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

FRSIC Issue No. 40 [2013]

Classification of the Initial Public Offering (IPO) Investor Securities of a Special Purpose Acquisition Company

The issue:

Adjustments that arising from transition to Malaysian Financial Reporting Standards ("MFRS") framework are regarded as realized or unrealized profits or losses pursuant to Bursa Malaysia Securities Berhad listing requirements.

Current accounting practice as observed by the Submitter:

Based on the existing FRS 201, land held for property development is measured at costs (even if the land is leasehold land) less any accumulated impairment losses.

Reasons for the FRSIC to address the issue:

Upon the withdrawal of FRS 201 (when entities apply MFRS), preparers may continue to use the accounting policy as required by FRS 201. This treatment, in my view may not be appropriate under MFRS 102: Inventories. Without a FRSIC consensus, this may ultimately result in divergence in practice on this issue.

Submitter's proposal or recommendation to address the issue:

None suggested but the following taken from publications should provide the kick-off for discussion.

Deloitte's iGAAP

Lease Costs included in the Cost of Inventories

An entity enters into a 50-year lease of land with the intention of constructing a building. The building will be sold together with any remaining lease interest over the land and is, therefore, classified as inventories when construction commences. Because of various required legal permits, construction begins in Year 6 of the lease and is completed in Year 10.

The operating lease payments for the land should be included in the cost of inventories. IAS 2.10 states that the cost of inventories should include all costs of "bringing the inventories to their present location and condition". The operating lease cost of the land is required to construct the building and is therefore, a cost of bringing the building to a condition in which it can be sold. However, only the operating lease payments made during the period of construction (ie Years 6 to 10) may be capitalized. All operating lease payments made outside of this period must be

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recognized in profit or loss in accordance with IAS 17.33.

Ernst & Young – Questions & Answers (Internal Publication)

Land is Leased and Building is Constructed to be Held for Sale

On 1 January 2006, an entity enters into an operating lease of land for a term of 50 years. Under the lease agreement, the entity makes an initial upfront payment of CU 1,000 and pays rent of CU 200 quarterly in advance.

The entity intends to construct a building on the land and, as part of its ordinary business activities, plans to sell the building once construction is completed. However, the entity must obtain planning permission for the building, and this process takes three years. Construction of the building begins on 1 January 2009 and is complete in two years.

When an entity constructs a building on land that is leased under an operating lease, the operating lease costs that are incurred during the construction period may either:
(a) be capitalised as part of the construction cost of the building (preferred view); or
(b) be expensed when incurred (alternative view).

An entity must apply the selected accounting policy consistently.

Therefore, if the accounting policy is capitalisation, CU 1,640 is capitalised (8 quarters at CU 200 plus CU 40 from amortisation of the upfront payment.)

KPMG's Insights into IFRS

"An entity leases land under an operating lease that is not classified as investment property because it does not meet the conditions under IAS 40. The lease payments are required to be paid in advance. The entity develops a multi-unit condominium complex on the land and the condominiums will be sold in the ordinary course of business. The question arises whether the operating lease cost should be capitalized as part of the inventory cost of each unit or kept in the statement of financial position as a prepayment until sale. In our view, the entity should include the cost of the operating lease in the cost of inventory by recording the lease payment in inventory, preferably by recording the lease cost in inventory directly. Alternatively, the cost of inventory is determined by recording the lease premium as a prepayment initially, amortising it in accordance with IAS 17 and capitalizing the operating lease expense as inventory."

Submitted on:

1 April 2013

Corresponding Guidance:

FRSIC Consensus 20 – *Classification of the IPO Investor Securities of a Special Purpose Acquisition Company* [To view, click on the Consensus title]

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