



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

FRSIC Issue No. 13 [2007]

Accounting Treatment for Capital Reduction by way of Distribution-in-Kind and/or Dividends-in-Kind

The issue:

What is the appropriate accounting treatment for capital reduction by way of:

- (a) distribution in kind; and
- (b) dividends-in-kind

Facts Pattern

Entity H undertakes two exercises during the year:

- (a) reduction of the entity's share capital by way of the distribution of the entity's investment in marketable equity securities, and thereafter
- (b) payment of dividend-in-kind by way of the entity's investment in marketable equity securities.

[Note: The investment in marketable equity securities are accounted for by the entity at the lower of cost and market value].

Suggested Conclusion:

View 1:

Both the transactions should be recorded at the fair value of the asset transferred, with a gain or loss recognized by the entity on the disposition of the asset to the income statement.

View 2:

Both the transactions should be recorded at the assets' transferred carrying amount – resulting in no gains or losses recorded by the entity.

View 3:

Both the transaction should be recorded at the fair value of the asset transferred, with a gain or loss recognized by the entity directly in equity.

Basis of Conclusion:

View 1:

There is no guidance available in IFRS. Therefore based on FRS 108, reference can be made to

US GAAP.

Under APB 29 paragraph 18, it is required that "... A transfer of a non-monetary asset to a stockholder or to another entity in a nonreciprocal transfer should be recorded at the fair value of the asset transferred, and a gain or loss should be recognized on the disposition of the asset."

Section C11 "Capital Stock: Dividends-in-kind" requires that "The distribution of non-monetary assets, other than an enterprise's own capital stock, to stockholders as dividends is generally referred to as a dividend-in-kind, and is considered a nonreciprocal transfer. A dividend-in-kind shall be recorded at the fair value of the asset transferred, and a gain or loss shall be recognized [by the enterprise] on the disposition of the asset".

View 2:

Since these are transactions between the entity and its shareholders, no gain or loss should result.

View 3:

Since these are transactions between the entity and its shareholders in their capacity as shareholders, any resulting gains or losses should be to equity directly.

Current accounting practice as observed by the Submitter:

Not sure - but could be varied.

Reasons for the FRSIC to address the issue:

To ensure consistency in application. Transactions like distribution-in-kind either as dividends or return of capital are not uncommon in Malaysia.

Submitter's proposal or recommendation to address the issue:

None.

Submitted on:

9 May 2007

Corresponding FRSIC Consensus:

ISSUE WAS REJECTED.

The FRSIC's deliberation: The FRSIC has decided not to take up the issue as one of the Committee's agenda as the International Financial Reporting Interpretations Committee ("IFRIC") is currently looking into the issue. The submitter has been informed of the FRSIC's deliberation.