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

# FRSIC Issue No. 7 [2007]

## *Accounting Treatment for Granting of ESOS by Parent Company to Subsidiary's Employees and Subsequent Recharge by the Parent*

The issue:

Accounting for the re-charge imposed by a parent entity for ESOS granted to employees of the subsidiary.

SCENARIO

Parent issues ESOS to employees of the subsidiary. Thereafter the parent recharges the subsidiary for the ESOS.

Following IFRIC 11.8 states that provided that the share-based arrangement is accounted for as in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase in equity as a contribution from the parent.

In view of this the journal entries to record these in both the books of the parent and the subsidiary are as follows:

On issuance of ESOS:

A. In subsidiary's books

Dr Income statement
Cr Reserve contributed by parent through ESOS scheme

B. In parent's books

Dr Cost of investment in subsidiary
Cr ESOS reserve

Now, say that the parent decided to charge the subsidiary for the ESOS, how should this be accounted for? In the original D17, it did conclude that an intercompany charge payable by a subsidiary entity should be offset against the capital contribution in the financial statements of the subsidiary entity and the parent entity. If the amount of the inter-company charge exceeds the capital contribution, that excess should be treated as a distribution from the subsidiary to its parent. If applying D17, the following entries will be recognized in the book of the subsidiary:
Dr Reserve contributed by parent through ESOS scheme
Dr Distribution of equity
Cr Cash


Dewan Akauntan, 2 Jalan Tun Sambanthan 3 Brickfields, 50470 Kuala Lumpur, Malaysia
[Web] http://www.mia.org.my [Phone] + 60 3 2279 9200 [Fax] + 60 3 2274 1783

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| Since this was subsequently removed from IFRIC 11, we would like to ask FRSIC for guidance on this area.<br><br>We also question whether the last set of journal entries complies with the Companies Act, 1965 as it tantamount to a distribution of reserve. It will have a major implication of subsidiary that is not wholly-owned. Will that entry be allowable under the Companies Act, 1965?<br><br>We also question whether the abovementioned distribution requires the availability of sufficient Section 110 tax credit. |
| Current accounting practice as observed by the Submitter:<br><br>No precedent cases have been noted. |
| Reasons for the FRSIC to address the issue:<br><br>This has been identified as an implementation issue and may result in varied practices without the appropriate guidance. |
| Submitter's proposal or recommendation to address the issue:<br><br>No proposed consensus. |
| Submitted on:<br><br>9 March 2007 |
| Corresponding FRSIC Consensus:<br><br>FRSIC Consensus 7 - *Accounting Treatment for Granting of ESOS by Parent Company to Subsidiary's Employees and Subsequent Recharge by the Parent* [To view, click on the Consensus title] |


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