



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

FRSIC Issue No. 16 [2007]

Is Fixed Deposit Held on Lien for Bank Guarantee Facilities a Cash and Cash Equivalent?

The issue:

To determine whether fixed deposits held on lien for bank guarantee facilities granted to subsidiaries meets the criteria of cash equivalents and therefore, form part of cash and cash equivalents of a company.

FRS 107 states that cash comprise cash on hand and demand deposits; and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

FRS 107. Para 7 states that cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Current accounting practice as observed by the Submitter:

Some corporations reported fixed deposits on lien for bank guarantee facilities granted to subsidiaries as part of the company's cash and cash equivalents on the basis that:

- (i) it meets the criteria of FRS 107, Cash Flow Statements as it is a short term commitment and subject to an insignificant risk of changes in value.
- (ii) the use of the fixed deposits is within the control of the company.

Reasons for the FRSIC to address the issue:

There are divergent practices in reporting fixed deposits on lien for bank guarantee facilities granted to subsidiaries. MIA's Financial Statement Review Committee ("FSRC") is seeking FRSIC's direction and consensus on whether fixed deposits on lien for bank guarantee facilities granted to subsidiaries meet the definition of cash and cash equivalents.

Submitter's proposal or recommendation to address the issue:

Fixed deposits on lien for bank guarantee facilities granted to subsidiaries are restricted cash and therefore, should not be included as part of the company's cash and cash equivalents.

Submitted on:

17 August 2007

Corresponding FRSIC Consensus:

FRSIC Consensus 3 - Is Fixed Deposit Held On Lien for Bank Guarantee Facilities A Cash and Cash Equivalent? [To view, click on the Consensus title]