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

FRSIC Issue No. 42 [2013]

Classification of Fixed Deposits and Similar Instruments as Cash and Cash Equivalents

The issue: Are fixed deposits and similar instruments with an original term longer than three months and an option to withdraw upon demand cash and cash equivalent?
Current accounting practice as observed by the Submitter: Under FRSs, most preparers classified the above fixed deposits as cash and cash equivalent. Under MFRSs, there are mixed practices.
Reasons for the FRSIC to address the issue: In view of the mixed practices in Malaysia, a FRSIC consensus is required to enhance comparability among preparers.
Submitter's proposal or recommendation to address the issue: None, but see below some references. Ernst & Young – International GAAP 2013 "….. an entity might justify including in cash equivalents a fixed deposit with an original term longer than three months if it effectively functions like a demand deposit. Typically, a fixed deposit will carry a penalty charge for withdrawal prior to maturity. A penalty will usually indicate that the investment is held for investment purposes rather than the purpose of meeting short-term cash needs." KPMG's Insights into IFRS (2012/13 edition): "Demand deposits are not defined in IFRS, but in our view they should have the same level of liquidity as cash and therefore should be able to be withdrawn at any time without penalty." "In our view, three months should be used as an absolute cut-off and debt securities with a longer maturity should be regarded as part of investing activities."

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PwC's Manual of Accounting (2011 edition)

"Example 2 – Deposit repayable within 24 hours notice – loss of interest

A company has cash on a 2 year term deposit with a bank. If the deposit is repayable with 24 hours, the company incurs a penalty with the loss of all interest earned. How is this deposit classified for the cash flow statement?

An investment or a deposit can be classified as a cash equivalent only when it is held for the purpose of meeting short term cash needs and is convertible into known amounts of cash and subject to insignificant risk of changes in value. Although the principal remains unchanged, the company will lose accumulated interest over the two years on the underlying deposit; thus effectively it will be penalized by early withdrawal. As the loss of all interest is clearly significant, this deposit would not qualify as a cash equivalent."

Deloitte's iGAAP 2013

"The term "demand deposits" is not defined in IAS 7, but the term may be taken to refer to deposits where the reporting entity can withdraw cash without giving any notice and without suffering any penalty."

"…the requirement for a three-month maturity is not part of the definition, but will nevertheless be a presumption except in very exceptional circumstances."

"The three-month limit may appear somewhat arbitrary, but they intention is to promote consistency between entities."

Submitted on:

23 April 2013

Corresponding Guidance:

FRSIC Consensus 22 – *Classification of Fixed Deposits and Similar Instruments as Cash and Cash Equivalents* [To view, click on the Consensus title]

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