

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

FRSIC Issue No. 15 [2007]

Accounting Treatment for Impairment of Goodwill in Situation where Court Approval has been obtained to write it off against Reserves

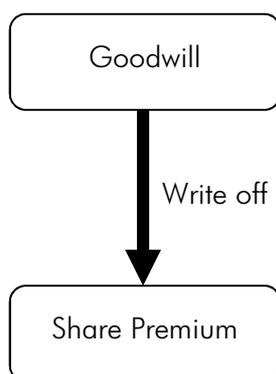
The issue:

With effect from 1 January 2006, companies are required under FRS 3, Business Combinations ("FRS 3"), to capitalise goodwill as an intangible asset and test it for impairment annually. Any impairment loss is to be recognised as an expense in the income statement immediately as required by paragraph 60 of FRS 136, Impairment of Assets ("FRS 136").

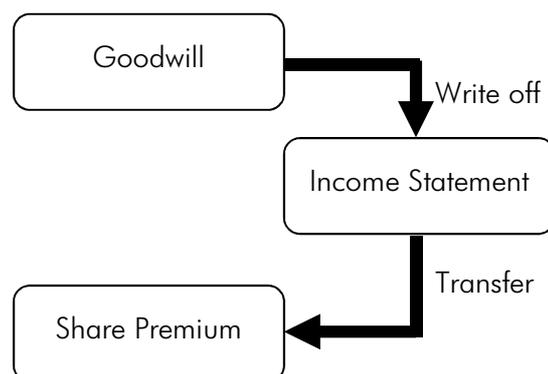
The requirement of FRS 136 for impairment loss to be recognised as an expense in the income statement is no different from that required by its predecessor, FRS 136₂₀₀₄ *Impairment of Assets*, which came into effect on 1 January 2002. However, certain companies which chose to impair/write off goodwill prior to the implementation of FRS 3 managed to obtain High Court approval in allowing them to write off goodwill directly against reserves (e.g. share premium reserve) under Section 64 of the Companies Act 1965.

Section 64 of the Companies Act 1965 provides the court with power to allow companies to reduce their share capital and share premium. However, the court approval does not specify the manner in which the reductions are to be effected in the financial statements. The diagram below depict the accounting treatments to write off goodwill against share premium reserve:

Comply with court approval



Comply with court approval and FRS 136



As shown in the diagrams above, the requirements of both the court approval and FRS 136 are consistent. However, clarification is required to ensure that companies do not sideline the requirements of Financial Reporting Standards ("FRS") even when they have obtained court approval.

Current accounting practice as observed by the Submitter:

Certain companies have obtained High Court approval to impair/write off goodwill directly against share premium reserve, without passing through income statement.

Reasons for the FRSIC to address the issue:

Without proper and formal guidance, companies might sideline the requirements of FRS when complying with court approval. This will have a material impact on the financial results for a particular period.

Submitter's proposal or recommendation to address the issue:

There is as view that companies which obtained High Court approval to impair/write off goodwill against share premium should ensure that the write off is effected through income statement, in accordance with FRS 136.

Submitted on:

3 July 2007

Corresponding FRSIC Consensus:

FRSIC Consensus 4 - Accounting Treatment for Impairment of Goodwill in Situation where Court Approval has been obtained to write it off against Reserves [To view, click on the Consensus title]