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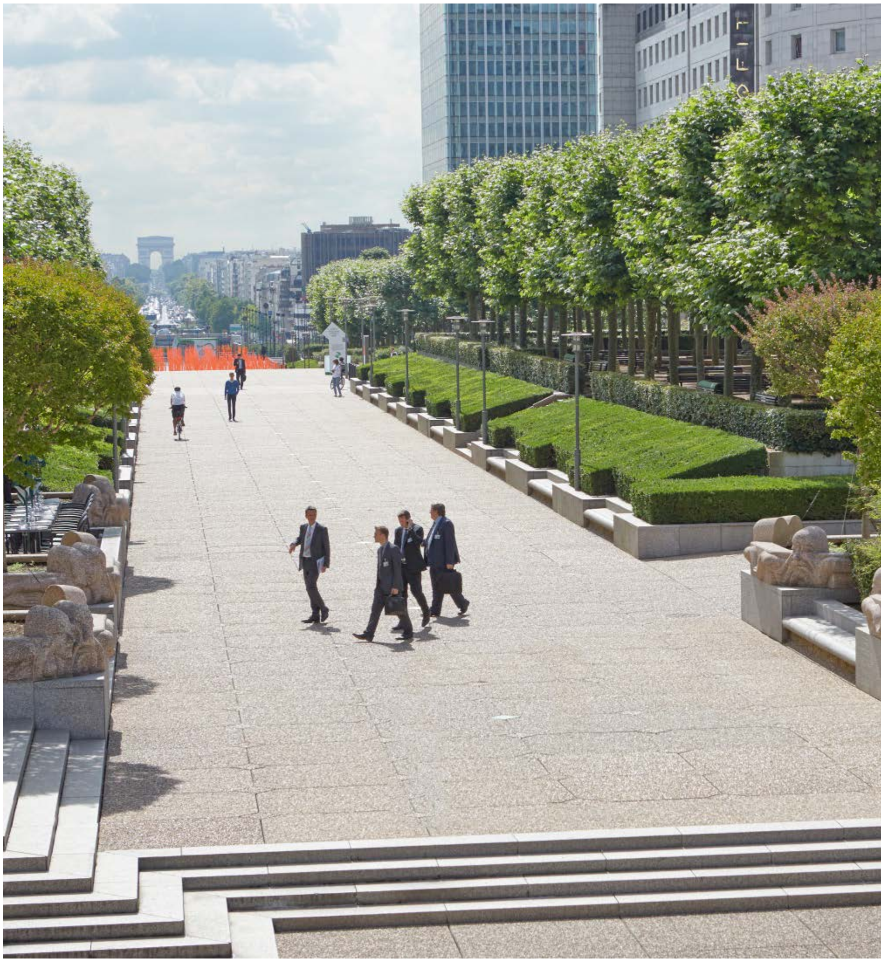
PwC Alert

Malaysian Private Entities Reporting Standards (MPERS)

A new reporting framework for Private Entities



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The Malaysian Accounting Standards Board launched the Malaysian Private Entities Reporting Standards ("MPERS") on 27 October 2015. The MPERS is a new financial reporting framework for private entities in Malaysia.

In this article, we give an overview of the MPERS, highlight some key differences with the Malaysian Financial Reporting Standards ("MFRS") and the Private Entities Reporting Standards ("PERS"); and analyse the key principles upon first-time adoption of the MPERS.

MPERS – at a glance

What is MPERS?

The Malaysian Private Entities Reporting Standards ("MPERS") is the new financial reporting framework for private entities issued by the Malaysian Accounting Standards Board ("MASB"). It replaces the current Private Entities Reporting Standards ("PERS") framework. MPERS is a self-contained standard with 35 sections covering all relevant areas for financial reporting by private entities.

Who should apply MPERS?

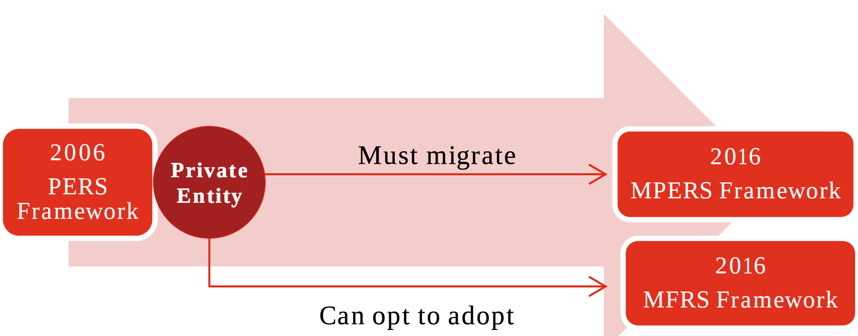
The MPERS is only applicable to private entities. A private entity is a private company, incorporated under the Companies Act 1965, that:

- is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.

A private entity could also opt to adopt the MFRS framework. All private entities which adopt either the MPERS framework or the MFRS framework, must adopt the framework in its entirety.

When is MPERS effective?

The MPERS is effective for financial statements with annual periods beginning on or after 1 January 2016. Early application is permitted.



How different is MPERS compared to IFRS for Small and Medium-Sized Entities?

The MPERS is based on the International Financial Reporting Standards for Small and Medium-Sized Entities (“IFRS for SMEs”) issued by the International Accounting Standards Board (“IASB”) in July 2009. However, there are differences made by the MASB as highlighted in Panel 1.

Panel 1: Differences between MPERS and IFRS for SMEs

	MPERS	IFRS for SMEs
1) Scope	Applicable to Private Entities	Applicable to SMEs without public accountability
2) Exemption from consolidation	Ultimate Malaysian parent is required to prepare consolidated financial statements, regardless of whether its ultimate parent (not incorporated in Malaysia) prepares consolidated financial statements.	A parent entity is exempted from presenting consolidated financial statements if it is a subsidiary and its ultimate parent produces consolidated financial statements that comply with full IFRS or IFRS for SMEs.
3) Revenue from property development activities	Guidance is based on the Malaysian-specific requirements in MASB 32 “Property Development Activities”.	Guidance is based on IFRIC 15 “Agreements for the Construction of Real Estates”.
4) Income tax	Accounting for income taxes are consistent with the requirements of MFRS 112 “Income Taxes”.	The requirements are based on the IASB’s 2009 Exposure Draft on income taxes.

The 2015 amendments to the IFRS for SMEs

When the IFRS for SMEs was issued in 2009, the IASB stated that it planned to undertake an initial comprehensive review of the standard after two years of use by SMEs. Specifically, the IASB said it would consider whether to amend the IFRS for SMEs to address any implementation issues identified and also to consider any changes made to International Financial Reporting Standards (“IFRS”) since the IFRS for SMEs was issued.

On 21 May 2015 the IASB issued limited amendments to the IFRS for SMEs. Most of the amendments clarified existing requirements or add supporting guidance, instead of changing the underlying requirements in the IFRS for SMEs. The most significant changes, which relate to transactions commonly encountered by SMEs, are:

- permitting SMEs to revalue property, plant and equipment; and
- aligning the main recognition and measurement requirements for income taxes with IFRS.

The 2015 Amendments to the MPERS

On 28 October 2015, the MASB published the Amendments to the MPERS (“2015 Amendments”). The 2015 Amendments are consistent with the 2015 Amendments to the IFRS for SMEs published by the IASB. With this amendments, the accounting requirements for income taxes in the MPERS are now aligned with the IFRS for SMEs.

There were 63 amendments made and the key amendments are summarised in the table included in Appendix 1 (refer to Page 21) .

The 2015 Amendments is effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Comparing MPERS with MFRS

The MFRS, applied by non private entities except for transitioning entities, is fully converged with the IFRS issued by the IASB.

The MFRS and MPERS were developed based on the same framework. The principles were derived from the IASB's Framework for the Preparation and Presentation of Financial Statements except that the MPERS is a simplified version of the MFRS. MPERS attempts to meet the users' needs while balancing the costs and benefits to preparers.

Comparing MPERS with MFRS

The Panel 2 below provides an overview of some key differences between the requirements in the MPERS and MFRS.

Panel 2: Differences between MPERS and MFRS

Control of subsidiaries	• Different concept for "control". In MPERS, control over an investee means the investor has "the power to govern the financial and operating policies of the investee so as to obtain benefits from its activities" while in MFRS, control must be demonstrated through 3 elements: power, exposure to variable returns and an investor's ability to use its power to affect its variable returns.
Goodwill	• In MPERS, after initial recognition, goodwill is subsequently measured at cost less accumulated amortisation and any accumulated impairment losses. Goodwill is amortised over its useful life, or a maximum of 10 years if its useful life cannot be reliably estimated. In MFRS, goodwill has an indefinite life, hence, it is not amortised. However it is subject to annual impairment testing.
Investments in associates/ joint ventures	• MPERS permits 3 different measurement models – equity method, cost model and fair value model while MFRS requires these investments to be accounted for using the equity method.
Financial instruments	• MFRS has 4 measurement models for financial assets as compared to MPERS which has only 2. The available-for-sale and held-to-maturity classifications in MFRS are not available in MPERS. • MPERS establishes a simpler principle for de-recognition of assets compared to MFRS 139 "Financial Instruments: Recognition and Measurement", both are based on a "risks and rewards" analysis.
Investment property	• MFRS allows accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model. In MPERS, entity must use the fair value model unless fair value could not be measured reliably without undue cost or effort.
Borrowing costs	• MPERS requires all borrowing costs to be recognised as an expense in profit or loss while MFRS requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of asset.
Intangible assets other than goodwill	• MPERS requires all research and development costs to be recognised as expenses while development costs are capitalised as an assets if criteria are met under MFRS. • MPERS considers all intangible assets to have a finite useful life and therefore, must be amortised over the useful life. It does not allowed the use of revaluation model for measuring intangible assets after initial recognition.
Recycling of foreign currency reserve	• On disposal of a foreign operation, MPERS does not allow the cumulative exchange differences that relate to the foreign operation to be reclassified from equity to profit or loss.

Comparing MPERS with PERS

The PERS issued by the MASB were based on accounting standards issued by the International Accounting Standards Committee up to 2003. No new PERS was issued subsequent to 1 January 2006.

Presentation of statement of comprehensive income

The MPERS introduces statement of comprehensive income that presents all items of income and expense recognised in a period, comprising:

- items recognised as profit or loss and
- items of other comprehensive income ("OCI")

Under MPERS, these items form part of OCI:

- gains and losses arising on translating the financial statements of a foreign operations;
- actuarial gains and losses;
- changes in fair values of hedging instruments; and
- changes in revaluation surplus for property, plant and equipment (2015 Amendments).

Under the 2015 Amendments, OCI are now grouped into 2 categories, namely:

- items that will not be reclassified to profit or loss and
- items that may be subsequently reclassified to profit or loss.

The statement of comprehensive income can be presented using a single-statement approach or a two-statement approach. See illustrations 1 and 2.

Illustration 1: Single-statement of comprehensive income

Statement of Comprehensive Income for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Revenue	183,052	192,632
Cost of sales	(158,688)	(169,144)
Selling and distribution expenses	(1,877)	(2,343)
Administrative expenses	(3,645)	(3,237)
Finance cost	(420)	(630)
Profit before tax	**18,422**	**17,278**
Income tax expense	(4,605)	(4,319)
Profit for the year	**13,817**	**12,959**
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Exchange differences on translating foreign operations, net of tax	10,200	(2,360)
Actuarial gains on defined benefit pension obligations, net of tax	450	349
Changes in revaluation surplus for property, plant and equipment	(150)	200
Items that may be subsequently reclassified to profit or loss:		
Change in the fair value of hedging instruments, net of tax	729	(534)
Other comprehensive income/(expense) for the year, net of tax	**11,229**	**(2,345)**
Total comprehensive income for the year	**25,046**	**10,614**

Illustration 2: Two-statement of comprehensive income

Income Statement for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Revenue	183,052	192,632
Cost of sales	(158,688)	(169,144)
Selling and distribution expenses	(1,877)	(2,343)
Administrative expenses	(3,645)	(3,237)
Finance cost	(420)	(630)
Profit before tax	**18,422**	**17,278**
Income tax expense	(4,605)	(4,319)
PROFIT FOR THE YEAR	**13,817**	**12,959**

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Items that may be subsequently reclassified to profit or loss:		
Change in the fair value of hedging instruments, net of tax	729	(534)
Other comprehensive income/(expense) for the year, net of tax	**11,229**	**(2,345)**
Total comprehensive income for the year	**25,046**	**10,614**

Presentation of non-controlling interest

Non-controlling interest ("NCI") is no longer treated as an expense in profit or loss or a liability on balance sheet but rather it is now an allocation of resources to equity participants.

Illustration 3:
Presentation of NCI in a single-statement of comprehensive income

Statement of Comprehensive Income for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Revenue	183,052	192,632
Cost of sales	(158,688)	(169,144)
Selling and distribution expenses	(1,877)	(2,343)
Administrative expenses	(3,645)	(3,237)
Finance cost	(420)	(630)
Profit before tax	**18,422**	**17,278**
Income tax expense	(4,605)	(4,319)
Profit for the year	**13,817**	**12,959**
Other comprehensive income:		
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Exchange differences on translating foreign operations, net of tax	10,200	(2,360)
Actuarial gains on defined benefit pension obligations, net of tax	450	349
Changes in revaluation surplus for property, plant and equipment	(150)	200
Items that may be subsequently reclassified to profit or loss:		
Change in the fair value of hedging instruments, net of tax	729	(534)
Other comprehensive income/(expense) for the year, net of tax	**11,229**	**(2,345)**
Total comprehensive income for the year	**25,046**	**10,614**
Profit attributable to:		
Owners of the parent	10,817	10,459
Non-controlling interest	3,000	2,500
	13,817	12,959
Total comprehensive income attributable to:		
Owners of the parent	22,546	8,614
Non-controlling interest	2,500	2,000
	25,046	10,614

Illustration 4:
Presentation of NCI in a two-statement of comprehensive income

Income Statement for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Revenue	183,052	192,632
Cost of sales	(158,688)	(169,144)
Selling and distribution expenses	(1,877)	(2,343)
Administrative expenses	(3,645)	(3,237)
Finance cost	(420)	(630)
Profit before tax	**18,422**	**17,278**
Income tax expense	(4,605)	(4,319)
PROFIT FOR THE YEAR	**13,817**	**12,959**
Profit attributable to:		
Owners of the parent	10,817	10,459
Non-controlling interest	3,000	2,500
	13,817	12,959

Statement of Comprehensive Income for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Profit for the year	**13,817**	**12,959**
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Exchange differences on translating foreign operations, net of tax	10,200	(2,360)
Actuarial gains on defined benefit pension obligations, net of tax	450	349
Changes in revaluation surplus for property, plant and equipment	(150)	200
Items that may be subsequently reclassified to profit or loss:		
Change in the fair value of hedging instruments, net of tax	729	(534)
Other comprehensive income/(expense) for the year, net of tax	**11,229**	**(2,345)**
Total comprehensive income for the year	**25,046**	**10,614**
Total comprehensive income attributable to:		
Owners of the parent	22,546	8,614
Non-controlling interest	2,500	2,000
	25,046	10,614

Comparing MPERS with PERS

Presentation of statement of income and retained earnings

The MPERS allows entity to present a simplified version of statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to the equity arise from the following:

- profit or loss;
- payment of dividends;
- corrections of prior period errors; and
- changes in accounting policy.

Illustration 5: Statement of income and retained earnings

Statement of income and retained earnings for the year ended 31 December 2016

	2016 RM'000	**2015 RM'000**
Revenue	750,000	621,000
Other income	45,000	32,250
Changes in inventories of finished goods and work-in-progress	37,000	22,000
Raw materials and consumables used	(561,000)	(442,000)
Employee benefits expense	(120,000)	(97,000)
Depreciation and amortisation expense	(43,000)	(41,000)
Other expenses	(8,500)	(8,800)
Finance cost	(420)	(630)
Profit before tax	**99,080**	**85,820**
Income tax expense	(24,770)	(21,755)
Profit for the year	**74,310**	**64,065**
Retained earnings at the beginning of the year	**277,065**	**254,000**
- As previously stated	319,315	284,000
- Correction of a prior period error	(42,250)	(30,000)
Profit for the year attributable to the owners of the parents	69,310	61,065
Dividends declared and paid	(47,500)	(38,000)
Retained earnings at the end of the year	**298,875**	**277,065**
Non-controlling interest at the beginning of the year	11,000	10,000
Profit for the year attributable to the non-controlling interest	5,000	3,000
Share of dividends declared and paid	(2,500)	(2,000)
Non-controlling interest at the end of the year	**13,500**	**11,000**

Changes in accounting policies and corrections of errors

- For changes in accounting policies, MPERS requires these changes to be accounted for in accordance with the transitional provisions as specified in the new or amended standards. Other changes shall be accounted for retrospectively. This differs from PERS, which allows adjustments arising from changes in accounting policies to be included in current year's profit or loss without restating comparatives.

- MPERS does not distinguish material and fundamental errors. All errors should be corrected retrospectively. PERS permits correction of a fundamental error to be included in the current year's profit or loss.

Financial instruments

There are no equivalent standards under PERS on recognition and measurement of financial assets and financial liabilities.

Section 11 of MPERS deals with basic financial instruments ("FI") while derivatives and complex financial instruments falls within the scope of Section 12. An accounting policy choice is provided for private entities to either apply the requirements of both Sections 11 and 12 in full, or use the recognition and measurement requirements of MFRS 139 "Financial instruments: Recognition and Measurement" and the disclosure requirements of Section 11 and 12.

Panel 3 summarises the measurement models in MPERS.

Impairment of financial assets

Assessment is done at the end of each reporting period whether there is an objective evidence of impairment for financial assets measured at cost (e.g. equity instrument and loan commitment)/amortised cost (e.g. debt instrument). Impairment loss is recognised immediately to profit or loss.

De-recognition

A financial asset is de-recognisd when:

(a) the contractual rights to the cash flows expire or are settled, or

(b) the entity transfers substantially all of the risks and rewards of ownership of the financial asset to another party, or

(c) despite having retained some significant risks and rewards, the entity has transferred control of the asset to another party.

De-recognition of a financial liability is based on a legal discharge i.e. when it is extinguished, cancelled or expired.

Panel 3: Financial instruments measurement models

	Initial measurement	Subsequent measurement
Debt instruments (financial assets)		
(a) Basic FI	At transaction price unless the arrangement constitutes a financing transaction, in which case, the FI is measured at the present value of the future cash flow discounted at a market rate of interest.	At amortised cost using effective interest method
(b) Other than basic FI	At fair value, normally the transaction price	At fair value with changes in fair value recognised in profit or loss.
Equity instruments (financial assets)	At fair value, normally the transaction price	At fair value if fair value can be measured reliably without undue cost or effort with changes in fair value recognised in profit or loss, otherwise the assets are measured at cost less impairment.
Hedging instruments	At fair value, normally the transaction price	At fair value with changes in fair value recognised in other comprehensive income.

Hedge accounting

The criteria for hedge accounting are similar to those in MFRS 139. However, MPERS limits the application of hedge accounting to:

(a) interest rate risk of debt instruments measured at amortised cost,

(b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction,

(c) price risk of a commodity or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity, and

(d) foreign exchange risk in a net investment in a foreign operation.

Leases

- PERS dictated that a lease is classified as a finance lease when (a) the lease term is for 75% or more of the economic life of the asset or (b) the present value of the minimum lease payments amounts to at least 90% of the fair value of the asset. No more bright-line threshold for lease classification under MPERS.
- PERS specifically requires a leasehold land in Malaysia to be treated as property, plant and equipment. There is no equivalent requirement in MPERS.
- Straight-line recognition for operating lease expense is not required in MPERS if the lease payments are structured to compensate the lessor for general inflation.
- Certain outsourcing arrangements that do not take the legal form of a lease but convey rights to use assets in return for payments, shall be accounted for as leases in MPERS.

Functional Currency

- Similar to MFRS, MPERS uses functional currency to measure all components of the financial statements as opposed to the reporting currency approach adopted in PERS.
- The functional currency is the currency of the primary economic environment in which the entity operates. It is not necessarily the Ringgit, which is the reporting currency for all entities incorporated in Malaysia.
- Unlike PERS, MPERS does not permit foreign exchange difference to be capitalised as part of an asset's cost.
- There is only one classification of foreign operations under MPERS and the closing rate translation method is used.
- MPERS does not allow unsettled monetary items to be translated using the forward rate. This must be translated at the closing rate at the end of the reporting period.

Revenue

- The new MFRS 15 "Revenue from Contracts with Customers" principle was not incorporated in MPERS.
- The revenue recognition principle in MPERS is consistent with the risk and reward concept in MFRS 118 "Revenue".
- MPERS has also incorporated the principle in IC 13 "Customer Loyalty Programmes" which requires entity to allocate fair value of consideration received between the award credits and other components of the sale when an entity operates a loyalty award scheme.

Income Taxes

- MPERS has no specific guidance on Reinvestment Allowance ("RIA") while PERS prohibits the recognition of RIA or other similar allowance as deferred tax assets.

Comparing MPERS with PERS

Intangible assets

- All research and development costs are recognised as expenses under MPERS.
- All intangible assets are considered to have a finite useful life. If the useful life of an intangible asset cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed 10 years.

Property, plant and equipment

- MPERS (before the 2015 Amendments) requires property, plant and equipment to be measured at cost less accumulated depreciation and accumulated impairment. The 2015 Amendments allows entity to revalue property, plant and equipment.

Investment property

- Under MPERS, investment property must be measured at fair value with changes in fair value recognised in profit or loss when fair value can be measured reliably without undue cost or effort. Otherwise, investment property is measured at cost less accumulated depreciation and impairment.
- MPERS permits property interest held by a lessee under an operating lease to be classified and accounted for as investment property if the property meets the definition of an investment property and fair value of the property interest can be measured reliably without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis while no such option is permitted in PERS.

Inventories

- The allowed alternative of last-in, first out (LIFO) cost formula under PERS is not allowed under MPERS.
- PERS provides for exempt entities not to comply with certain disclosure requirements of the standard, but there is no such exemption in MPERS.

Consolidated financial statements

- The definition of control in MPERS is consistent with the definition in PERS.
- MPERS requires entity to consolidate a special purpose entity ("SPE") if the substance of the relationship indicates that the SPE is controlled by the entity.
- The MPERS exemption criteria from presenting consolidated financial statements are different from PERS.
- A subsidiary acquired with the intention of sale within 1 year from acquisition date is excluded from consolidation and the investment is measured at fair value with changes in fair value recognised in profit or loss.
- Recycling of foreign exchange reserve to profit or loss is not permitted under MPERS upon disposal of a foreign subsidiary.

Non-controlling interest

- NCI is an equity component in consolidated financial statements prepared in accordance with MPERS. Accordingly, the effects (gains or losses) arising from transaction with NCI on subsidiary's shares are recognised in equity but not profit or loss.
- Profits or losses in subsidiary are allocated to the parent and to the NCI proportionately, even if this results in NCI having a negative balance.

Goodwill

- Goodwill acquired in a business combination is subsequently measured at cost less accumulated amortisation and accumulated impairment.
- The useful life of goodwill shall be determined based on management's best estimate. If an entity cannot reliably estimate the useful life of goodwill, the life shall not exceed 10 years.
- If the acquirer's interest in net fair value of identifiable assets, liabilities and provisions for contingent liabilities recognised exceeds the cost of the business combination, the negative goodwill is recognised immediately to profit or loss.

Specialised activities

Agriculture

- Biological assets must be measured at fair value less cost to sell if fair value is readily determinable without undue cost or effort with changes in fair value recognised in profit or loss. Otherwise, biological assets are measured at cost less accumulated depreciation and accumulated impairment.

Property development activities

- MPERS retains the requirements in MASB 32 "Property Development Activities", except for borrowing costs. MPERS requires all borrowing costs incurred to be recognised as an expense in profit or loss.

Comparing MPERS with PERS

Share-based payments

- There is no equivalent PERS on accounting of share-based payment transactions. GAAPs in practice do not recognise shares or share options of employee benefit plans.
- The scope in MPERS is similar to that of MFRS 2 “Share-based Payments” where it covers: (a) equity-settled share-based payment transactions, (b) cash-settled share-based payment transactions, and (c) transactions with a choice of settlement in cash or by issuing equity instruments.
- When employee of an entity is rewarded with shares of the parent entity, the entity is required to recognise an expense in profit or loss, with the corresponding credit recognised in equity as an equity-settled share-based payment transaction.

Borrowing costs

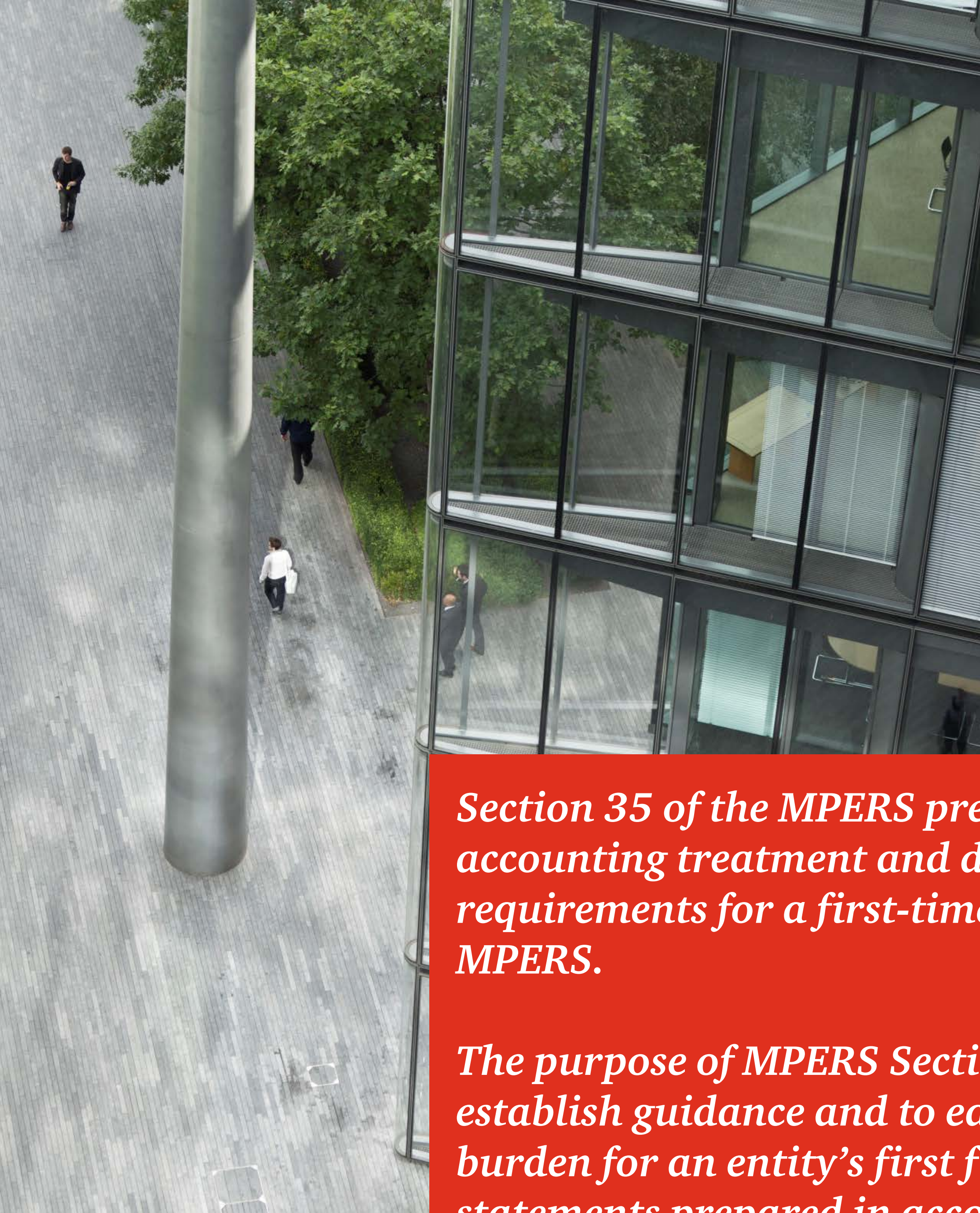
- MPERS requires all borrowing costs to be recognised as an expense in profit or loss while under PERS, it is an accounting policy choice to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset.

Dividends from investments in subsidiaries, jointly controlled entities or associates

- MPERS removes the requirement to deduct distributions received that arise from pre-acquisition profits from the cost of the investment.
- Instead, an investor will be required to recognise the dividends as income in profit or loss when its right to receive the dividend is established. The receipt of these dividends may give rise to a requirement to assess whether the underlying investment is impaired.

Extraordinary items and new disclosures

- MPERS disallows the presentation and description of extraordinary items in the statement of comprehensive income or in the notes. PERS on the other hand, requires presentation of extraordinary items in the profit or loss though it can arise only in extremely rare occasions.
- MPERS requires disclosures on accounting judgements and key sources of estimation uncertainties. There is no equivalent requirement in PERS.
- MPERS also requires disclosures to be made on related party transactions and balances.



Section 35 of the MPERS prescribes the accounting treatment and disclosure requirements for a first-time adopter of MPERS.

The purpose of MPERS Section 35 is to establish guidance and to ease the reporting burden for an entity's first financial statements prepared in accordance with the MPERS. Without the exceptions and exemptions in the MPERS, an entity would be required to apply all the requirements in the MPERS retrospectively.

First-time adoption of MPERS

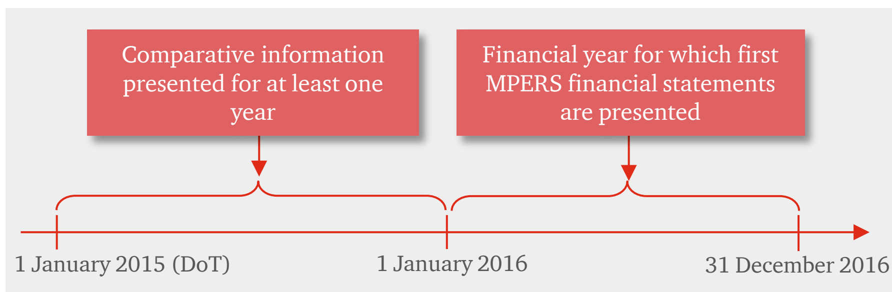
4 steps in applying MPERS Section 35

1 Entity is a first-time adopter?

- A first-time adopter is an entity that presents its first annual financial statements that conform to the MPERS, regardless of whether its previous accounting framework was full IFRSs, MFRS, FRS or PERS or whether it ever prepared general purpose financial statements at all in the past.

2 Determine the date of transition "DoT"

- Date of transition is the beginning of the earliest period for which an entity presents full comparative information under MPERS in its first MPERS financial statements.



- For entities with 31 December year-end, the first set of MPERS financial statements is effective for financial year beginning 1 January 2016. The DoT is therefore 1 January 2015 for these financial statements.

3 Prepare an opening statement of financial position as at DoT

- The opening statement of financial position at the DoT is the starting point for the entity's first set of MPERS financial statements.
- The general principles underlying MPERS Section 35 is that a first-time adopter should apply retrospectively all the requirements in MPERS that are effective at the end of its first MPERS reporting period. To facilitate transition, MPERS Section 35 provides optional exemptions and mandatory exceptions to the requirement for retrospective application.

4 Prepare MPERS compliant financial statements

- Entity is required to make an explicit and unreserved statement of compliance with the MPERS in its financial statements. Entity is also required to explain the effect of the transition from the previous financial reporting framework to the MPERS in its first set of MPERS financial statements.

Mandatory exceptions

There are 6 mandatory exceptions in MPERS which prohibit retrospective application of MPERS in the following transactions:

(i) De-recognition of financial assets and liabilities;

(ii) Hedge accounting;

(iii) Use of hindsight in accounting estimates;

(iv) Discontinued operations;

(v) Measurement of non-controlling interest;

(vi) Government loans at below market interest rates (2015 Amendments).

Optional exemptions

- To facilitate the transitioning to MPERS, MPERS 35.10 allows a first-time adopter to apply any, all or none of the 12 exemptions from full retrospective application of MPERS. The 2015 Amendments has further added another 2 exemptions.
- The 14 optional exemptions are summarised in Panel 4.
- When a first-time adopter chooses to apply (or not to apply) a specific exemption, it must then apply (or not) the specific exemption for all similar transactions, other events or conditions to ensure consistency of accounting policies.
- The application of 2 of the optional exemptions has been illustrated in illustrations 6 and 7 on pages 18 and 19.

Panel 4: The 14 optional exemptions in Section 35

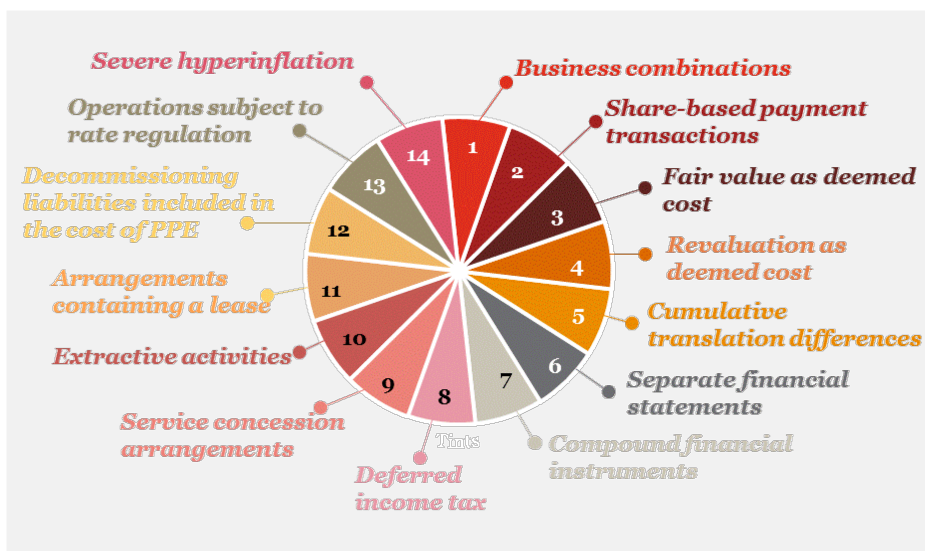


Illustration 6: Deemed cost exemption for property, plant and equipment, investment property or intangible asset

Entities may elect to measure an item of property, plant and equipment, investment property or intangible asset on the DoT:

(i) At its fair value on DoT and use that as the deemed cost;
(ii) At a previous GAAP revaluation on or before DoT as deemed cost at the date of revaluation.

1 Jan 1993 → *Company ABC acquired a building for RM200,000. Estimated useful life is 50 years, hence depreciation per year = RM4,000*

1 Jan 1998 → *Company ABC adopted a 5-year revaluation policy and revalued the building to RM400,000, resulting a revaluation surplus of RM220,000. Depreciation per year now = RM8,889, with no change in estimated useful life*

31 Dec 2014 → *Carrying amount of the building in PERS financial statements: RM248,889 (Company ABC had applied the MASB's IAS 16 transitional provision and had used the revalued amount as deemed cost as at 1 Jan 2001)*

1 Jan 2015 → *Fair value of the building at the DoT is RM500,000*

	(1)	(2)	(3)
	Fair value on DoT as deemed cost	Revalued amount at previous revaluation as deemed cost	Company does not apply the deemed cost exemption
Cost/deemed cost	500,000	400,000	200,000
Accumulated depreciation	Nil	151,111 (8,889 x 17 years)	88,000 (4,000 x 22 years)
Carrying amount of building on DoT	500,000	248,889	112,000
Adjustment to carrying amount	+251,111	No impact	-136,889

Illustration 7: Investments in subsidiaries, associates and jointly controlled entities in separate financial statements

If an entity elects the cost less impairment model as its accounting policy for investments in subsidiaries, associates and jointly controlled entities in separate financial statements [MPERS 9.26], it shall measure the investment at one of the following on DoT at:

- Cost determined based on MPERS Section 9
- Deemed cost based on:
  - fair value at DoT; or
  - carrying amount based on PERS on DoT

Carrying amount of investment in subsidiary S on 31 December 2014 in accordance with the PERS = RM450,000 (original cost of RM1,000,000 less pre-acquisition dividends of RM550,000)

Fair value as 1 January 2015 (DoT) = RM400,000 (Note – no impairment)

	(1)	(2)	(3)
	Fair value on DoT as deemed cost	Carrying amount based on PERS on DoT	Cost determined based on MPERS Section 9
Cost/Deemed cost	400,000	450,000	1,000,000
Carrying amount at DoT	400,000	450,000	1,000,000
Adjustments to carrying amount	-50,000	No impact	+550,000

Impairment testing

There is a need to assess whether the cost of investment in subsidiary S is impaired under options (2) and (3).

Private entities are required to apply the MPERS starting from 1 January 2016, hence management needs to identify the gap and analyses the implications to ensure a smooth transition into the new reporting framework.

Appendix 1: Key amendments to MPERS

Sections in MPERS	Descriptions of Amendments
Section 2 - Concepts and Pervasive Principles	• Clarifying the "undue cost or effort" exemption. • Added disclosure requirement when "undue cost or effort" exemption is applied.
Section 9 - Consolidated and Separate Financial Statements	• Added an option to permit an entity to account for the investments in subsidiaries, associates and jointly controlled entities in its separate financial statements using the equity method.
Section 16 - Investment Property	• Present investment property as a separate line item in the statement of financial position.
Section 17 - Property, Plant and Equipment	• Revaluation model is permitted.
Section 18 - Intangible Assets other than Goodwill Section 19 - Business Combinations and Goodwill	• Clarifying the useful life of intangible assets (including goodwill) shall be based on management's best estimate but shall not exceed10 years.
Section 26 - Share-based Payment	• Aligning the scope and definitions with MFRS 2 “Share-based Payments” to include share-based payment transactions involving equity instruments of other group entities.
Section 29 – Income Tax	• Aligning the recognition and measurement requirements on deferred tax with the 2015 Amendments to the IFRS for SMEs.
Section 33 - Related Party Disclosures	• Inclusion of management entity providing key management personnel services as a related party.
Section 34 - Specialised Activities	• Aligning the main recognition and measurement requirements for exploration and evaluation assets with MFRS 6 “Exploration for and Evaluation of Mineral Resources”.
Section 35 - Transition to the MPERS	• Additional 1 mandatory exception on government loans. • Additional 2 optional exemptions on: - Entity with operations subject to rate regulation; - Entity with functional currency subject to severe hyperinflation.

Notes

Let’s talk

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