

Technical e-Newsletter

September 2007 Issue

SAMPLE DISCLOSURE CHECKLIST

9th Schedule Disclosure Checklist

TECHNICAL DIAGNOSTIC CENTRE

*A Case Study of the Accounting Treatment on
Customer Loyalty Programmes*

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Editors' Notes ~ Budget 2008 / CMSA

The focus of the month for the business world in Malaysia shall be Budget 2008. There were predictions that Budget 2008 a pre-election budget, and the Government might give goodies to the nations.

However, the much awaited reduction in the top tax rate for individual is not realised, which may discourage the attraction of talents from overseas. On the other hand, the predicted date of implementing GST may be year 2009, when the corporate tax rate will be reduced to 25%. By then, personal top tax rate may be reduced as the indirect tax revenue will be increased if GST is introduced.

Another major change in the tax law under Budget 2008 is the introduction of single tier tax system (STTS). It was generally believed that the STTS will not benefit lower tax individual group.

To further enhance the corporate governance of public listed companies, several measurements have been announced, including executive directors are no longer allowed to sit on the Audit Committee, etc. Another latest development in the capital market is that Capital Markets and Services Act 2007 (CMSA) has come into force on 28 September 2007. Interested parties may obtain the CMSA from Securities Commission's website (www.sc.com.my).

In this issue of the e-Newsletter, we have developed 9th Schedule Disclosure Checklist, in addition to the disclosure checklist for directors' report and auditors' report published in April 2007 Issue. AXP customers may request to update these checklists into Audit Express without charges.

In the AXP Technical Diagnostic Centre, we are looking into how an entity shall recognise their Customer Loyalty Programmes, based on the requirement of IFRIC 13.

The Checklist illustrated in this e-Newsletter is also available in Microsoft Word and Excel. Please feel free to contact us at support@myAXP.com if you wish to obtain these complimentary copies.

Happy reading!

Editors
AXP Technical e-Newsletter
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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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9TH SCHEDULE DISCLOSURE CHECKLIST

NOTE:

In accordance with Section 166A (6) of the Companies Act 1965, where any conflict or inconsistency arises between the provisions of an applicable approved accounting standard and a provision in the Ninth Schedule in their respective applications to the financial statements or consolidated financial statements of a company, the **provisions of the applicable approved accounting standard shall prevail.**

PROCEDURES:

No.	Disclosure	Para in 9 th Schedule
1	INCOME STATEMENT & APPROPRIATION OF INCOME	
	<u>Income</u>	
1.1	Sales or other operating revenues, stating the basis on which they are determined.	1(a)
1.2	Net profit or loss on the Company's trading.	1(b)
1.3	Gross income before income tax from investments in subsidiaries.	1(c)
1.4	Gross income before income tax from other investments distinguishing between income received from -	1(d)
	- any shares or debentures which are quoted, listed or dealt in on any prescribed stock exchange in Malaysia	1(d)(i)
	- any shares or debentures which are dealt in on any prescribed stock exchange outside Malaysia; and	1(d)(ii)
	- other sources.	1(d)(iii)
1.5	Interest income (other than from debentures), and income from rental of land and buildings.	1(e)
	<u>Expenses</u>	
1.6	Amounts charged for depreciation, amortization or diminution in value on -	1(f)
	- property, plant and equipment showing the charge for each category of asset;	
	- goodwill and other intangible assets; and	
	- investments.	
	<i>Note: if there changes in the methods or bases of providing depreciation, amortization or diminution in value of asset and it is material - disclose the amount and the reasons for the changes in the note.</i>	
1.7	Interest on debentures, loans, overdrafts and other borrowings.	1(g)
1.8	Rent for land and buildings used.	1(g)
1.9	Hire of plant and machinery used.	1(g)
1.10	Research and development including amortization of development costs capitalized.	1(g)
1.11	Fees and other emoluments paid to or receivable by directors and past directors from the Company and its subsidiaries.	1(o)
1.12	Estimated money value of any other benefits received or receivable by directors and past directors otherwise than in cash from the Company and its subsidiaries.	1(o)
1.13	Amount paid to or receivable by any third party in respect of the	1(p)

No.	Disclosure	Para in 9 th Schedule
	services provided to the company or any of its subsidiaries by any director or past director.	
1.14	Auditors' remuneration paid, inclusive of all fees, percentages or other payments or consideration given by or from the Company or by or from any subsidiary of the Company.	1(q)
	<u>Income and/or Expenses</u>	
1.15	Profit or loss, if material, on disposal of property, plant and equipment or intangible assets.	1(h)
1.16	Amounts set aside or proposed to be set aside to, or withdrawn from, reserves.	1(i)
1.17	Amount, if material, of additional provisions and withdrawn from such provisions, classified separately under appropriate headings.	1(j)
1.18	Amounts provided for redemption of share capital and loans.	1(k)
	<u>Income Tax Expense</u>	
1.19	Provision for all taxes on income distinguishing from:	1(l)
	- tax payable before double tax relief in Malaysia.	
	- tax payable outside Malaysia.	
	- any relief granted because of double tax.	
	- deferred tax.	
1.20	For tax losses, if material:	1(m)
	- amount of the tax saving for which credit is taken in the period of the loss.	
	- amount of the tax saving for which credit is taken as a result of the realization of a tax loss carried forward that had not been accounted for in the period of the loss.	
	- amount and future availability of tax losses for which the related tax effects have not been accounted in any period.	
	<u>Dividends</u>	
1.21	Aggregate amount of the dividends paid and proposed to be paid.	1(n)
	<u>Others</u>	
1.22	Under separate headings, and giving particulars of each item if they are material:	
	- any exceptional or unusual credits or charges, and the tax effects thereon, if any.	1(r)
	- any prior year credits or charges and the tax effects thereon, if any.	1(s)
	- any changes in estimates made for the purpose of accounting and included in net profit or loss from trading.	1(t)
1.23	Significant transactions with related corporations.	1(u)

No.	Disclosure	Para in 9 th Schedule
2	BALANCE SHEET	
	<u>Share Capital</u>	
2.1	Amount of authorized capital and particulars of issued capital:	2(1)(a)
	- showing movements during the period;	
	- distinguishing between classes of shares;	
	- specifying any rights, preferences and restrictions with respect to distribution of dividends or repayment of capital;	
	- portion of the share capital which has not been called up and which is not capable of being called up;	
	- rates of dividend, whether participating or cumulative or both, attaching to shares other than ordinary shares; and	
	- amount of calls in arrear in each class.	
2.2	For redeemable preference shares:	2(1)(b)
	- date on or before which these shares are, or are liable, to be redeemed;	
	- earliest date on which the Company has power to redeem those shares; and	
	- amount of the premium at which those shares are redeemable, if any.	
2.3	Interest on capital and the rate at which interest has been paid.	2(1)(c)
	<u>Reserves</u>	
2.4	Reserves classified under the separate headings -	2(1)(d)
	- share premium account.	
	- revaluation surplus.	
	- balance of income statement.	
	- other reserves.	
	<i>Note: To indicate the movements for the period and any restrictions on distribution including the extent to which tax credit are available to frank the reserves available for distribution.</i>	
2.5	Income or gain carried forward to subsequent periods of accounting, and specify the basis for carrying that income or gain.	2(1)(e)
	<u>Capital and Other Expenses</u>	
2.6	Under separate headings, so far as they are not written off -	2(1)(f)
	- preliminary expenses.	
	- expense incurred in connection with any issue of shares and debentures.	
	- sums paid by way of commission in respect of any shares or debentures.	
	- sum allowed by way of discount in respect of any debentures.	
	- amount of the discount allowed on any issue of shares at a discount.	
	- amount of goodwill, any patents and trade marks is shown as a separate item.	
	- amount of deferred development expenditure and movements in the period.	

No.	Disclosure	Para in 9 th Schedule
	- other expenditure carried forward by category of expenditure.	
2.7	Particulars of any redeemed debentures which the Company has power to reissue.	2(1)(g)
	<u><i>Presentation of Balance Sheet</i></u>	
2.8	Property, plant and equipment, current assets, liabilities and provisions classified separately under appropriate headings and stating the method used to arrive at the amount of assets under each heading BUT -	2(1)(h)
	- where the amount in any class is not material, it may be grouped with other class.	
	- where any assets of one class are not separable from assets of another class, those assets may be included under the same heading.	
	- where any assets cannot truly and fairly grouped, those assets may be included separately under an appropriate heading.	
	<u><i>Property, plant and equipment</i></u>	
2.9	For property, plant and equipment -	2(1)(i)
	- under separate headings, the amount of land and buildings, plant and machinery and other categories suitably identified.	
	- for property, plant and equipment carried at valuation, the years in which the assets were severally valued and the several values, whether an external valuer was involved and the basis of valuation used.	
	- separately disclose freehold and leasehold land. For leasehold land, further classify into land held on long lease (within an unexpired period of fifty years or more) and land held on short lease.	
	- any restriction as to title.	
	- amount, if material, of any assets being acquired on installment purchase plans.	
	- amount, if material, of any assets retired from active use and held for disposal.	
	- methods of depreciation used, rate of depreciation or number of years over which provision is made for depreciation.	
	<u><i>Investments</i></u>	
2.10	Under separate headings, the methods used to arrive at the amount of the investments and the quoted market values, if any, for the investments in -	2(1)(j)
	- Federal Government securities.	
	- other government, municipal or public debentures stock or bonds.	
	- subsidiaries.	
	- shares (not the subsidiaries) which are quoted, listed or dealt in on any prescribed stock exchange in Malaysia or elsewhere.	
	- shares (not the subsidiaries) which are not quoted, listed or dealt in on any prescribed stock exchange in Malaysia or elsewhere.	

No.	Disclosure	Para in 9 th Schedule
	- debentures (not the subsidiaries) which are not so quoted, listed or dealt in on any prescribed stock exchange.	
	- other investments in corporations.	
	- other investments.	
	<u>Inventories</u>	
2.11	Inventories held for trading classified in main categories appropriate to the business showing:	2(1)(k)
	- amount held in each category.	
	- such amounts being state at the lower of cost and net realizable value.	
	<u>Long term contract work in progress</u>	
2.12	For long-term contract work in progress, state -	2(1)(l)
	- methods used to arrive at the amounts of these assets.	
	- amounts received and receivable as progress payments, advances and retentions on account of contracts included in long-term contract work in progress.	
	<u>Other Assets</u>	
2.13	Under separate headings -	2(1)(m)
	- amounts owing by the holding company.	
	- amounts owing by subsidiaries.	
	- amounts owing by other related corporations.	
	- trade debts and bills receivable.	
	- amount outstanding of any loan made, guaranteed or secured being a loan made to a director of the Company or of a related corporation or a loan made to another corporation in which one or more directors of the Company which is so deemed to be related to the Company owns a controlling interest.	
	- other debts owing to the Company.	
	- deposits with licensed banks, finance companies, other corporations and others.	
	<u>Liabilities</u>	
2.14	Under separate headings and showing separately amounts that are redeemable or payable not later than twelve months after the date to which the financial statements are made up and amounts that are redeemable or payable later than twelve months after that date (<i>giving details of the contractual terms and, where secured, of the nature of that security</i>) -	2(1)(n)
	- debentures.	
	- liabilities (other than debentures and bank loans and overdrafts) secured by any charge on the assets whether registered or not.	
	- bank loans and overdrafts, distinguishing between secured and unsecured.	

No.	Disclosure	Para in 9 th Schedule
	- other amounts borrowed without security.	
2.15	Under separate headings -	2(1)(o)
	- amounts owing to the holding company.	
	- amounts owing to subsidiaries.	
	- amounts owing to other related corporations.	
	- amounts owing to trade creditors.	
	- amount owing by the Company or by a subsidiary to a director of the Company.	
	- other amounts owing by the Company.	
	<u><i>Provision for Taxation and Other Provisions</i></u>	
2.16	Provision for tax, distinguishing between -	2(1)(i)
	- current tax payable.	
	- deferred tax.	
	- state any special circumstances affecting the liability to tax.	
2.17	Provision for pension or retirement benefits.	2(1)(q)
	<u><i>Dividend Liabilities</i></u>	
2.18	Dividends distinguishing between dividends payable and proposed.	2(1)(r)
2.19	Arrears of dividends on preference shares.	2(1)(s)
	<u><i>Contingent Liabilities</i></u>	
2.20	Under separate headings -	2(1)(t)
	- contingent liabilities unsecured.	
	- contingent liabilities secured upon the Company's assets giving details of the nature of security.	
	- where practicable, the aggregate amount of contracts for capital expenditure, so far as that amount has not been provided for, and the aggregate amount or estimated amount of capital expenditure authorized by the directors which has not been contracted for.	
	<u><i>Others</i></u>	
2.21	Where more than one method is used to arrive at any amount shown in the balance sheet, there shall be shown in the balance sheet a separate total in respect of each of the methods so used.	2(2)
2.22	For a borrowing corporation or a guarantor corporation, show a schedule setting out separately estimates of the amounts of the liabilities payable by and the debts payable to the Company -	2(3)
	- not later than two years.	
	- later than two years but not later than five years.	
	- later than five years.	

No.	Disclosure	Para in 9 th Schedule
	<u>Valuation of Non-current Assets</u>	
2.23	Method of arriving at the amount of any property, plant and equipment or investment shall, subject to sub para (2), be to take the difference between -	3(1) & (4)
	- its cost or, at a valuation other than cost, the amount of the valuation and the aggregate of the amount shall be shown; and	
	- the aggregate amount provided or written off since the date or acquisition or valuation for depreciation or diminution in value and the aggregate of the amount shall be shown.	
2.24	Sub para (1) shall NOT apply -	3(3) & (5)
	- to assets the replacement of which is provided for wholly or partly (i) by making provision for renewals and charging the cost of replacement against the provision so made; or (ii) by charging the cost of replacement direct to revenue. To state the means by which their replacement is provided for, and the aggregate amount of the provisions, if any, made for renewals and not used.	
	- to any investments of which the market value (or, in the case of investments not having a market value, their value as estimated by the directors) is shown either as the amount of the investments or by way of note; or	
	- to goodwill, patents or trade marks.	
3	HOLDING AND SUBSIDIARIES	
	<u>Requirement to Present Consolidated Financial Statements</u>	
3.1	Consolidated income statements shall be annexed to the income statement of every holding company and showing separately that profit or loss of the subsidiary attributable to shareholders other than the holding company and its subsidiaries.	5(1)
3.2	State the name, place of incorporation, principal activities of, and percentage of issued share capital held by the holding company in each subsidiary.	5(2)
3.3	Consolidated balance sheet shall be annexed to the balance sheet of every holding company and showing separately net assets of subsidiaries attributable to shareholders other than the holding company and its subsidiaries.	5(3)
3.4	Where consolidated financial statements are not submitted, disclose the reason for not consolidating one or more subsidiaries.	5(4)
3.5	Consolidated income statements and balance sheet shall be in the same form as the income statement and balance sheet of the holding company, and shall be accompanied by the auditors' report thereon.	5(5)

No.	Disclosure	Para in 9 th Schedule
	<u>Auditors' Report</u>	
3.6	If the auditor's report on the financial statements of a subsidiary is qualified, the consolidated financial statements of the holding company shall contain particulars of the manner in which the report is qualified in so far as the matter which is the subject of the qualification is not covered by the holding company's own financial statements and is material from the point of view of its members.	5(7)
3.7	There shall be shown under separate headings in the balance sheet of every subsidiary the extent of its holding of shares in its holding company and in other related corporations.	5(8)
4	GENERAL	
	<u>Currencies</u>	
4.1	All amounts shown in income statements and balance sheets shall be quoted in Malaysian currency, and not otherwise.	6(1)
4.2	State if any translation into Malaysian currency has been made, together with the basis of the translation of the other currency into Malaysian currency.	6(4)
	<u>Comparative Amounts</u>	
4.3	Comparative amounts shall be presented for all items shown in the balance sheet and income statement, except for the first financial statements presented.	6(2)
4.4	If the corresponding amount in the balance sheet and income statement is not comparable, the former amount shall be adjusted and, if material, particulars of the adjustment and the reasons for it shall be disclosed.	6(3)
	<u>Accounting Policies</u>	
4.5	Every income statement and balance sheet shall include a statement of accounting policies adopted by the Company, or the holding company and its subsidiaries.	6(5)
4.6	The accounting policies adopted by the holding company and its subsidiaries shall be the same, and if different accounting policies are used in the financial statements of a subsidiary and the effect is material, appropriate adjustments should be made in the consolidated income statement and balance sheet.	6(6)



AXP TECHNICAL DIAGNOSTIC CENTRE

*A Case Study of the Accounting Treatment on
Customer Loyalty Programmes*



Introduction

It has become a trend that the retailers worldwide, including Malaysia, launch customer loyalty programme to be more competitive. Larger retail chain has initiated the loyalty programme. Subsequently, loyalty card companies are emerging to manage the customer loyalty programme. Some of the more widely known loyalty card companies in Malaysia are Bonus Link, Real Rewards, etc.

Recently, even smaller retailers are offering various types of customers loyalty programme to attract and retain customers. Though it has been extensively used worldwide, there are no clear accounting rules on the treatment of customer loyalty programme.

On 28 June 2007, International Financial Reporting Interpretation Committee (IFRIC) has issued IFRIC 13 Customer Loyalty Programmes. The references for this IFRIC are IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 38 Intangible Assets.

IFRIC 13 is applicable to annual periods beginning on or after 1 July 2008, earlier application is permitted. However, in Malaysia, the adoption of this IFRIC is pending for the approval of Malaysian Accounting Standards Board (MASB).



Salient Provision of IFRIC 13

- An entity shall apply paragraph 13 of IAS 18 and account for reward credits as a separately identifiable component of the sales transactions in which they are granted, i.e., the goods and services sold and the award credit granted.
- It shall be allocated by reference to the relative fair values of the components, i.e., the amounts for which each component could be sold separately.
- The fair value of the award credits may be estimated by reference to the discount that the customer would obtain when redeeming the award credits for goods or services.
- The entity shall recognise the deferred portion of the proceeds as a revenue either (i) in the period in which award credits are redeemed, or (ii) if a third party assumes the obligation to supply the awards to the customer, when that third party assumes the obligation.
- If at any time the unavoidable costs of meeting the obligation to supply the awards are expected to exceed the consideration received and receivable from them, the entity has an onerous contract. Additional liability shall be recognised for the excess in accordance with IAS 37.
- Customer loyalty programmes may create or enhance customer relationship intangible assets, and it shall be recognised only if the recognition criteria in IAS 38 are met.



Practical Examples of the Application of IFRIC 13

Scenario 1 – Recognise the reward points

A supermarket launches a customer loyalty programme where its customers are granted loyalty points for future redemption of goods. Customer A bought RM100/- worth of goods and is granted 100 points, says 100 points can be used to redeem RM1/- worth of goods, how should the supermarket recognise this transaction?

Suggested Solutions

The supermarket shall:

- ✚ recognise RM99/- immediately as revenue when significant risks and rewards of ownership are transferred to the customers.
- ✚ RM1/- is recognised as liability until the customer redeems the reward points and the supermarket has supplied the promised goods to the customers.

Scenario 2 – Recognise additional reward points granted

A restaurant manages a customer loyalty programme. For customers spend less than RM100/-, they will be granted 1 point per Ringgit spent. If the customers spend more than RM100/-, 2 points will be granted for spending exceed RM100/-. Each point granted will enable the customers to redeem 1¢ worth of goods or services. How should the restaurant accounts for it?

Suggested Solutions

IFRIC 13 allows the restaurant to allocate the same amount of revenue to each point, based purely on the value of the point itself, irrespective of the value of the goods or services granted. Thus, the restaurant may pool points for accounting purposes, making reasonable assumptions, eg, which points are redeemed first.

Scenario 3 – Reward points are not expected to be redeemed

Some of the customers do not redeem their points, how should the entity accounts for it?

Suggested Solutions

The entity shall estimate the points that will not be redeemed and record the cash allocated for those points as revenue in the same periods as it is recorded as revenue for the points that are redeemed.

Based on experience, the customers either redeem points within 2 years or do not redeem at all. If so, the entity shall recognise the revenue for the points that are expected not to be redeemed over the 2 years after they are granted.

For example, on 01/01/2007, ABC grants 100 points. Based on its experience, 80% of the points are expected to be redeemed within 2 years, and 20% of the points will not be redeemed. Thus, 20 points that are not expected to be redeemed shall be recognised as revenue over the next 2 years after 01/01/2007.

Scenario 4 – Award supplied by a third party

XYZ participate a customer loyalty programme managed by another company, CLP Company. What is the difference in treatment, assuming the following agreement with CLP Company:

1. CLP Company assumes the obligation when the award credits are granted.
2. XYZ's customers can choose to claim awards from either XYZ or CLP Company.

Suggested Solutions

1. XYZ should allocate some of the cash received from the customers to the points as required under this IFRIC. However, since XYZ has fulfilled all its obligation as soon as the award credits are granted, XYZ will recognise revenue in respect of the points at the same time as the initial sale.
2. CLP Company will only assume the obligation when XYZ's customers choose to claim award from it. Thus, XYZ can only recognise revenue on the reward points at the same time as the customers decide to claim from either XYZ or CLP Company.