



## Quarterly Financial Reporting Update

**Issue 12  
August 2007**

*Summary of Key Developments (period from February 2007 to July 2007)*

### **Thai Federation of Accounting Professions – Thai FAP**

- On 27 April 2007, the Federation of Accounting Professions issued accounting guidance on capital reduction by offsetting it with a deficit by a Public Company Limited. (Page 3)
- The Federation of Accounting Professions announced to postpone the effective date of Thai Accounting Standard No.56 “Accounting for Deferred Income Tax” which was originally due to take effect for financial statements which the accounting period begin on or after 1 January 2007. (Page 3)
- On 14 May 2007, the Federation of Accounting Professions published the FAP Notification No.9/2550 in the Government Gazette to revise six Thai Accounting Standards. (Page 3)
- The Federation of Accounting Professions published guidance on accounting for Investments in Subsidiaries and Associates in the Company separate financial statements. (Page 4)
- In July 2007, the Federation of Accounting Professions published the notification No.21/2550 re: non-mandatory accounting standards for non-public company limited, dated 20 July 2007. The notification is currently in the process of being published in the Government Gazette. (Page 4)
- At present, the Federation of Accounting Professions published a total of 28 draft Thai Accounting Standards. (Page 5)

### **Stock Exchange of Thailand – Thai SET**

- The Stock Exchange of Thailand revised the Form of Illustrating Summary Results of Business Operations of Listed Companies as a result of a change in Accounting for Investment in Subsidiaries, Associates and Joint Ventures by FAP. The new form is used for reporting commencing from 17 April 2007 onward. (Page 5)
- On 25 April 2007, the Stock Exchange of Thailand issued the Thai SET circular letter No.Bor.Jor.(Wor.) 16/2007 to revise its delisting policy for the listed companies that submit revised financial statements after the deadline. The policy is effective from 2 May 2007 onward. (Page 5)

### **Department of Business Development – DBD**

- The Department of Business Development issued a notification regarding “Format of financial statements No.2” to rule that for a holding company under a license obtained from Bank of Thailand to be the parent company of the Financial Businesses Group is required to prepare its financial statements according to the Notification of Bank of Thailand re: The Format of Balance Sheet and Profit and Loss Account of Commercial Banks dated 10 May 2001. (Page 6)
- On 25 April 2007, the Department of Business Development issued clarification for dividend payments under the Public Company Act B.E.2535 whereby the dividend payment of the company must be paid out of the profit as presented in its separate financial statements. (Page 6)



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### Japanese SOX

- J-SOX refers to Japanese regulatory requirements related to financial controls management that were incorporated in the legislated draft entitled “Financial Instruments and Exchange Law”. All Japanese businesses and their consolidated subsidiaries and affiliates all over the world soon need to comply with J-SOX requirements. The Japanese requirements are similar to the Sarbanes-Oxley Act (SOX) Section 302 and 404 in the United States of America as it includes an evaluation by management based on an internal control framework, introduces an audit requirement in addition to management’s evaluation, and is based on an approach which begins with an evaluation of company-wide internal controls followed by an assessment of process-level controls. (Page 6)

### International Financial Reporting Standards - IFRS

- In March 2007, The International Accounting Standard Board (IASB) published amendments to IAS 23, Borrowing Costs. The revised IAS 23 (IAS 23R) requires capitalisation of borrowing costs, which is the same accounting treatment as under US GAAP and its effective date is 1 January 2009, with earlier adoption encouraged. The amendments are to be applied prospectively; comparatives will not need to be restated. (Page 7)
- Accounting for impairments is not straight-forward. There are many complexities, including detailed requirements about identifying the assets to be tested, the frequency of testing, measuring the impairment and making the required disclosures. Impairments not only occur to goodwill; they can affect the carrying value of other intangible and tangible fixed assets. The requirements regarding the testing for impairment of goodwill and other assets differ. This adds to the difficulty in applying the strict requirements of IAS 36, Impairment of Assets. (Page 8)

### Upcoming Event: Annual Conference – Financial Reporting Update 2007

- Do not miss the PwC Annual Conference “**the Sixth Financial Reporting Update 2007**”. The conference will be held on **1 – 2 November 2007**. Day 1 of the conference is designed to provide an insight on the developments of the new Thai GAAP and IFRS and a session to discuss the impact of the Thai GAAP developments to Profit and Loss of the company.. Day 2 offers practical and in-depth guidance on Thai GAAP on specific issues such as financial instruments for non-financial institute, accounting for share based payment and employee benefit and in the 2007 revisions on existing Thai GAAP. **Please reserve your time to join us.** Speakers are experienced partners and directors of PwC, and all presentations are in Thai language.



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### **Thai Federation of Accounting Professions - (Thai FAP)**

#### **Thai FAP – Accounting guidance for capital reduction by offsetting with a deficit for a Public Company Limited.**

On 27 April 2007, the FAP issued FAP Notification No.8, Re: Accounting guidance for capital reduction by offsetting with deficit for a public company limited.

The guidance had been published by SEC Letter No. SEC.Chor.Sor.(Vor) 4/2548 dated 11 November 2006 and SEC Letter No. SEC.Chor.Sor.(Vor) 3/2549 dated 8 February 2007. Please see PwC newsletter issue no. 9 and issue no.10 for your recapitulation.

The major change in this FAP notification related to the offsetting of share premium and discount, whereby offsetting among share premiums from different share types is now permitted.

*Link: <http://www.fap.or.th/laws/detail.php?id=487&type=034>*

#### **Thai FAP - Postponement of the enforcement of draft Thai Accounting Standard No. 56 “Accounting for Deferred Income Tax”**

The FAP announced the postponement of the effective date of the draft Thai Accounting Standard No. 56 “Deferred Income Tax” which was originally due to take effect for financial statements which the accounting period begin on or after 1 January 2007.

*Link: <http://www.fap.or.th/info/detail.php?sid=472&type=032>*

#### **Thai FAP - Thai Accounting Standards (Revised 2550).**

On 2 May 2007, the Federation of Accounting Professions (FAP) published FAP Notification No.9/2550 re: Revised Thai Accounting Standards, which was endorsed by KOR BOR on 26 April 2007 and published in the Government Gazette on 14 May 2007.

The following are the Thai Accounting Standards (TAS) (Revised 2550) which are effective for the financial statements that the accounting period beginning on or after 1 January 2007 onward, (early adoption is allowed):

- TAS 44: Consolidated and Separate Financial Statements
- TAS 45: Investments in Associates
- TAS 46: Interests in Joint Ventures

The key changes to the above TAS are as follows:

1. Exemption from consolidating subsidiaries and taking equity of associates if and only if:
  - The parent is a wholly owned subsidiary or partially owned subsidiary of another entity and its other owner has been informed about and does not object to the parent not preparing consolidated financial statements or not applying the equity method.
  - Debts or equity instruments are not traded in a public market.
  - Not in the process of IPO
  - The ultimate parent produces consolidated financial statements for public use.
2. Separate Financial Statements should be prepared using the cost method.
3. The entity is required to consider the existence and effect of potential voting rights currently exercisable/convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee.
4. Uniform accounting policy is required.
5. Consolidation of subsidiary/equity method not required when there is evidence of temporary control or that the subsidiary was acquired and is held with a view to disposal,
6. The fact that an entity is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the investor is not a reason to exclude it from consolidation/applying the equity method.

The following are the TAS (Revised 2550) which will be effective for the financial statements that the accounting period beginning on or after 1 January 2008 onward:

- TAS 25: Cash Flow Statements
- TAS 33: Borrowing Costs
- TAS 49: Construction Contracts



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The key changes to the above TAS are as follows:

### TAS 25 Cash Flows Statements

1. Deletion of the paragraphs regarding the presentation of cash flow relating to extraordinary items (paragraphs 30 and 31 of TAS 25 old version).

### TAS 33 Borrowing Costs

1. Deletion of the explanatory paragraph which states that a company with borrowings in a foreign currency can capitalise the related exchange difference as a cost of the assets to an extent not exceeding the interest that the borrower would have to pay if the borrowings were in Thai Baht (paragraph 18 in TAS 33 old version).

This, however, does not mean that the company cannot capitalise the exchange difference relating to the interest costs.

2. Deletion of specific paragraph which states that a company which has borrowings for the development of land to construct a building has to capitalise the borrowing cost as a cost of the building (paragraph 22 in TAS 33 old version).

### TAS 49 Construction Contracts

1. Wording change only

### **Thai FAP - Guidance issued by FAP regarding accounting for investment in subsidiaries and associates in the Company separate financial statements**

The FAP has posted guidance for accounting relating to investment in subsidiaries and associates on its website. The guidance contains the same matters as those distributed in a seminar organized by the Listed Companies Association, the FAP and Securities Analysis Associations on 20 February 2007.

The key guidelines are as follows:

1. Clarification that a company which has investments in associates and/or joint ventures but not in subsidiaries is required to prepare separate financial statements (cost method)
2. Retrospective adjustment is required for a change in accounting policy from the equity method to the cost method. The company is allowed to use the carrying amount as the cost only if the retrospective adjustment would result in the company contravening the law, regulations or agreements.

3. If the company has to use the carrying amount as the cost, the amount of dividend received in excess of the profit generated after the accounting change should be deducted from the cost of investment.

4. It is not necessary to amortise goodwill that is included in the investment, but impairment of investment must be reviewed in accordance with TAS 36 "Impairment of Assets"

5. Goodwill amortisation needs to comply with TAS 43 not IFRS 3.

6. If the preparer choose to apply the fair value method for investment presented in separate financial statements, it is allowed when the FAP issues the standard "Financial Instruments: Recognition and Measurement"

[Link: http://www.fap.or.th/laws/detail.php?id=477&type=034](http://www.fap.or.th/laws/detail.php?id=477&type=034)

### **Thai FAP – FAP Notification No.21/2550 re: non-mandatory accounting standards for non public company limited.**

On 20 July 2007, FAP published Notification No.21/2550 re: non-mandatory accounting standards for non public company limited on its website. This FAP notification is in the process of being published in the Government Gazette for enforcement under the Accounting Professions Act B.E.2547.

It is added a non-mandatory accounting standard for non public company limited, which is TAS 46 - interests in Joint Ventures. Therefore, a total of eight TASs are exempted for a non-public limited company. However, financial institutions are still exempted only from TAS 24 and 47.

A summary of the eight TASs is as follows:

1. TAS 24 – Segment Reporting
2. TAS 25 (Revised 2550) – Cash Flow Statements
3. TAS 36 – Impairment of assets
4. TAS 44 (Revised 2550) – Consolidated and Separate Financial Statements
5. TAS 45 (Revised 2550) – Investments in Associates.
6. TAS 46 (Revised 2550) – Interests in Joint Ventures.
7. TAS 47 (Revised 2550) – Related Party Disclosures.
8. TAS 48 – Financial Instruments: Disclosure and Presentation.

[Link : http://www.fap.or.th/laws/detail.php?id=520&type=034](http://www.fap.or.th/laws/detail.php?id=520&type=034)



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### Thai FAP – 28 drafts Thai Accounting Standards are published for public hearing

At present, the FAP has posted 28 draft Thai Accounting Standards for public hearing on its website. The drafts reflect improvements of existing Thai GAAP and issue of new standards in line with IFRS. There is no specific effective date for these draft standards. The 28 standards are listed below:

Standards no.	Description
	Framework for the Preparation and Presentation of Financial Statements
TAS 29	Leases
TAS 30	The Effects of Changes in Foreign Exchange Rates
TAS 31	Inventories
TAS 32	Property, Plant and Equipment
TAS 35	Presentation of Financial Statements
TAS 36	Impairment of Assets
TAS 37	Revenue
TAS 38	Earnings Per Share
TAS 39	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 41	Interim Financial Reporting
TAS 47	Related Party Disclosures
TAS 48	Financial Instruments : Presentation
TAS 50	Segment Reporting
TAS 51	Intangible Assets
TAS 55	Accounting for Government Grants and Disclosure of Government Assistance
TAS 56	Income Taxes
TAS 57	Agriculture
IAS 19	Employee Benefits
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 39	Financial Instruments : Recognition and Measurement
IAS 40	Investment Properties
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sales and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments : Disclosures

### Stock Exchange of Thailand – Thai SET

#### Thai SET - SET rules to change the Form Illustrating Summary Results of Business Operations.

The Stock Exchange of Thailand revised the Form Illustrating Summary Results of Business Operations of Listed Companies which came to effect on from 17 April 2007. This is caused by the changing of the accounting treatment for investment in Subsidiaries, Associates or Joint Ventures by FAP.

[Link: http://www.set.or.th/th/regulations/rules/disclosure\\_files\\_n/BorJorPor0101\\_TH.pdf](http://www.set.or.th/th/regulations/rules/disclosure_files_n/BorJorPor0101_TH.pdf)

#### Thai SET – Policy revision for the delisting of listed companies in case of submission of the revised financial statements after the deadline.

On 25 April 2007, the SET circulated SET letter No. Bor.Jor.(Wor.) 16/2007 regarding the revision of the delisting policy for listed companies that submit their revised financial statements after the deadline regulated by Thai SEC which become effective on 2 May 2007. This policy forms a part of the SET's delisting policy which came into effect in 1998.

[Link: http://www.set.or.th/en/regulations/circulated\\_memo/circulate2007\\_1\\_files/bj16\\_50.pdf](http://www.set.or.th/en/regulations/circulated_memo/circulate2007_1_files/bj16_50.pdf)



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### **Department of Business Development – DBD**

#### **DBD Format of the Financial Statements of the holding company of financial institutions.**

On 25 December 2006 the Department of Business Development under the Ministry of Commerce issued a notification regarding “Format of financial statements”. This notification requires a holding company which has obtained a license from the Bank of Thailand (BOT) to be a parent company of the group company of financial business to prepare financial statements under the BOT’s regulations. This additional requirement is for financial statements for the year ended 31 December 2006 or after.

*Link: [http://www.dbd.go.th/thai/law/pdf/Financial\(2\).pdf](http://www.dbd.go.th/thai/law/pdf/Financial(2).pdf)*

#### **DBD Clarification in respect of dividend payments under the Public Company Act B.E. 2535**

The clarification is in respect of a dividend payment whereby a company has to pay a dividend based on the profit for the year presented in a separate financial statement. In addition, at the time of the shareholder meeting approving a dividend payment, the company must not have a deficit balance.

*Link: <http://www.fap.or.th/download/news/DBD-dividend-2535.pdf> or [http://www.dbd.go.th/thai/law/pdf/pay\\_dividend.pdf](http://www.dbd.go.th/thai/law/pdf/pay_dividend.pdf)*

### **Sarbanes Oxley – SOX**

#### **Summary of Japanese SOX**

J-SOX is an unofficial term which refers to the section in the legislative draft entitled “Financial Instruments and Exchange Law” which has similar requirements to the Sarbanes-Oxley Act Sections 302 (Corporate responsibility to financial report) and 404 (Management assessment of internal Control). The draft was submitted to the Japanese Diet on March 13, 2006 and it was passed on June 7, 2006 and issued on June 14, 2006. It is expected that all listed companies and their subsidiaries will be subjected to this legislation.

Major differences from US-SOX include:

- External auditor is not required to issue an opinion on the effectiveness of internal control over financial reporting. The auditor is only required to issue an opinion on management’s evaluation of the effectiveness of internal controls over financial reporting (indirect report).
- Other non-financial information such as “status of shareholders” in the Securities Report is also included in the scope of evaluation.



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### **International Financial Reporting Standards – IFRS**

#### **IFRS - The implication of revised IAS 23, Borrowing Costs**

The International Accounting Standard Board (IASB) published amendments to IAS 23, Borrowing Costs, in March 2007. The revised IAS 23 (IAS 23R) requires capitalisation of borrowing costs, which is the same accounting treatment as under US GAAP. The effective date of IAS 23R is 1 January 2009, with earlier adoption encouraged. The amendments are to be applied prospectively; comparatives will not need to be restated.

The current version of IAS 23 provides management with a policy choice, which is the same accounting treatment as under Thai Accounting Standard No.33 (TAS 33). Management can opt to capitalise borrowing costs relating to qualifying assets or expense the borrowing costs. However, IAS 23R removes this option and requires management to capitalise borrowing costs attributable to qualifying assets; therefore, the current TAS 33 differs from IAS 23R. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. An example is self-constructed assets such as buildings, machinery and internally developed software (intangible assets). The changes to IAS 23R were made as part of the IASB and FASB's short-term convergence project. The elimination of the option to expense borrowing costs does not achieve full convergence with US GAAP, as some technical differences remain.

IAS 23R applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009; however, IASB has provided additional relief by allowing management to designate a particular date on which it can start applying the amendments. For example, management can decide to designate 1 October 2008 as a starting date, because the company starts a project for which management would like to capitalise interest when it applies IAS 23R in 2009.

#### **The following are key implications to adopt IAS 23R.**

- Management no longer has an option to expense borrowing costs on qualifying assets. The impact of this change depends on the current policy for borrowing costs. Companies already capitalising borrowing costs will not have much difficulty applying the change. However, they need to be aware of a change that was made to the scope of IAS 23R.
- IAS 23R only applies to qualifying assets measured at cost. Qualifying assets measured at fair value are outside the scope.
- Inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis, are outside the scope.
- Companies that expense borrowing costs under their current accounting policy must identify their qualifying assets. Production companies often construct their own assets for use in the production process. Telecom companies often construct their own network. Qualifying assets can also appear in less obvious industries - for example, a retail company might build or redevelop its own stores. Other examples of qualifying assets are product development costs and implementation of new IT systems.

The capitalisation of borrowing costs on qualifying assets sometimes lead to practical questions, such as - what are the qualifying assets? Over which period must management capitalise the borrowing costs? What general borrowings must be included in the determination of the capitalisation rate? This will be more complicated in group situations when different subsidiaries have qualifying assets and different borrowings (specific and general) at different rates. The standard recognises the difficulty and states that management must exercise judgment.



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### IFRS - The practical guidance to IAS 36, Impairment of Assets

Accounting for impairments is not straight-forward. There are many complexities, including detailed requirements about identifying the assets to be tested, the frequency of testing, measuring the impairment and making the required disclosures. Impairments not only occur to goodwill; they can affect the carrying value of other intangible and tangible fixed assets. The requirements regarding the testing for impairment of goodwill and other assets differ. This adds to the difficulty in applying the strict requirements of IAS 36, Impairment of Assets.

The practical guidance is divided into identifying the cash-generating units (CGUs), allocating central assets and goodwill to CGUs and implications when making a decision to dispose of an asset.

#### Identifying cash generating units (CGU)

1. What are the common factors of independence of cash flows in a CGU?

*There are various factors, including how management monitors the entity's operations - for example by product lines, businesses, individual locations, districts or regional areas - and how management makes decisions about continuing or disposing of the entity's assets and operations.*

Typical CGUs are:

- *individual retail stores;*
  - *an individual factory with a single production line where there is no external market for the product at an intermediate stage; and*
  - *each route service that a transport business provides where the assets deployed to each route as well as the route's cash flows can be separately identified.*
2. Should management consider the legal structure of the operations in identifying a CGU?  
  
*Management's analysis may not reflect the legal structure through which the operations are conducted. Identification of CGUs is driven by the asset and the business and requires judgment.*
  3. Where some or all output produced by an asset or by a group of assets is used internally, is that asset or group of assets identified as a CGU?

*If there is an active external market for such output, that asset or group of assets is identified as a CGU. This is particularly relevant for vertically integrated operations where there is likely to be an active market for the product.*

#### Allocating corporate assets and goodwill to CGUs

4. What must management do if a corporate asset cannot be allocated on a reasonable and consistent basis to a CGU?

*A two-stage test is required:*

- *Test the CGU without the corporate asset for impairment and book any charge arising; then*
- *Test the smallest grouping of CGUs to which the corporate asset can be allocated on a reasonable and consistent basis, and record any charge arising.*

5. In what circumstances can management change the allocation of goodwill to CGUs for impairment testing?

*A reallocation of goodwill is only permitted if there is a reorganisation or a restructuring of the business*

6. The standard states that goodwill must be allocated to the lowest level at which the goodwill is monitored for internal management purposes. What does this mean?

*The level at which management monitors goodwill for internal management purposes is the lowest level at which it reviews the success of an acquisition, by capturing and monitoring the benefits of the goodwill. For example, if a subsidiary makes an acquisition, despite the fact that goodwill will only appear on a consolidated balance sheet level, it is the management team that is held accountable for acquisitions that would monitor goodwill.*

*The requirement to allocate goodwill should not cause companies to allocate goodwill arbitrarily to CGUs or create a need for new systems for monitoring goodwill. However, the level of allocation cannot be higher than the primary or secondary segment level, even if management monitors it at a higher level.*



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7. Does the adoption of IFRS 8, Operating Segments, have any impact on the goodwill reallocation?

*The adoption of IFRS 8 is a trigger for reallocation of goodwill where there is a change in the entity's segments. IAS 36 states that the level of allocation cannot be higher than a segment level.*

8. A company allocates all goodwill on previous acquisitions to acquired CGUs in line with Thai GAAP. Does the requirement to allocate goodwill to CGUs that are expected to benefit from the combination mean that the company will have to reallocate goodwill?

*A reallocation of goodwill to the CGUs expected to benefit may be appropriate. The transition rules in IFRS 1, First-time Adoption of International Financial Reporting Standards, that freeze the carrying amount of goodwill do not preclude an entity from reallocating the goodwill brought forward.*

### Decision to dispose of an asset

9. What are the implications for impairment testing when management decides to dispose of an asset?

*The decision to dispose of a non-current asset or group of assets means that the carrying amount of the asset(s) is expected to be recovered principally through a sale transaction rather than continuing use, i.e. management decides to dispose of an asset or a business before it meets the held-for-sale criteria. The decision to dispose of an asset is an indicator of impairment; an impairment test is therefore required before the requirements of IFRS 5 are applied.*

**Quarterly Financial Reporting Update** is an accounting alert that is produced by the Professional Standards Group of PricewaterhouseCoopers (PwC) -Thailand to apprise PwC clients and other friends of emerging business and technical issues. Throughout this **Quarterly Financial Reporting Update**, there are references to several websites useful for further research. We also recommend the CFO direct Network's website (<http://www.cfodirect.com>) and the PwC global corporate reporting website (<http://www.pwc.com/ifrs>) for further consultation and information on publications and useful tools, such as 'Comperio IFRS' and 'Applying IFRS' - real life solutions. (<http://www.pwc.com/applyingifrs>) Information on PwC Thailand can be found at (<http://www.pwc.com/th>). PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) is the world's largest professional services organization. Drawing on the knowledge and skills of more than 125,000 people in 142 countries, we build relationships by providing services based on quality and integrity.

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