



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

FRSIC Issue No. 26 [2008]

Accounting for Cost of Investment in Subsidiary

(How to Account for a Revalued Investment in Subsidiary if an Entity selects the Cost Model under FRS 127 in a Situation where the Revaluation Reserve has been Utilized?)

The issue:

Prior to the adoption of FRS 127 *Consolidated and Separate Financial Statements*, certain investment in subsidiary may adopt to have its investment stated at revalued amount. After the adoption of FRS 127, the investment should either be stated at cost or in accordance with FRS 139 (which has been deferred).

Should the company's investment previously stated at revalued amount be stated at cost to comply with this Standard retrospectively or prospectively?

Current accounting practice as observed by the Submitter:

We have noted that there are different practices in the market where some chose to restate the investment at cost by reversing the revaluation reserve (i.e. applying the standard retrospectively) but some chose to state at the carrying revalued amount (i.e. applying the standard prospectively).

Reasons for the FRSIC to address the issue:

How does the Company applies FRS 127 retrospectively to state at its COST where the revaluation reserve so arose then have been utilized for bonus issue and the Company has been declaring dividends out of its Retained Profits resulting insufficient reserve to restate the investment at its cost?

Submitter's proposal or recommendation to address the issue:

I would have proposed that the Standards should be applied prospectively and the Revalued Cost be carried as its Surrogate Cost as based on the abovementioned practical issues, it appears to be impractical to apply the standard retrospectively as the application at revalued amount was allowable prior to the Adoption of FRS 127.

Submitted on:

2 April 2008

Corresponding FRSIC Consensus:

ISSUE WAS REJECTED FROM FURTHER DELIBERATION.

The FRSIC's deliberation: FRSIC has decided not to take up the issue as the provisions in the standards are clear in regards to changing the basis of measurement and reference should be made to the relevant standards.

[Last updated: 5 May 2008]