MALAYSIAN INSTITUTE OF ACCOUNTANTS

MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 1 [2007]

Accounting for Investment in Subsidiaries in the Separate Financial Statements of a Parent in an Internal Group Reorganisation

The issue:

Prior to 1 January 2006, in an internal group reorganisation situation, where merger basis of accounting was used, under MASB 21.100, the cost of investment in a subsidiary in the investor's separate financial statements "should be recorded at the....nominal value of equity shares issued."

Effective 1 January 2006, this particular requirement is no longer in our accounting standards. Therefore, based on FRS 127.37, the cost of investment in the subsidiary should be recorded at cost. Cost is defined in the IFRS Glossary as the fair value of the consideration given. In this case, cost should be the fair value of the equity shares issued.

Two issues:

(a) Is the interpretation that under FRS127.37 the cost of investment should be recorded at fair value of the consideration given [in an internal group reorganization situation where merger basis of accounting is use] correct?

(b) The above represents a change in accounting policy between that as required by MASB and that as required by FRS 127. However, since no transitional provisions are available in FRS 127 on this, affected entities in Malaysia will have to account for this change in accounting policy retrospectively in accordance with the requirements of FRS 108. Is this the correct interpretation?

(c) If the answers to (a) and (b) are both yes, does the incremental amount recorded [between the fair value and the nominal amount] arising from this change in accounting policy represents additional share premium? Is this legal?

Current accounting practice as observed by submitter:

None noted yet at this point in time since most companies will only encounter this when finalizing the 31 December 2006's financial statements.

Reasons for the FRSIC to address the issue:

Internal group reorganization is very prevalent in Malaysia and a guidance on the two issues would (1) be helpful, and (2) ensure consistent application among affected entities.

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Submitter's proposal to address the issue: None
Submitted on: 25 January 2007
Corresponding FRSIC Consensus: PROJECT WAS DISCONTINUED. The FRSIC's deliberation: FRSIC has considered this issue but decided to discontinue the project because similar issue is being addressed by the International Accounting Standards Board which is expected to be finalised by second quarter of 2008.

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