



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

FRSIC Issue No. 30 [2008]

Distribution Equalisation in Unit Trust Funds (with Appendix)

The issue:

Unit trust funds account for Distribution Equalisation ("DE") to safeguard the interest of existing unit holders in situation where new unit holders enter into the Fund and existing unit holders exiting the Fund at a later date. This is because of the practice of accruing dividends equally to all unit holders irrespective of when they joined the fund.

Current accounting practice as observed by the Submitter:

The double entries when new unit holders enter the fund were:

Dr Cash
Cr Income Statement (Dividend Equalisation)
Cr Capital

The double entries when existing unit holders exit the fund were:

Dr Income Statement (Dividend Equalisation)
Dr Capital
Cr Cash

In accordance with FRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors", Unit Trust Funds are required to account the above as a change in accounting policy and this change shall be applied retrospectively. Please refer to Appendix for extract of balance sheet and income statement of a mutual fund provided in FRS 132, IE 32.

Reasons for the FRSIC to address the issue:

Equalisation does not give rise to assets, liabilities, income, expense or equity. Consequently, the equalisation amount should not be recognised in the financial statements of a Fund.

The elements of income and expenses are defined as follows:

- a) *Income* is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. (FRS 118, paragraph 8)
- b) *Expenses* are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Therefore, DE should cease to be recognised in the financial statements of a Fund.

However, the DE computation (memorandum account) may still be used to calculate the amount of distributions to be made to unit holders.

Submitter's proposal or recommendation to address the issue:

None suggested.

Submitted on:

1 December 2008

Corresponding FRSIC Consensus:

FRSIC Consensus 16 – Distribution Equalisation in Unit Trust Funds [To view, click on the Consensus title]

Appendix – FRS 132, IE 32

Entities such as Mutual Funds and Co-operatives whose Share Capital is not Equity as Defined in FRS 132

Example 7: Entities with no equity

The following example illustrates an income statement and balance sheet format that may be used by entities such as mutual funds that do not have equity as defined in FRS 132. Other formats are possible.

Income statement for the year ended 31 December 20x1

	20x1	20x0
Revenue	2,956	1,718
Expenses (classified by nature or function)	(644)	(614)
Profit from operating activities	2,312	1,104
Finance costs – other finance costs	(47)	(47)
– distributions to unit holders	(50)	(50)
Change in net assets attributable to unit holders	2,215	1,007

Balance sheet at 31 December 20x1

	20x1		20x0	
	RM	RM	RM	RM
ASSETS				
Non-current assets (classified in accordance with FRS 101)	91,374		78,484	
Total non-current assets		91,374		78,484
Current assets (classified in accordance with FRS 101)	1,422		1,769	
Total current assets		1,422		1,769
Total assets		92,796		80,253
LIABILITIES				
Current liabilities (classified in accordance with FRS 101)	647		66	
Total current liabilities		(647)		(66)
Non-current liabilities excluding net assets attributable to unit holders (classified in accordance with FRS 101)	280		136	
		(280)		(136)
Net assets attributable to unit holders		91,869		80,051