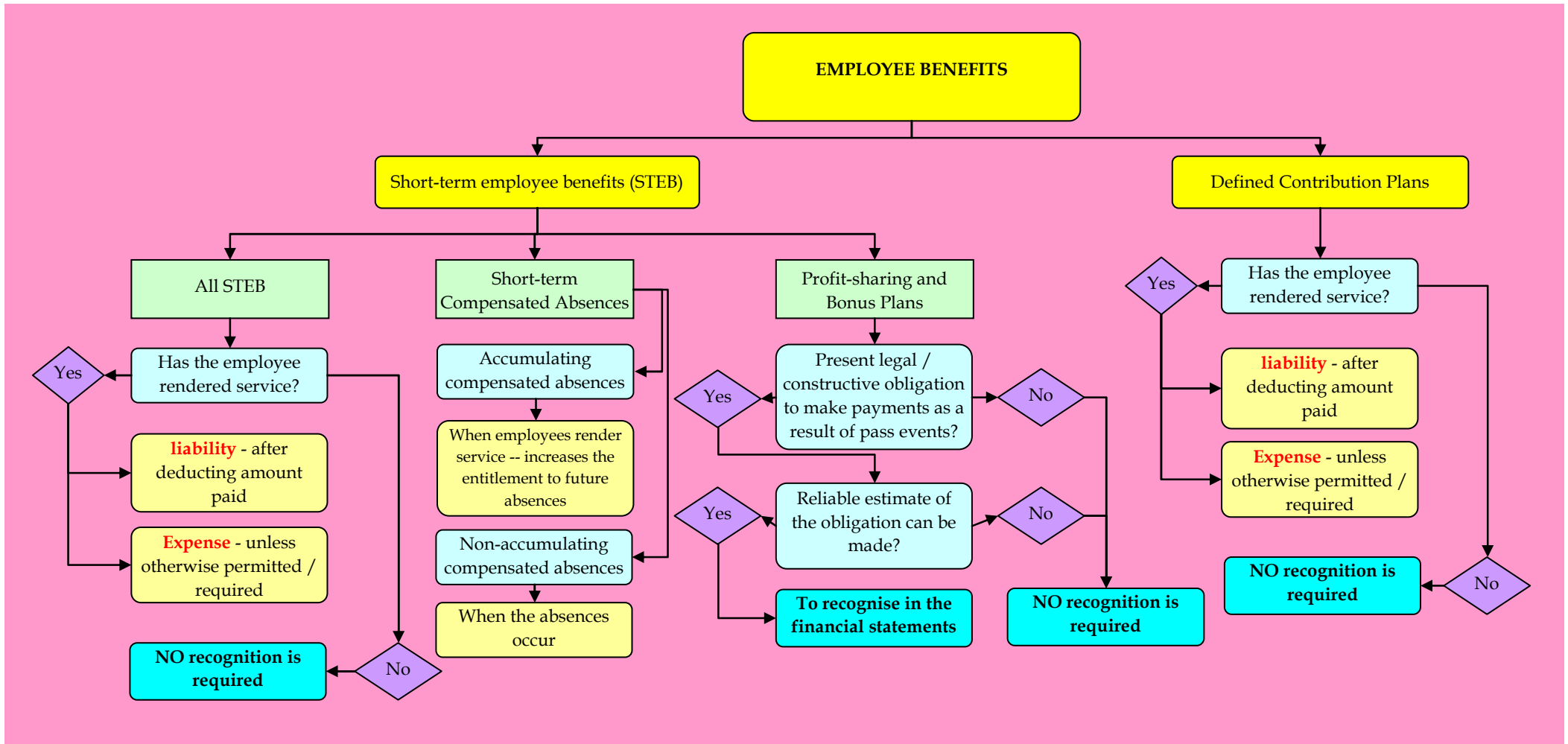
38. Profit before tax

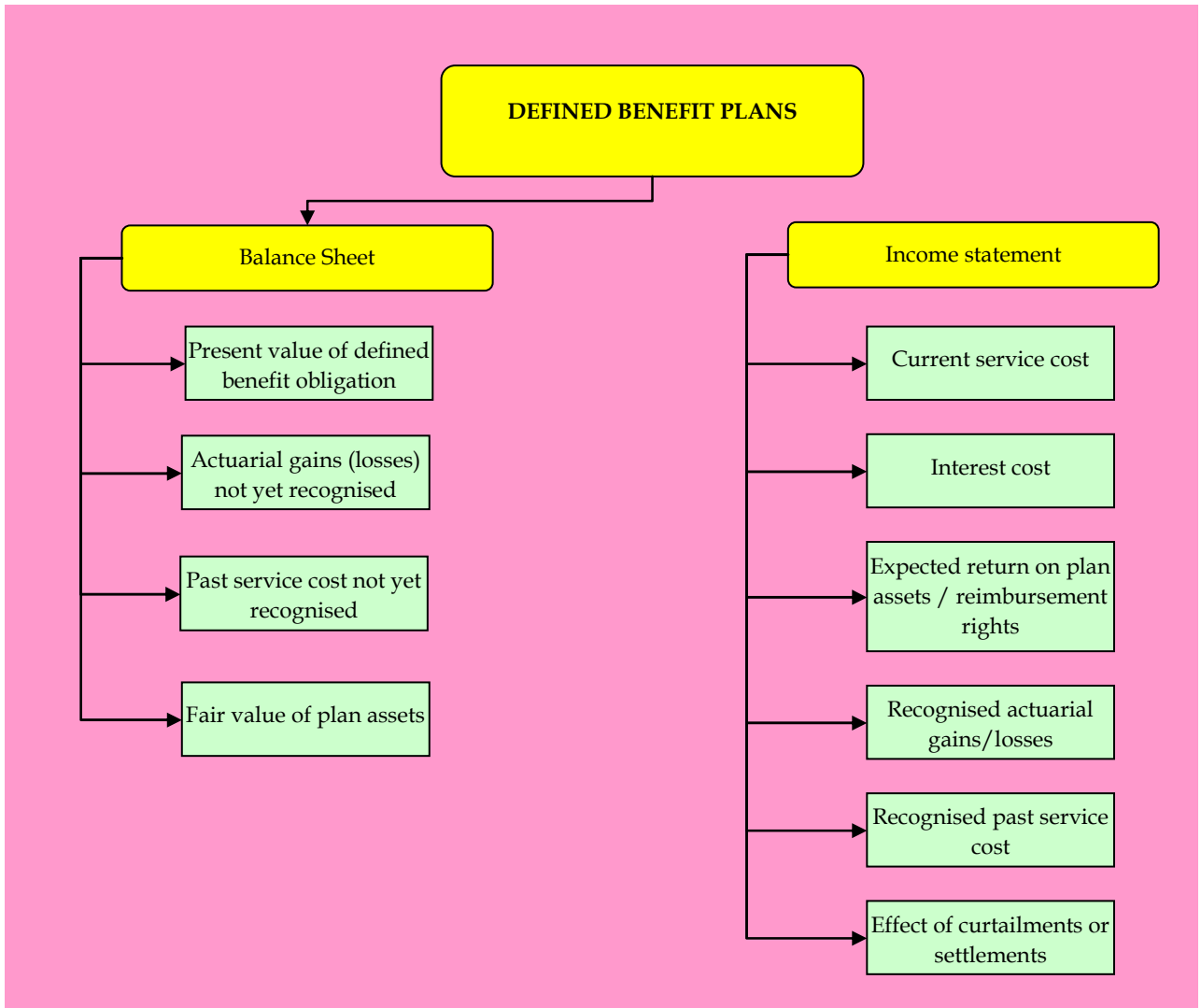
	THE GROUP		THE COMPANY	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
2.51(a)				
101.93				
101.93				
102.36(d)				
102.36(e)				
102.36(f)				
111.40(b)				
201.50(b)				
116.74(d)				
118.36(b)(iii)				
118.36(b)(v)				
119.47				
101 / 119				
121.52(a)				
136.126(a)				
136.126(b)				
138.126				
138.118(d)				
140.75(f)(ii)				
140.75(f)(iii)				
102.36(g)				

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

FRS 119₂₀₀₄ Employee Benefits

DIAGRAMMATIC ILLUSTRATION OF FRS 119₂₀₀₄





SAMPLE COMPLIANCE CHECKLIST

REF.	COMPLIANCE CHECKLISTS	EXAMPLE / SAMPLE DISCLOSURES NOTES
	<u>SCOPE</u>	
119.1, 4-5	FRS 119 ₂₀₀₄ shall be applied to an employer in accounting for all employee benefits, except those to which FRS 2 applies.	<p><u>Exclusion:</u> Not applicable to reporting by employee benefit plans.</p> <p>Employee benefits to which FRS 119₂₀₀₄ applies include those provided:-</p> <ul style="list-style-type: none"> (a) Under formal plans or other formal agreements; (b) Under legislative requirements or through industry arrangements; or (c) By those informal practices that give rise to a constructive obligation. <p>Employee benefits include:</p> <ul style="list-style-type: none"> (a) Short-term employee benefits; (b) Post-employment benefits; (c) Other long-term employee benefits; and (d) Termination benefits.
	<u>DEFINITIONS</u>	
119.8	<p><u>Qualifying insurance policy</u> An insurance policy issued by an insurer that is not a related party of the entity, if the proceeds of the policy:</p> <ul style="list-style-type: none"> (a) Can be used <i>only to pay or fund employee benefits</i> under a defined contribution plan; (b) Are <i>not available</i> to the entity's own creditors and cannot be paid to the entity <u>UNLESS</u> either: <ul style="list-style-type: none"> (i) Proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) Proceeds are returned to the entity to reimburse it for employee benefits already paid. <p><u>Actuarial gains and losses</u></p> <ul style="list-style-type: none"> (a) <i>Experience adjustments</i> (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) Effects of <i>changes in actuarial assumptions</i>. <p><u>Assets held by a long-term employee benefit fund</u> Assets (other than non-transferable financial instruments issued by the reporting entity) that are:</p> <ul style="list-style-type: none"> (a) held by an entity that is legally separate from the reporting entity and exists <i>solely to pay or fund employee benefits</i>; and (b) available to be <i>used only to pay or fund employee benefits</i>, are <i>not available</i> to the reporting entity's own creditors, and cannot be paid to the reporting entity <u>UNLESS</u> either: <ul style="list-style-type: none"> (i) remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or 	

(ii) assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost

Increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined benefit plans

Post-employment benefit plans other than defined contribution plans.

Defined contribution plans

Post-employment benefit plans under which an entity pays *fixed contributions into a separate entity (a fund)* and will have *no further legal or constructive obligation* to pay contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Employee benefits

All forms of consideration given by an entity in exchange for service rendered by employees.

Fair value

Amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Interest cost

Increase during a period *in the present value of a defined benefit obligation* which arises because the benefits are one period closer to settlement.

Multi-employer plans

Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) pool the assets contributed by various entities that are not under common control; and
- (b) use those assets to provide benefits to employees of > 1 entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Other long-term employee benefits

Employee benefits (other than post-employment benefits and termination benefits) which do *not fall due wholly within 12 months after the end of the period* in which the employees render the related service.

Past service cost

Change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Plan assets

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

Post-employment benefits

Employee benefits (other than termination services) which are payable after the completion of employment.

	<p><u>Post-employment benefits plans</u> Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.</p> <p><u>Short-term employee benefits</u> Employee benefits (other than termination benefits) which <i>fall due wholly within 12 months</i> after the end of the period in which the employees render the related service.</p> <p><u>Termination benefits</u> Employee benefits payable as a result of either:- (a) an entity's decision to terminate an employee's employment <i>before the normal retirement date</i>; or' (b) an employee's decision to accept <i>voluntary redundancy</i> in exchange for those benefits.</p> <p><u>Present value of a defined benefit obligation</u> The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.</p> <p><u>Return on plan assets</u> Interest, dividends and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.</p> <p><u>Vested employee benefits</u> Employee benefits that are not conditional on future employment.</p>
119.9	<p><u>SHORT-TERM EMPLOYEE BENEFITS (STEB)</u></p> <p>STEB include items such as: (a) wages, salaries and social security contributions; (b) short-term compensated absences (such as paid annual leave and paid sick leave); (c) profit-sharing and bonuses; and (d) non-monetary benefits for current employees.</p>
119.11	<p><u>SHORT-TERM EMPLOYEE BENEFITS - Recognition and Measurement (All Short-term Employee Benefits)</u></p> <p>When an employee has rendered service to an entity during an accounting period → recognize the undiscounted amount of STEB expected to be paid in exchange for that service: (a) as a liability, after deducting any amount already paid. If the amount paid > undiscounted amount of the benefits → recognize that excess as an asset to the</p>

	<p>extent that the prepayment will lead to a reduction in future payments or a cash refund; and</p> <p>(b) as an expense, UNLESS another Standard requires or permits the inclusion of the benefits in the cost of an asset.</p>	
	<p><u>SHORT-TERM EMPLOYEE BENEFITS - Recognition and Measurement (Short-term Compensated Absences)</u></p>	
119.12	<p>To recognize the expected cost of STEB in the form of compensated absences under FRS 119.11 as follows:-</p> <p>(a) for accumulating compensated absences → when the employees render service that increases their entitlement to future compensated absences; and</p> <p>(b) for non-accumulating compensated absences → when the absences occur.</p>	<p><u>Accumulating Compensated Absences</u></p> <p>It may be either:-</p> <ul style="list-style-type: none"> ✓ Vesting ~ employees are entitled to a cash payment for unused entitlement on leaving the entity; or ✓ Non-vesting ~ employees are NOT entitled to a cash payment for unused entitlement on leaving the entity. ✓ Those that are carried forward. ✓ Can be used in future periods if the current period's entitlement is not use in full. ✓ Obligation exists and is recognized even if the compensated absences are non-vesting.
119.15 ~ 16	<p>To measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.</p>	<p>An entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences.</p>
119.17		<p><u>Non-accumulating Compensated Absences</u></p> <ul style="list-style-type: none"> ✓ Do not carry forward. ✓ Recognise no liability or expense until the time of the absence because employee service does not increase the amount of the benefit.
	<p><u>SHORT-TERM EMPLOYEE BENEFITS - Recognition and Measurement (Profit-Sharing and Bonus Plan)</u></p>	
119.18, 21	<p>Recognise the expected cost of profit-sharing and bonus payments under FRS 119.11 when, and only when:</p> <p>(a) Entity has a present legal or constructive obligation to make such payments as a result of past events; and</p> <p>(b) A reliable estimate of the obligation can be made.</p> <p>Present obligation exists when, and only when, the entity has no realistic alternative</p>	<p><u>Reliable estimate of its legal or constructive obligation</u></p> <p>(a) Formal terms of the plan contain a formula for determining the amount of the benefit;</p> <p>(b) Entity determines the amounts to be paid before the financial statements are authorized for issue; or</p> <p>(c) Past practice gives clear evidence of the amount of the entity's constructive obligation.</p>

	but to make the payments.	
	<u>SHORT-TERM EMPLOYEE BENEFITS - Recognition and Measurement (Disclosure)</u>	
119.24	This Standard does not require specific disclosure about STEB, other Standards may require disclosures, for example: <ul style="list-style-type: none"> ✓ FRS 124 → employee benefits for key management personnel. ✓ FRS 101 → employee benefits expense. 	
	<u>POST-EMPLOYMENT BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS</u>	
119.26 ~ 28		<p><u>Defined contribution plans</u></p> <ul style="list-style-type: none"> (a) Entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund → amount of the post-employment benefits received is determined by the amount of contributions together with investment returns arising from the contributions; and (b) Actuarial risk and investment risk fall on the employee. <p>Example of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:</p> <ul style="list-style-type: none"> (a) A plan benefit formula that is not linked solely to the amount of contributions; (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or (c) Those informal practices that give rise to a constructive obligation. <p><u>Defined benefit plans</u></p> <ul style="list-style-type: none"> (a) Entity's obligation is to provide the agreed benefits to current and former employees; and (b) Actuarial risk and investment risk fall on the entity.
	<u>POST-EMPLOYMENT BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS - Multi-employer Plans</u>	
119.30, 35	To classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan.	Defined benefit plans that pool the assets contributed by various entities under common control → not multi-employers plan. Therefore, an entity treats all such plans as defined benefit plans.

	<p>Where a multi-employer plan is a defined benefit plan, an entity shall:</p> <ul style="list-style-type: none"> (a) Account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and (b) Disclose the information required by FRS 119.125.
119.31	<p>When sufficient information is NOT available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:</p> <ul style="list-style-type: none"> (a) Account for the plan under FRS 119.45~47 as if it were a defined contribution plan; (b) Disclose: <ul style="list-style-type: none"> (i) Fact that the plan is a defined benefit plan; and (ii) Reason why sufficient information is NOT available to enable the entity to account for the plan as a defined benefit plan; and (c) To the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition: <ul style="list-style-type: none"> (i) Any available information about the surplus or deficit; (ii) The basis used to determine that surplus or deficit; and (iii) The implication, if any, for the entity.
119.36	<p>For multi-employer plan, a contingent liability may arise from, for example:</p> <ul style="list-style-type: none"> (a) Actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or (b) Any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.
	<p><u>POST-EMPLOYMENT BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS - State Plans</u></p>
119.37	<p>To account for a state plan in the same way as for a multi-employer plan (FRS 119.30 & 31).</p> <p>State plan (such as E.P.F. in Malaysia) are normally funded on a pay-as-you-go basis → contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions.</p> <p>It is normally defined contribution plans.</p>
	<p><u>POST-EMPLOYMENT BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS - Insured Benefits</u></p>

119.40	<p>An entity may pay insurance premiums to fund a post-employment benefit plan → treat such a plan as a defined contribution plan UNLESS the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:</p> <p>(a) Pay the employee benefits directly when they fall due; or</p> <p>(b) Pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.</p> <p>If the entity retains such a legal or constructive obligation → treat the plan as a defined benefit plan.</p>	
<p><u>POST-EMPLOYMENT BENEFITS: DEFINED CONTRIBUTION PLANS - Recognition and Measurement</u></p>		
119.45	<p>When an employee has rendered service to an entity during a period → recognize the contribution payable to a defined contribution plan in exchange for that service:</p> <p>(a) as a liability, after deducting any amount already paid. If the amount paid > contribution due for service before the balance sheet date → recognize that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and</p> <p>(b) as an expense, UNLESS another Standard requires or permits the inclusion of the benefits in the cost of an asset.</p>	
119.46	<p>Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the period in which the employees render the related service → discounted using the discount rate specified in FRS 119.79.</p>	
<p><u>POST-EMPLOYMENT BENEFITS: DEFINED BENEFIT PLANS - Disclosure</u></p>		
119.47 ~ 48	<p>Disclose the amount recognized as an expense for defined contribution plans.</p>	<p>FRS 124 → discloses information about contributions to defined contribution plans for key management personnel.</p>
<p><u>DEFINED BENEFIT PLANS - Recognition and Measurement</u></p>		
119.50		<p>Defined contribution plans may be:-</p> <ul style="list-style-type: none"> ✓ unfunded; or ✓ wholly or partly funded by contributions by an entity (or employees) into a legally separated entity (or fund) and from which the employee benefits are paid. <p>Payments of funded benefits depend on the:</p>

		<ul style="list-style-type: none"> ✓ financial position and the investment performance of the fund; and ✓ entity's ability and willingness to make good any shortfall in the fund's assets. <p>Thus, the expense recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.</p>
119.51		<p>Steps for the accounting for defined benefit plans:-</p> <ol style="list-style-type: none"> (a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods → <ul style="list-style-type: none"> ✓ How much benefit is attributable to current and prior periods; ✓ Make estimates about demographic variables and financial variables? (b) Discounting that benefit using the Projected Unit Credit Method → determining present value of the defined benefit obligation and the current service cost; (c) Determining the fair value of any plan assets; (d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized; (e) Where a plan has been introduced or changed → determine resulting past service cost; and (f) Where a plan has been curtailed or settled → determine resulting gain or loss. <p>Applies these procedures for each material plan separately.</p>
	<p><u>DEFINED BENEFIT PLANS – Recognition and Measurement – (Accounting for the Constructive Obligation)</u></p>	
119.53	Account for:	<ul style="list-style-type: none"> ✓ Its legal obligation under the formal terms of a defined benefit plan; and ✓ Any constructive obligation that arises from the informal practices (<i>where there is no realistic alternative but to pay employee benefits</i>).
	<p><u>DEFINED BENEFIT PLANS – Recognition and Measurement – (Balance Sheet)</u></p>	
119.55	<p>Amount recognized as a defined benefit liability shall be the net total of:</p> <ol style="list-style-type: none"> (a) <i>Present value of the defined benefit obligation</i> at the balance sheet date; (b) Plus any actuarial gain s(less any actuarial losses) not recognized ~ FRS 119.93 ~ 94; (c) Minus any past service cost not yet recognized (FRS 119.97); 	

	(d) Minus the <i>fair value of plan assets</i> at the balance sheet date (FRS 119.103~105).	
119.57	To determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity .	
119.59 ~ 60	<p>The amount determined under FRS 119.55 may be negative (an asset). The resulting assets shall be measured at the lower of:</p> <p>(a) Amount determined under FRS 119.55; and</p> <p>(b) The total of:</p> <p>(i) Any cumulative unrecognized actuarial losses and past service cost (FRS 119.93, 94 & 97); and</p> <p>(ii) Present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</p>	<p>The assets are recognized because:</p> <p>(a) The entity controls a resource ~ ability to use the surplus to generate future benefits;</p> <p>(b) That control is a result of past events; and</p> <p>(c) Future economic benefits are available in the form of a reduction in future contributions or a cash refund.</p>
	<u>DEFINED BENEFIT PLANS - Recognition and Measurement - (Income Statement)</u>	
119.62	<p>To recognize the net total of the following amounts as expense or income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:</p> <p>(a) Current service cost (FRS 119.64 ~ 92);</p> <p>(b) Interest cost (FRS 119.83);</p> <p>(c) Expected return on any plan assets (FRS 119.110 ~ 112) and on any reimbursement rights (FRS 119.106);</p> <p>(d) Actuarial gains and losses ~ to the extent that they are recognized under FRS 119.93 ~ 94; and</p> <p>(e) Past service cost, to the extent that FRS 119.97 requires</p> <p>(f) Effect of any curtailments or settlements ~ FRS 119.114 ~ 115.</p>	
	<u>DEFINED BENEFIT PLANS - Recognition and Measurement: Present Value of Defined Benefit Obligations and Current Service Cost</u>	
119.64	<p>Ultimate cost of a defined benefit plan may be influenced by many variables. Thus, to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:</p> <p>(a) Apply an actuarial valuation method (FRS 119.65 ~ 67);</p> <p>(b) Attribute benefit to periods of service (FRS 119.68 ~ 72); and</p> <p>(c) Make actuarial assumptions (FRS 119.73 ~ 92).</p>	
	<u>Actuarial Valuation Method</u>	

119.65, 67	<p>An entity shall use the Projected Unit Credit Method to <i>determine the present value</i> of its defined benefit obligations <u>and</u> the <i>related current service costs and</i>, where applicable, <i>past service cost</i>.</p>	<p>To discount the whole amount even if part of the obligation falls due within 12 months of the balance sheet date.</p>
<p><u>Attributable Benefit to Periods of Service</u></p>		
119.68 ~ 70, 72	<p>In determining the:</p> <ul style="list-style-type: none"> ✓ present value of its defined benefit obligations; ✓ related current service cost; and ✓ where applicable, past service cost, <p>an entity shall attribute benefit to periods of service under the plan's benefit formula.</p> <p>However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall <i>attribute benefit on a straight-line basis</i> from the date when:</p> <ol style="list-style-type: none"> (a) service by the employee first leads to benefits under the plan; until (b) further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases. 	<ul style="list-style-type: none"> ✓ Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment. ✓ Considers the probability that some employees may not satisfy any vesting requirements. ✓ Although certain post employment benefits become payable only if a specified event occurs when an employee is no longer employed → obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. ✓ Probability that the specified event will occur affects the measurement of the obligation, BUT does not determine whether the obligation exists. <p>Benefit is a constant proportion of final salary for each year of service Future salary increases will affect the amount required to settle the obligation that exists for service before the balance sheet date, BUT DO NOT create an additional obligation. Therefore,</p> <ol style="list-style-type: none"> (a) Salary increases do NOT lead to further benefits → even though the amount of the benefits is dependent on final salary; and (b) Amount of benefit attributed to each period is a <i>constant proportion of the salary to which the benefit is linked</i>.
<p><u>Actuarial Assumption</u></p>		
119.73 ~ 76	<p>Actuarial assumptions shall be unbiased and mutually compatible.</p>	<p>Actuarial assumptions → an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.</p> <p>They comprise:</p> <ol style="list-style-type: none"> (a) Demographic assumptions about the future characteristics of current and former employees who are eligible for benefits, dealing with matters such as: <ol style="list-style-type: none"> (i) Mortality, during and after employment; (ii) Rates of employee turnover, disability and early retirement; (iii) Proportion of plan members with dependants who will be eligible for benefits; and

		<p>(iv) Claim rates under medical plan; and</p> <p>(b) Financial assumptions, dealing with items such as:</p> <p>(i) Discount rate (FRS 119.79 ~ 83);</p> <p>(ii) Future salary and benefit levels (FRS 119.84~88);</p> <p>(iii) For medical benefits → future medical costs, including cost of administering claims & benefit payments (FRS 119.89~92); and</p> <p>(iv) Expected rate of return on plan assets (FRS 119.110~112).</p> <p>Unbiased If they are neither imprudent nor excessively conservative.</p> <p>Mutually compatible If they reflect the economic relationships between factors, such as inflation, rates of salary increase, return on plan assets and discount rates.</p>
119.78	Financial assumptions shall be based on market expectations , at the balance sheet date, for the period over which the obligations are to be settled.	
	Actuarial Assumption: Discount Rate	
119.79 ~ 83	<p>Rate used to discount post-employment benefit obligations → determined by reference to <i>market yields at the balance sheet date on high quality corporate bonds</i>.</p> <p>If there is no deep market in such bonds → use <i>market yields on government bonds</i>.</p> <p>Currency and term of the corporate bonds or government bonds → consistent with the currency and estimated term of the post-employment benefit obligations.</p>	<p>Discount rate Reflects:</p> <ul style="list-style-type: none"> ✓ Time value of money but not the actuarial or investment risk. ✓ Estimated timing of benefit payments. <p>Not reflects:</p> <ul style="list-style-type: none"> ✓ Entity-specific credit risk borne by the entity's creditors. ✓ Risk that future experience may differ from actuarial assumptions. <p>Interest cost MULTIPLYING the <i>discount rate</i> as determined at the start of the period BY the <i>present value</i> of the defined benefit obligation throughout that period, taking account of any material changes in the obligation.</p>
	Actuarial Assumption: Salaries Benefits and Medical Costs	
119.84 ~ 88	<p>Post-employment benefit obligations shall be measured on a basis that reflects:</p> <p>(a) Estimated future salary increases;</p> <p>(b) Benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the balance sheet date; and</p> <p>(c) Estimated future changes in the level of any state benefits that affect the benefits</p>	<p>Estimates of future salary increase Take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.</p> <p>Formal terms of a plan</p>

	<p>payable under a defined benefit plan, IF AND ONLY IF, either:</p> <ul style="list-style-type: none"> (i) Those changes were enacted before the balance sheet date; or (ii) Past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner. 	<p>If the terms require an entity to change benefits in future periods → measurement of the obligation reflects those changes.</p> <p>Do not reflect future benefit changes that are not set out in the formal terms of the plan at the balance sheet date. Such changes will result in:</p> <ul style="list-style-type: none"> (a) Past service cost ~ change benefits for service before the change; and (b) Current service cost for periods after the change ~ change benefits for service after the change. <p><u>Some post-employment benefits are linked to variables such as level of state retirement benefits or state medical care</u> Reflects expected changes in such variables, based on past history and other reliable evidence.</p>
119.89	<p>Assumptions about medical costs → estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.</p>	
	<p><u>Actuarial Gains and Losses</u></p>	
119.93, 95	<p>To recognize a portion of its actuarial gains and losses as income or expense IF the net <i>cumulative unrecognized actuarial gains and losses</i> at the end of the previous reporting period exceeded the greater of:</p> <ul style="list-style-type: none"> (a) 10% of the present value of the defined benefit obligations at that date (before deducting plan assets); and (b) 10% of the fair value of any plan assets at that date. <p>These limits shall be calculated and applied separately for each defined benefit plan.</p>	<p><u>Actuarial gains and losses</u> may result from increases or decreases in either the:</p> <ul style="list-style-type: none"> ✓ Present value of a defined benefit obligation; or ✓ Fair value of any related plan assets.
119.94	<p>Portion of actuarial gains and losses to be recognized = <i>EXCESS determined under FRS 119.93</i> DIVIDED BY the <i>expected average remaining working lives</i> of the employees participating in that plan.</p> <p>However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses → PROVIDED THAT the same basis is applied:</p> <ul style="list-style-type: none"> ✓ To both gains and losses; and ✓ Consistently from period to period. 	
	<p><u>Past Service Cost</u></p>	
119.97 ~ 98,	<p>To recognize past service cost as an expense on a straight-line basis over the average period until the benefits become vested → to the extent that the benefits are already</p>	<p><u>Past service cost</u> Arises when an entity:</p>

100 ~ 102	<p>vested immediately following the introduction of, or changes to, a defined benefit plan → recognize past service cost immediately.</p>	<ul style="list-style-type: none"> ✓ INTRODUCES a defined benefit plan, or ✓ CHANGES the benefits payable under an existing defined benefit plan. <p>Such changes are in return for employee service over the period until the benefits concerned are vested → recognized over that period.</p> <p>Measured as the change in the liability resulting from the amendment.</p> <p>Establish the amortization schedule for past service cost when the benefits are introduced or changed → amend the amortization schedule for past service cost ONLY IF there is a curtailment or settlement.</p> <p>When benefits payable reduced under an existing defined benefit plan → recognize as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.</p> <p>When certain benefits payable under an existing defined benefit plan is reduced AND, other benefits payable under the plan for the same employees is increased → treat the change as a single net change.</p>
<p><u>DEFINED BENEFIT PLANS – Recognition and Measurement: Plan Assets</u></p>		
<p><u>Fair Value of Plan Assets</u></p>		
119.103	<ul style="list-style-type: none"> ✓ When no market price is available → fair value of plan assets is estimated. ✓ EXCLUDE unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. ✓ Reduced by any liabilities of the fund that do not relate to employee benefits. ✓ Include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan. 	
<p><u>Reimbursements</u></p>		
119.106	<p>WHEN, AND ONLY WHEN, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation</p> <ul style="list-style-type: none"> → recognize its right to reimbursement as a separate asset. → measure the asset at fair value. <p>In all other aspects → treat that asset in the same way as plan assets.</p>	

	<p>In the income statement → expense relating to a defined benefit plan may be presented net of the amount recognized for a reimbursement.</p>	
	<p><u>Return on Plan Assets</u></p>	
119.110 ~ 111	<ul style="list-style-type: none"> ✓ One component of the expense recognized in the financial statements. ✓ DIFFERENCES BETWEEN expected return on plan assets AND actual return on plan assets → actuarial gains or losses. ✓ <u>Expected return on plan assets</u> → based on <i>market expectations</i> for returns over the entire life of the related obligation; and reflects <i>changes in the fair value of plan assets held</i> during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund. ✓ Deduct expected administration costs, other than those included in the actuarial assumptions used to measure the obligation when determining expected and actual return on plan assets. 	
	<p><u>DEFINED BENEFIT PLANS – Business Combinations</u></p>	
119.113	<p>Recognise assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets.</p> <p>Present value of the obligation includes all of the following:</p> <ul style="list-style-type: none"> (a) Actuarial gains and losses that arose before the acquisition date; (b) Past service cost that arose from benefit changes, or the introduction of a plan, before the acquisition date; and (c) Amounts that, under the transitional provisions [FRS 119.160(b)], the acquiree had not recognized. 	
	<p><u>DEFINED BENEFIT PLANS – Curtailments and Settlements</u></p>	
119.114 , 116	<p>Recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.</p> <p>Gain or loss on a curtailment or settlement shall comprise:</p> <ul style="list-style-type: none"> (a) Any resulting change in the present value of the defined benefit obligation; (b) Any resulting change in the fair value of the plan assets; (c) Any related actuarial gains and losses and past service cost that, under FRS 119.93 & 97, has not previously been recognized. 	<p><u>Curtailment occurs when</u> an entity either:</p> <ul style="list-style-type: none"> (a) Is demonstrably committed to make a material reduction in the number of employees covered by a plan; or (b) Amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits. <p><u>Settlement occurs when</u> an entity enters into a transaction that eliminates all future legal or constructive obligation for part or all of the benefits provided under a defined benefit plan.</p>

		<p>Settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist.</p> <p>However, termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are identical.</p> <p>Where a curtailment relates to ONLY some of the employees covered by a plan, or where ONLY part of an obligation is settled → gain or loss includes a proportionate share of the previously unrecognized past service cost and actuarial gains and losses.</p>
119.115	<p>Before determining the effect of a curtailment of settlement → re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).</p>	
	<p><u>DEFINED BENEFIT PLANS - Presentation - (Offset)</u></p>	
119.121	<p>Offset an asset relating to one plan against a liability relating to another plan WHEN, AND ONLY WHEN, the entity:</p> <ul style="list-style-type: none"> (a) Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and (b) Intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously. 	
	<p><u>DEFINED BENEFIT PLANS - Disclosure</u></p>	
119.125	<p>To disclose the following information about defined benefit plans:</p> <ul style="list-style-type: none"> (a) Accounting policy for recognizing actuarial gains and losses; (b) General description of the type of plan; (c) Reconciliation of the assets and liabilities recognized in the balance sheet, showing at least: <ul style="list-style-type: none"> (i) present value at the balance sheet date of defined benefit obligations that are wholly unfunded; (ii) Present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded; (iii) Fair value of any plan assets at the balance sheet date; (iv) Net actuarial gains or losses not recognized in the balance sheet (FRS 119.93); (v) Past service cost not yet recognized in the balance sheet (FRS 119.97); 	<p><u>Where there is more than one defined benefit plan</u></p> <ul style="list-style-type: none"> ✓ May be disclosed in total, ✓ Separately for each plan, or ✓ In such grouping as are considered to be the most useful, for instance, by geographical location of the plans, whether plans are subject to materially different risks. <p>Where the disclosures are made in total for a grouping of plans → disclose in the form of weighted averages or of relatively narrow ranges.</p> <p><u>Multi-Employer Defined Benefits Plans</u></p> <p>FRS 119.31 → additional disclosure if they are treated as if they were defined contribution plans.</p> <p><u>FRS 124 Requirements</u></p>

<ul style="list-style-type: none"> (vi) Any amount not recognized as an asset, because of the limit in FRS 119.59(b); (vii) Fair value at the balance sheet date of any reimbursement right recognized as an asset under FRS 119.106 (with a brief description of the link between the reimbursement right and the related obligation); and (viii) Other amounts recognized in the balance sheet; (d) Amounts included in the fair value of plan assets for: <ul style="list-style-type: none"> (i) Each category of the reporting entity's own financial instruments; and (ii) Any property occupied by, or other assets used by, the reporting entity; (e) A reconciliation showing the movements during the period in the net liability (or asset) recognized in the balance sheet; (f) Total expense recognized in the income statement for each of the following, and the line items of the income statement in which they are included: <ul style="list-style-type: none"> (i) Current service cost; (ii) Interest cost; (iii) Expected return on plan assets; (iv) Expected return on any reimbursement right recognized as an asset under FRS 119.106; (v) Actuarial gains and losses; (vi) Past service cost; and (vii) Effect of any curtailment or settlement; (g) Actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset under FRS 119.106; and (h) Principal actuarial assumptions used as at the balance sheet date, including, where applicable: <ul style="list-style-type: none"> (ii) Discount rates; (iii) Expected rates of return on any plan assets for the periods presented in the financial statements; (iv) Expected rates of return for the periods presented in the financial statements on any reimbursement right recognized as an asset under FRS 119.106; (v) Expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases); (vi) Medical cost trend rates; and (vii) Any other material actuarial assumptions used. 	<p>Disclose information about:</p> <ul style="list-style-type: none"> (a) Related party transactions with post-employment benefit plans; and (b) Post-employment benefits for key management personnel. <p>FRS 137₂₀₀₄ Requirements Disclose information about contingent liabilities arising from post-employment benefit obligations.</p>
<p>To disclose each actuarial assumption in absolute terms and not just as a margin between different percentages or other variables.</p>	
<p><u>OTHER LONG-TERM EMPLOYEE BENEFITS</u></p>	

119.131		<p>Examples of other long-term employee benefits:</p> <ul style="list-style-type: none"> (a) Long-term compensated absences, such as long-service or sabbatical leave; (b) Jubilee or other long-service benefits; (c) Long-term disability benefits; (d) Profit-sharing and bonuses payable 12 months or more after the end of the period in which the employees render the related service; and (e) Deferred compensation paid 12 months or more after the end of the period in which it is earned. <p>FRS 119²⁰⁰⁴ requires a simplified method of accounting for other long-term employee benefits, which differs from the accounting required for post-employment benefits as follows:</p> <ul style="list-style-type: none"> (a) Actuarial gains and losses are recognized immediately and no "corridor" is applied; and (b) All past service cost is recognized immediately.
<p><u>OTHER LONG-TERM EMPLOYEE BENEFITS - Recognition and Measurement</u></p>		
119.133	<p>Amount recognized as a liability for other long-term employee benefits shall be the net total of the following amounts:</p> <ul style="list-style-type: none"> (a) Present value of the defined benefit obligation at the balance sheet date (FRS 119.65); (b) MINUS the fair value of plan assets (if any) at the balance sheet date out of which the obligations are to be settled directly (FRS 119.103~105). <p>Measuring liability → apply FRS 119.50~92, excluding FRS 119.55 and 62. Recognising and measuring any reimbursement right → FRS 119.106.</p>	
119.134	<p>Recognise the net total of the following amounts as expense or income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:</p> <ul style="list-style-type: none"> (a) Current service cost (FRS 119.64~92); (b) Interest cost (FRS 119.83); (c) Expected return on any plan assets (FRS 119.110~112) and on any reimbursement right recognized as an asset (FRS 119.106); (d) Actuarial gains and losses, which shall all be recognized immediately; (e) Past service cost, which shall all be recognized immediately; and (f) Effect of any curtailments or settlements (FRS 119.114 and 115). 	

	<u>OTHER LONG-TERM EMPLOYEE BENEFITS - Disclosure</u>
119.136	FRS 119 ₂₀₀₄ does not require specific disclosures. However, other Standards may require disclosures.
	<u>OTHER LONG-TERM EMPLOYEE BENEFITS - Termination Benefits - (Recognition)</u>
119.138	Recognize termination benefits <i>as a liability and an expense</i> WHEN, AND ONLY WHEN , the entity is demonstrably committed to either: (a) <i>Terminate</i> the employment of an employee or group of employees <i>before the normal retirement date</i> ; or (b) Provide <i>termination benefits as a result of an offer</i> made in order <i>to encourage voluntary redundancy</i> .
119.139	<u>Demonstrably committed to a termination</u> When, and only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. Detailed plan shall include, as a minimum: (a) Location, function, and approximate number of employees whose services are to be terminated; (b) Termination benefits for each job classification or function; and (c) Time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.
	<u>OTHER LONG-TERM EMPLOYEE BENEFITS - Termination Benefits - (Measurement)</u>
119.144	Where termination benefits fall due more than 12 months after the balance sheet date, they shall be discounted using the discount rate specified in FRS 119.79.
119.145	In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer. <u>OTHER LONG-TERM EMPLOYEE BENEFITS - Termination Benefits - (Disclosure)</u>
119.146	Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists → Under FRS 137 ₂₀₀₄ , disclose information about the contingent liability unless the possibility of an outflow in

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	settlement is remote.
119.147	FRS 101 → disclose the nature and amount of an expense if it is material.
119.148	FRS 124 → disclose information about termination benefits for key management personnel.
	<u>EFFECTIVE DATE</u>
	If an entity applies this Standard for a period beginning before 1 January 2003, it shall disclose that fact.

FRS 126₂₀₀₄ Accounting and Reporting by Retirement Benefit Plans

SAMPLE COMPLIANCE CHECKLISTS

REF.	COMPLIANCE CHECKLISTS	EXAMPLE / SAMPLE DISCLOSURES NOTES
	<u>SCOPE</u>	
126.1	This Standard shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.	
126.9	<p><u>DEFINITIONS</u></p> <p>Defined benefit plans Retirement benefit plans under which amounts to be paid as retirement benefits are determined <i>by reference to a formula usually based on employees' earnings and/or year of service.</i></p> <p>Defined contribution plans Retirement benefit plans under which amounts to be paid as retirement benefits are determined <i>by contributions to a fund together with investment earnings thereon.</i></p> <p>Funding Transfer of assets to an entity (the fund) separate from the employer's entity to meet future obligations for the payment of retirement benefits.</p> <p>Retirement benefit plans Arrangements whereby an entity provides benefits for its employees on or after termination of service when such benefits, or the employer's contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.</p> <p>Actuarial present value of promised retirement benefits Present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.</p> <p>Net assets available for benefits Assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.</p> <p>Participants Members of a retirement benefit plan and others who are entitled to benefits under the plan.</p> <p>Vested benefits Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.</p>	

<u>DEFINED CONTRIBUTION PLANS</u>	
126.14 ~ 17	<p>Financial statements of a defined contribution plan shall contain:</p> <ul style="list-style-type: none"> ✓ a statement of net assets available for benefit, and ✓ a description of the funding policy.
	<p>Participants are interested in:</p> <ul style="list-style-type: none"> ✓ activities of the plan → affect the level of future benefits. ✓ Knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. <p>Employer is interested in:</p> <ul style="list-style-type: none"> ✓ Efficient and fair operation of the plan. <p>Objective of reporting by a defined contribution plan:</p> <ul style="list-style-type: none"> ✓ periodically provide information about the plan, and ✓ performance of its investments. <p>Objective is usually achieved by providing financial statements including:</p> <ul style="list-style-type: none"> (a) description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions; (b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and (c) description of the investment policies.
<u>DEFINED BENEFIT PLANS</u>	
126.18, 23	<p>Financial statements of a defined benefit plan shall contain EITHER:</p> <ul style="list-style-type: none"> (a) a statement that shows: <ul style="list-style-type: none"> (i) net assets available for benefits; (ii) actuarial present value of promised retirement benefits ~ vested benefits and non-vested benefits; and (iii) resulting excess or deficit; <p>OR</p> <ul style="list-style-type: none"> (b) a statement of net assets available for benefits including either: <ul style="list-style-type: none"> (i) note disclosing the actuarial present value of promised retirement benefits ~ vested benefits and non-vested benefits; or (ii) reference to this information in an accompanying actuarial report. <p>If the actuarial valuation has NOT been prepared at the date of the financial statements → <i>most recent valuation shall be used</i> as a base and the date of the valuation</p>
	<p>Objective of reporting by a defined benefit plan:</p> <ul style="list-style-type: none"> ✓ periodically provide information about the financial resources, and ✓ activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. <p>Objective is usually achieved by providing financial statements including:</p> <ul style="list-style-type: none"> (a) description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions; (b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; (c) actuarial information either as part of the statements or by way of a

	disclosed.	separate report; and (d) description of the investment policies .
126.19	<p>Actuarial present value of promised retirement benefits → based on the benefits promised under the terms of the plan on service rendered to date using either</p> <ul style="list-style-type: none"> ✓ current salary levels; or ✓ projected salary levels with disclosure of the basis used. <p>Effect of any changes in actuarial assumptions that have a significant effect on the actuarial present value of promised retirement benefits → <i>disclose</i>.</p>	
126.20	Financial statements shall explain the relationship between the <i>actuarial present value of promised retirement benefits</i> <u>and</u> the <i>net assets available for benefits</i> , and the <i>policy for the funding</i> of promised benefits.	
	<u>DEFINED BENEFIT PLANS - Actuarial Present Value of Promised Retirement Benefits</u>	
126.24 ~ 27		<p>It may be calculated and reported using (and the reasons for adopting the approach are):</p> <p>(a) Current salary levels</p> <ul style="list-style-type: none"> (i) It can be calculated more objectively; (ii) Increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and (iii) It is generally more closely related to the amount payable in the event of termination or discontinuance of the plan. <p>Actuarial present value is disclosed to indicate the obligation for benefits earned to the date of the financial statements.</p> <p>(b) Projected salary levels up to the time of retirement of participants</p> <ul style="list-style-type: none"> (i) Financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made; (ii) Under final pay plans → benefits are determined by reference to salaries at or near retirement date → hence salaries, contribution levels and rates of return must be projected; and (iii) Failure to incorporate salary projections may result in the reporting of an apparent over-funding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.

	<p>Actuarial present value is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding.</p> <p>Sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value should be read.</p>
	<p><u>DEFINED BENEFIT PLANS - Frequency of Actuarial Valuations</u></p>
126.28	<p>If a actuarial valuation has not been prepared at the date of the financial statements → most recent valuation is used as a base and the date of the valuation disclosed.</p>
	<p><u>DEFINED BENEFIT PLANS - Frequency of Actuarial Valuations (Financial Statement Content)</u></p>
126.29	<p>Information is presented in one of the following formats which reflect different practices in the disclosure and presentation of actuarial information:</p> <p>(a) Financial statements include:</p> <ul style="list-style-type: none"> ✓ net assets available for benefits, ✓ actuarial present value of promised retirement benefits, and ✓ resulting excess or deficit. ✓ statements of changes in net assets available for benefits and changes in the actuarial present value. ✓ may be accompanied by a separate actuary's report. <p>(b) Financial statements that include</p> <ul style="list-style-type: none"> ✓ a statement of net assets available for benefits, and ✓ a statement of changes in net assets available for benefits. ✓ actuarial present value is disclosed in a note to the statements. ✓ may be accompanied by a separate actuary's report. <p>(c) Financial statements that include</p> <ul style="list-style-type: none"> ✓ a statement of net assets available for benefits, and ✓ a statement of changes in net assets available for benefits. ✓ with the actuarial present value contained in a separate actuarial report. <p>A trustees' report in the nature of a management or directors' report and</p>

	an investment report may also accompany the financial statements.	
	<u>ALL PLANS - Valuation of Plan Assets</u>	
126.33	Retirement benefit plan investments → at fair value. ✓ Marketable securities: fair value is market value; ✓ Where the estimate of fair value is NOT possible → disclosure of the reason why fair value is not used	
	<u>DISCLOSURE</u>	
126.35	Financial statements of all types of retirement benefit plan shall contain the following information: (a) Statement of changes in net assets available for benefits; (b) Summary of significant accounting policies; and (c) Description of the plan and the effect of any changes in the plan during the period.	<p><u>Statement of changes in net assets</u></p> <ul style="list-style-type: none"> (i) Assets at the end of the period suitably classified; (ii) Basis of valuation of assets; (iii) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security; (iv) Details of any investment in the employer; and (v) Liabilities other than the actuarial present value of promised retirement benefits. <p><u>Statement of changes in net assets available for benefits</u></p> <ul style="list-style-type: none"> (i) Employer contributions; (ii) Employee contributions; (iii) Investment income; (iv) Other income; (v) Benefit paid or payable; (vi) Administrative expenses; (vii) Other expenses; (viii) Taxes on income; (ix) Profits and losses on disposal of investments and changes in value of investments; and (x) Transfer from or to other plans; <p><u>Defined benefit plans</u></p> <ul style="list-style-type: none"> (i) Actuarial present value based on the benefits promised under the terms of plan, on service rendered to date and using either current salary levels or projected salary level → may be included in an accompanying actuarial report to be read in conjunction with the related financial statements; and (ii) Description of the significant actuarial assumptions made and the method used to calculate the actuarial present value.

	<p><u>Description of the plan</u></p> <ul style="list-style-type: none"> (i) Names of the employers and the employees groups covered; (ii) Number of participants receiving benefits and the number of other participants, classified as appropriate; (iii) Type of plan - defined contribution or defined benefit; (iv) Note as to whether participants contribute to the plan; (v) Description of the retirement benefits promised to participants; (vi) Description of any plan termination terms; and (vii) Changes in items (i) to (vi) during the period covered by the report.
	<p><u>EFFECTIVE DATE</u></p>
	<p>If an entity applies this Standard for a period beginning before 1 January 2003, it shall disclose that fact.</p>



AXP TECHNICAL DIAGNOSTIC CENTRE

Question One

How should the revenue from golf membership be recognised?

Question Two

Can the non-listed public company apply PERS?

REVENUE RECOGNITION FOR LIFETIME CLUB MEMBERSHIP



Issues

The Golf Club offers its members the opportunity to buy a lifetime membership costing RM42,000. This lifetime membership fee requires an immediate payment of RM20,000 and the remainder is payable over two years. These fees are non-refundable. The lifetime membership is for valid for a period of 60 years with no further fees payable. The terms allow members to sell their lifetime memberships privately, gift it, or bequeath it.

There is view that the lifetime membership fees should be treated as revenue when the fees are received. The reason for this is that recognizing revenue when cash is received gives the Club certainty as to what funds it could deploy for development.

It is also stated that if the lifetime membership fees were not treated as revenue when received, they would need to be recorded at the balance sheet date as a liability, which would misrepresent the financial position of the Club, showing a liability to repay an amount for lifetime membership when the contracts stated that the fees were not refundable.





Standard Reference

Principally, the lifetime membership fee should be recognized according to MASB 9 (Appendix 2 - point 17) or FRS 118₂₀₀₄ (Appendix A - point 17). These standards suggest that:-

- (i) if the fee permits **only** membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists.
- (ii) if the fee entitles the member to services or publications to be provided during the membership period or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature and value of the benefits provided.





Our Proposed Recommendation

When the terms and conditions contained in the membership agreement satisfy criteria (i) above, the fees could be recognized when they are received, that is RM20,000 upon signing of membership agreement and the remainder RM22,000 to be recognized over two years when fees are collected.

On the other hand, if the terms and conditions contained in the membership agreement meet criteria (ii) above, the management is required to determine the timing, nature and value of the benefits to be provided for such lifetime membership when recognizing the revenue.

To determine this, the management should apply the 'matching' principle of costs with revenue. For example, to estimate the average profit margin, says 20%, and apply it to the average costs per annum to be incurred for each member, says RM500 p.a. This will result in recognizing a revenue of RM600 p.a. and the remainder RM6,000 to be recognized immediately as revenue in the first year. The management is expected to keep all relevant documents to justify such decision and the method should be applied consistently throughout the years. In the absence of proper justification, the management can adopt a simpler calculation such as simply spreading the total fee of RM42,000 across the tenure of the membership of 60 years. In this case, whether the fee is refundable or not does not alter the needs to 'match' the costs with the revenue.

However, some may argue from the point that such fees collected already meet the criteria of recognizing revenue, that is, resultant in "the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when **those inflows result in increases in equity**, other than increases relating to contributions from equity participants." Even so, we are of the opinion that the method of 'matching' the costs with revenue would give a more conservative and yet realistic picture of the Club's financial performance.

CAN A NON-LISTED PUBLIC LISTED COMPANY APPLY PERS?



Issue

Can non-listed 'Berhad' or 'Bhd' apply PERS when preparing its financial statements?



Standard and Legislation Reference

To apply PERS, an entity must be a private entity which, by definition is a **private company**, incorporated under the Companies Act 1965, that -

- ✓ is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or the Bank Negara Malaysia; and
- ✓ is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or the Bank Negara Malaysia.

In accordance with the Section 15 (1) of the Companies Act 1965 (the "Act"), a **private company** is a company where its memorandum or articles:-

- (a) restricts the right to transfer its shares;
- (b) limits to not more than fifty members;
- (c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company; and
- (d) prohibits any invitation to the public to deposit money with the company for fixed periods or payable at call, whether bearing or not bearing interest.

Furthermore, under Section 22 (4), a **private company** shall have the word "Sendirian" or "Sdn." inserted immediately before the word "Berhad" or "Bhd".

[Our Proposed Recommendation](#)

If the company is a “Bhd.” instead of “Sdn. Bhd.”, it must be a **public company**. Therefore, in our opinion, as long as the company is not a **private company**, it can not apply PFRS when preparing financial statements.

