



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

**FRSIC Issue No. 8 [2007]**

***Valuation of Share Premium in Light of Requirements in FRS 3, Business Combinations***

The issue:

FRS 3 paragraph 24 requires equity instruments issued by acquirer to be fair valued in determining the cost of business combination. Prior to FRS 3, Section 60(2) of Companies Act 1965 requires Share Premium to be recorded and it has been accepted that this represents the difference between agreement price and nominal value of shares issued.

Does the introduction of the fair value in FRS 3 changes the amount to be recorded as Share Premium?

Many accountants are trying to interpret the law.

Current accounting practice as observed by the Submitter:

Share premium is the difference between the agreed issue price and nominal value of shares issued.

Reasons for the FRSIC to address the issue:

This involves statutory compliance. Wrong application of FRS 3 may have far reaching consequences. Circumstances such as fair value falling below par value at date of completion need to be considered. Does that make the share issuance at a discount? Should accountants interpret what is required by the law based on FRS concept?

Submitter's proposal or recommendation to address the issue:

Fair value is subjective. Agreed price on the other hand is fair at the point of entering into agreement as far as the buyer and seller are concern. Changes in fair value from the agreement date to date of completion are subjected to various factors.

While FRS believes cost of business combination should be valued at date of completion, but that does not mean Section 60(2) need to be interpreted in the same way.

Statutory reserve (share premium) should be recorded objectively like share capital. If FRS is meant to change the law interpretation, should we then record share capital at below par if that is the fair value.

Submitted on:

20 April 2007

Corresponding FRSIC Consensus:

**ISSUE WAS REJECTED FROM FURTHER DELIBERATION.**

The FRSIC's deliberation: The FRSIC has decided not to take up the issue as it is being deliberated by the Corporate Law Reform Committee ("CLRC") of the Companies Commission of Malaysia. In June 2005, CLRC has issued a Consultative Document titled "On Capital Maintenance Rules and Share Capital: Simplifying and Streamlining Provisions Applicable to Shares" at <http://www.ssm.com.my/en/clrc/consultation-document/cd2>

The submitter has been informed of the FRSIC's decision.

*[Last updated: 7 January 2014]*