KPMG

The KPMG Guide:

FRS 2, Share-based Payment
FRS 5, Non-current Assets Held for Sale and Discontinued Operations

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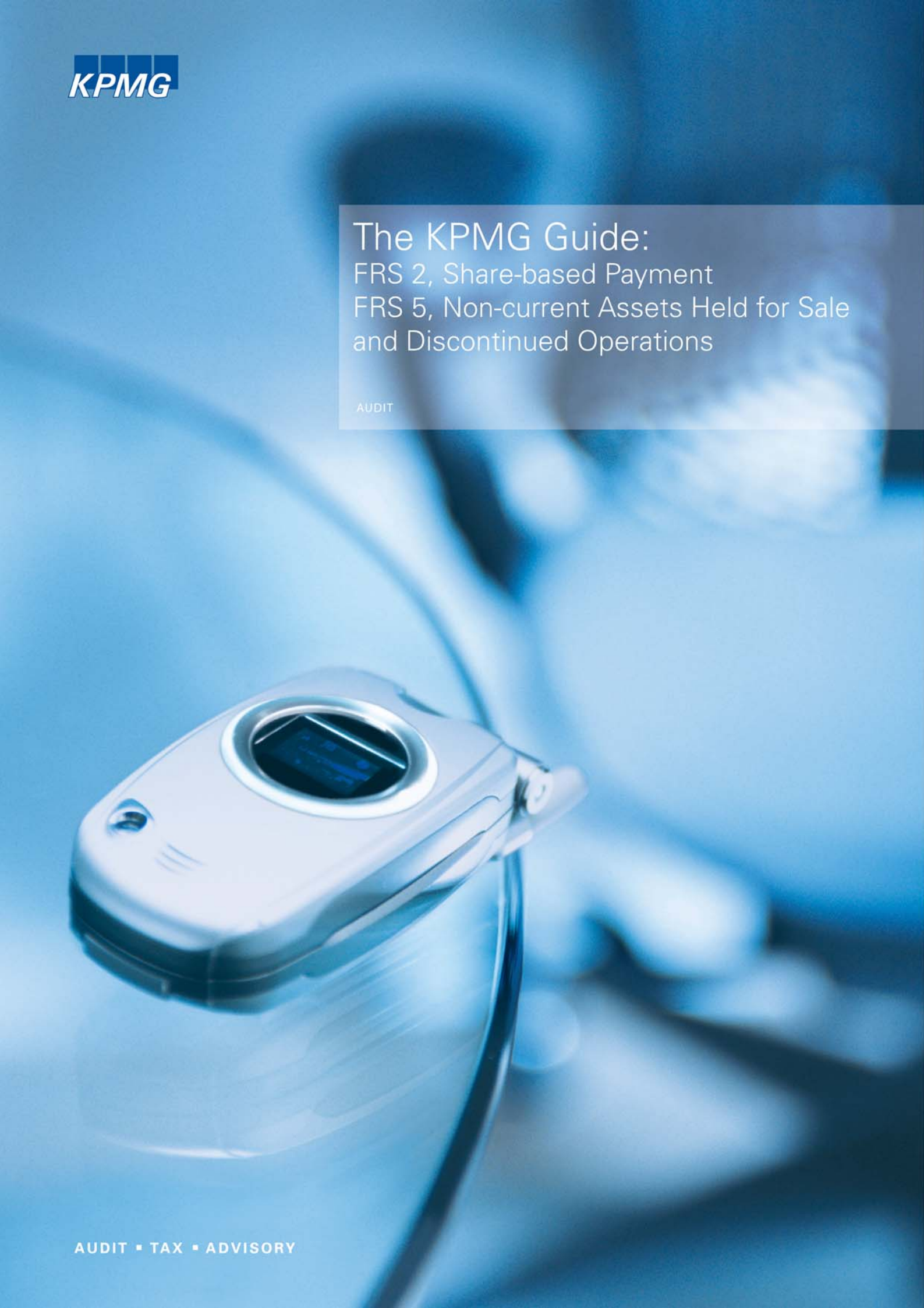

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Introduction

FRS 2, *Share-based Payment*, is new and requires the expensing of employee share options, including cases where the share options are issued by the holding company for services rendered to the company.

The objective of FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, is to specify the accounting for assets (and disposal groups) held for sale and the presentation and disclosure of discontinued operations. FRS 5 will replace FRS 135_{2004}, *Discontinuing Operations*, when it becomes effective.

Executive summary

FRS 2, *Share-based Payment*:

- FRS 2 focuses on accounting for transactions where the reporting entity pays for goods and services by giving the entity's own equity instruments or other assets, generally cash.
- In Malaysia, this standard mainly applies to issuance of shares for acquisition of assets and to employee share option schemes ("ESOS").
- Services received under ESOS are recognised as expenses if they do not qualify for recognition as assets, with the corresponding entry recognised in equity.
- The recognition of ESOS transactions is dependant on whether vesting conditions exist. If the share options granted vest immediately, recognition takes place immediately on grant date. Conversely, if the share options granted are subject to certain vesting conditions, recognition takes place over the vesting period.
- Share options granted under ESOS are measured by reference to the fair value of these options granted i.e. using market prices or if this is not available, using a valuation technique. However, in very rare cases where this is not determinable, the intrinsic value method approach is used.
- FRS 2 follows the modified grant date approach in recognising and measuring ESOS. Under this approach, the number of share options included in the determination of the transaction amount is adjusted to reflect the outcome of the vesting conditions, other than market conditions, but no adjustment is made to the fair value of the share options.
- Only where modifications to ESOS increase the fair value of the share options granted, the incremental value of the modified grant is accounted for in addition to the original grant over the remaining or revised vesting period.

FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*:

- Non-current assets (and some groups of assets and liabilities known as disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale. Comparatives are not restated when an asset or disposal group is classified as held for sale.
- Non-current assets (and disposal groups) held for sale generally are measured at the lower of carrying amount and fair value less costs to sell and are disclosed separately on the face of the balance sheet.
- Assets classified as held for sale are not amortised or depreciated.
- An operation is discontinued when it is disposed of or is classified as held for sale, whichever is earlier. Comparative income statement and cash flow information is represented based on the classification of operations (as continuing or discontinued) at the current reporting date.
- Generally, the separate presentation of discontinued operations is limited to those operations that are a separate major line of business or geographical area and controlled entities acquired exclusively with a view to resale.
- Discontinued operations are presented separately on the face of the income statement.
- The scope of the Standard extends to those investments in subsidiaries, jointly controlled entities and associates that were acquired exclusively with a view to sell in the near future.

1. FRS 2, *Share-based Payment*

Executive summary

- FRS 2 focuses on accounting for transactions where the reporting entity pays for goods and services by giving the entity's own equity instruments or other assets, generally cash.
- In Malaysia, this standard mainly applies to issuance of shares for acquisition of assets and to employee share option schemes ("ESOS").
- Services received under ESOS are recognised as expenses if they do not qualify for recognition as assets, with the corresponding entry recognised in equity.
- The recognition of ESOS transactions is dependant on whether vesting conditions exist. If the share options granted vest immediately, recognition takes place immediately on grant date. Conversely, if the share options granted are subject to certain vesting conditions, recognition takes place over the vesting period.
- Share options granted under ESOS are measured by reference to the fair value of these options granted i.e. using market prices or if this is not available, using a valuation technique. However, in very rare cases where this is not determinable, the intrinsic value method approach is used.
- FRS 2 follows the modified grant date approach in recognising and measuring ESOS. Under this approach, the number of share options included in the determination of the transaction amount is adjusted to reflect the outcome of the vesting conditions, other than market conditions, but no adjustment is made to the fair value of the share options.
- Only where modifications to ESOS increase the fair value of the share options granted, the incremental value of the modified grant is accounted for in addition to the original grant over the remaining or revised vesting period.
- This standard is expected to be applicable for annual periods beginning on or after 1 January 2006, with special transitional provisions.

1.1 Scope

- *FRS 2 specifies the financial reporting by an entity when it undertakes a share-based payment transaction (2.1 - 2)*

The focus of FRS 2 is on financial reporting by an entity which undertakes transactions where it pays for goods and services by giving:

1) the entity's own shares or other equity instruments (e.g. share options over its own shares), termed *equity-settled share-based payment transactions*;
2) cash (or other assets), where the amount payable is linked to the price of the entity's own shares or other equity instruments (e.g. warrants), termed *cash-settled share-based payment transactions*; or
3) either cash (or other assets) or by issuing equity instruments, with the choice of settlement to be made by either the entity or the counterparty, termed *share-based payment transactions with cash alternatives*.

- *All share-based payment transactions under which goods or services are received by the entity are within the scope of FRS 2, except for:*
  - *certain future commodities contracts; and*
  - *shares issued for acquisition of net assets in business combinations (2.3 - 6)*

The scope of FRS 2 extends to situations where the entity receives goods or services, and the entity's parent, subsidiary or related entity within the group of companies provides equity instrument as consideration for those goods or services. For example, where employees of a subsidiary are granted options over shares in the parent company, the subsidiary will have to apply the requirements of FRS 2 in its own financial statements.

FRS 2 similarly applies to transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity, unless the transfer is clearly for a purpose other than payment for the goods or services supplied.

The following are however, not within the scope of FRS 2:

1) goods acquired as part of the net assets acquired in a business combination; and
2) share-based payment ("SBP") transactions in which the entity receives or acquires goods and services under a commodity-based contract of FRS 132, *Financial Instruments: Disclosure and Presentation* or FRS 139, *Financial Instruments: Recognition and Measurement*.

In Malaysia, the equity-settled SBP transactions mainly employee share option scheme ("ESOS"), would be of relevance due to the use of share options as a feature of employee remuneration. Therefore, this Guide is aimed at providing additional guidance on the recognition and measurement of ESOS as governed by the requirements of FRS 2.

1.2 Recognition

- *The debit entry is charged to profit or loss, unless the goods/ services qualify for recognition as assets while the credit entry is charged to equity for ESOS (2.7 - 8)*

Services received under an ESOS are recognised as expenses, unless they qualify for recognition as assets under another standard. For example, where all employees of an entity are entitled to share options of the entity under ESOS, the services received from the administrative staff would be recognised as employee expense in the income statement while the services of staff at the production line would be capitalised into the cost of inventories.

The corresponding increase is recognised in equity, usually capital reserve (non-distributable), although FRS 2 does not specify exactly where the amount in equity should be recognised. In our view, any equity arising from share option holders' interest should be transferred to share premium (as prescribed by S.60 of the Companies Act, 1965) for the portion related to options exercised, and to retained earnings for the portion related to the unexercised portion.

The recognition of the services received or acquired takes place as services are received by the entity.

- *Recognition of ESOS depends on whether the equity instruments granted vest immediately (2.14 - 15)*

If the employee is not required to satisfy a specified condition (either a service condition or a performance condition) before becoming unconditionally entitled to the share options granted, the share options vest immediately and the services are accounted for immediately on grant date.

However, if the employee is not entitled unconditionally to the share options at grant date, the entity will account for the services as they are received during the vesting period, which is normally the period between grant date and vesting date.

1.3 Measurement

- *ESOS is measured at grant date by reference to the fair value of equity instruments granted (2.10 - 12 & 24)*

The measurement bases for ESOS are as follows:

1) measure by reference to the fair value of the equity instruments granted; and
2) if (1) above cannot be measured reliably (very rare), measure by reference to the equity instruments' intrinsic value.

ESOS must be measured by reference to the fair value of the equity instruments granted because typically it is not possible to reliably estimate the fair value of the services received. In other words, it is difficult to measure directly the services received for particular components of the employee's remuneration package.

The fair value of the equity instruments granted under ESOS shall be measured at grant date i.e. the measurement date for ESOS is grant date.

1.4 Grant date

- *Grant date is the date when both the entity and employee agree to the ESOS and have a shared understanding of the terms and conditions of that arrangement (Appendix A & IG 1 - 4)*

The determination of grant date is important because, it is:

1) the date that the fair value of equity instruments granted under ESOS is measured; and
2) usually the date when recognition of the employee services received begins. However, this is not always the case, as further explained below.

Grant date is the date at which the entity and the employee **agree to a SBP arrangement**, and requires that the entity and the employee have a **shared understanding** of the terms and conditions of the arrangement. At grant date, the entity confers on the employee the right to share options of the entity under ESOS, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (e.g. by shareholders), grant date cannot be before that approval is obtained and is normally when that approval is obtained.

In order for the employer and the employee to agree to the ESOS, there must be both an offer and an acceptance of that offer. The grant date is not reached until there is acceptance of the offer, which may be explicit (e.g. by signing a contract) or implicit (e.g. by commencing to render services).

A shared understanding may not require finalisation of all the terms and conditions. As long as the outcome is based on objective factors where different knowledgeable parties, independently of each other, would be able to make consistent calculations, then there is a shared understanding without having specified the actual grant term. For example, an offer may not specify the actual exercise price but state the formula that determines how the actual exercise price will be established. In this case, it is deemed that there is a shared understanding.

On the contrary, there will not be agreement on terms and conditions if the outcome is based on subjective factors. Examples of this would be if the number of shares to be awarded is a discretionary determination of a compensation committee at the end of the service period and if the number of instruments issued to employees is determined based on a (partly) subjective evaluation of the individual's performance over a period.

As mentioned above, FRS 2 requires the entity to recognise services when received. However, in some cases, grant date might occur after the employees to whom share options were granted have begun rendering services. For example, if a grant of share options is subject to shareholder approval, grant date may occur some months after the employees have begun rendering services in respect of that grant.

When this occurs, the recognition of services received during the period from service commencement date until grant date would be based on the estimated fair value of the share options at grant date (e.g. by estimating the fair value of the share options at the end of the reporting period).

Once the grant date has been established, the entity should revise the earlier estimate so that the amounts recognised for services received in respect of the grant are based on the grant date fair value of the share options. This revision is treated as a change in estimate and should be accounted for in the current year financial statements.

1.5 Step by step approach to measuring ESOS

- *ESOS is recognised and measured using the modified grant date approach (2.19 - 21, 23 & IG9)*

The measurement of ESOS is based on the following formula:

A:		B:		C:
Fair value of the individual share option, measured at grant date	X	Number of share options expected to vest	=	Total amount to be recognised for the services received

Therefore, measuring and recognising ESOS requires taking some or all of the following steps:

1) estimating the fair value of the individual share option (A);
2) identifying the vesting period, if the employee is not entitled unconditionally to the share option at grant date;
3) estimating the number of share options that are expected to vest at the end of the vesting period (B); and
4) spreading the total fair value (being the fair value of each share option multiplied by the number expected to vest) over the vesting period (C). If there is no vesting period, then the charge is recognised immediately.

Vesting conditions can be segregated into the following two categories:

1) service conditions, which require employees to complete a specified period of service; and
2) performance conditions, which can be either:
   – market conditions, when vesting or exercisability of a share option is related to the market price of the entity's share option (e.g. a specific share price or total shareholder return (measured based on share price, adjusted for reinvestment of dividends)); or
   – non-market conditions, when vesting or exercisability of a share option is related to specific performance targets (e.g. a specified increase in profit).

FRS 2 has adopted the modified grant date approach to recognise and measure ESOS. Under this approach, market performance conditions are reflected only in the initial estimate of fair value at grant date (A) and no adjustment is subsequently made for differences between estimated and actual vesting due to market conditions.

However, the impact of service conditions and non-market performance conditions are taken into account when estimating, at grant date, the number of share options expected to vest (B). Subsequently, these estimates are adjusted for differences between the number of share options expected to vest and the actual number of share options vested. This is further discussed in step 3 below.

- *The fair value of share options granted is estimated using market prices, valuation techniques or intrinsic value, whichever is applicable (2.16 - 18, 24 & Appendix B)*

Step 1: Estimating the fair value of the individual share option (A)

As explained above, ESOS is to be measured by reference to the fair value of the equity instruments granted. The fair value is determined as follows:

1) If market prices are available for the share options granted, the estimate of fair value should be based on these market prices.
2) If no market prices are available for the share options granted, the fair value of share options granted is estimated using a valuation technique.

In very rare cases, when the fair value of the equity instruments cannot be estimated reliably, an intrinsic value method approach is applied.

- *The fair value of ESOS is estimated using a valuation technique. Further guidance on this is included in Appendix B to FRS 2 (2.17 - 18 & B4 - 41)*

Typically, a market price will not exist for share options granted under ESOS because the options granted are subject to terms and conditions that do not apply to traded options. Accordingly, the use of a valuation technique is necessary to estimate what the price of the share options would have been on grant date in an arm's length transaction between knowledgeable, willing parties. FRS 2 requires the valuation technique used to be consistent with generally accepted valuation methodologies for pricing financial instruments but does not require use of a specific valuation model.

Appendix B of FRS 2 contains further guidance on estimating the fair value of equity instruments granted, focusing on the specific terms and conditions that are common features of a grant of share options to employees. This appendix is an integral part of the standard and thus the guidance must be followed.

The standard recommends the use of the Black-Scholes-Merton formula for share options with relatively short contractual lives or must be exercised within a short period of time after vesting date. Otherwise, the binomial model is recommended. Where the amounts are material to the financial statements, it may be necessary to engage the services of a professional valuer in order to arrive at a reasonable estimate of fair value. However, this is not explicitly required by the standard.

- *Vesting period is the period over which ESOS should be recognised (2.15 & IG11 - 12)*

Step 2: Identifying the vesting period (if any)

Where an employee has to complete a further period of service before becoming entitled to the share options granted under ESOS, the vesting period over which the charge should be recognised must be identified. The vesting period is the period in which all the specified vesting conditions are to be satisfied in order for the employees to be unconditionally entitled to the equity instrument.

In many cases, the vesting period is a specified period of time such as the options do not vest until the employee has completed a further 2 years with the entity. However, in Malaysia, share options granted usually vest in instalments over a specified vesting period. For example, 100 options are granted and 20 options vest each year over the next five years. Assuming that the only vesting condition is service from the grant date to the vesting date of each tranche of 20 options, then each instalment should be accounted for as a separate SBP arrangement i.e. five separate option grants with one, two, three, four and five-year vesting periods respectively. As a result, even though all five grants are measured at the same grant date, the total expense recognised each year will be different as the vesting periods are different.

If a non-market performance condition (e.g. the entity has to achieve a target profit) is attached to the grant, then the vesting date may not be fixed. If this is the case, the length of the expected vesting period must be estimated at the grant date. This estimate would take all vesting conditions into account. If subsequent information indicates that the length of the vesting period differs from previous estimate, the estimate would be revised, except to the extent it relates to market conditions.

- *The estimated number of share options expected to vest is revised if subsequent information indicates that it differs from previous estimates (2.19 - 20 & 23)*

Step 3: Estimating the number of share options expected to vest (B)

At each year end, the number of share options expected to vest is re-estimated to take account of forfeitures to date and revised estimates of the number of forfeitures expected in the remaining vesting period. On the vesting date, the estimates are subject to one final revision, so that ultimately the amount recognised for services received shall be based on the number of share options that actually vest. Hence, on a cumulative basis, no amount is recognised for services received if the share options granted do not vest because of failure to satisfy a specified service condition or a non-market performance condition.

The original and revised estimates of the number of share options expected to vest take into account all vesting conditions except market conditions i.e. the estimates take into account the likelihood of service conditions and non-market performance conditions being met.

No further changes are made after the vesting date to the amounts recognised as debits and credits. However, if some vested options lapse unexercised, the entity may recognise a transfer within equity.

- *Fair value of share options is recognised immediately for options that vest immediately, and recognised ratably over the vesting period for options that do not vest immediately (2.14 - 15, 21 & 1G13)*

Step 4: Recognising the fair value (C)

If the share options vest immediately, there is a presumption that the services rendered as consideration for the share options granted have been received and the fair value of the share options is recognised immediately with a corresponding increase in equity.

If the share options do not vest immediately, the presumption is that services will be received in

the future. The total fair value of the grants subject to vesting conditions is thus recognised ratably over the vesting period, even if the grant does not vest pro rata.

An exception is where the only condition of vesting is a market condition. In this case, as the fair valuation takes into account the market condition, the services are recognised immediately on receipt of the services, irrespective of whether the market condition is met.

An example illustrating the accounting treatment for ESOS with vesting conditions is included in Appendix 3.

1.6 Modifications, cancellations and settlements

- *Modifications to ESOS that increase the fair value of the grant should be accounted for in addition to the original grant amount over the remaining vesting period (2.26 - 29)*

Modifications to ESOS that decrease the fair value of the grant are ignored. When the fair value of the grant increases due to a modification, then the incremental value of the modified grant as compared to the value of the original grant at the date of modification should be accounted for in addition to the original grant over the remaining (or revised) vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately or over the vesting period, if the employee is required to complete an additional period of service.

Other than when options are cancelled by forfeiture when the vesting conditions are not satisfied, cancellations or settlements of a grant of equity instruments during the vesting period are accounted for as accelerated vesting and therefore, any unrecognised cost is recognised immediately. In addition, any payment made to the employee is accounted for as a repurchase of an equity interest i.e. as a deduction from equity. However, if the payment exceeds the fair value of the share options granted, measured at the repurchase date, the excess is accounted for as an expense.

1.7 Intrinsic value method

- *The intrinsic value method approach is applied when the fair value of share options granted under ESOS cannot be reliably estimated (2.24 - 25)*

As explained above, when the fair value of the share options granted under ESOS cannot be estimated reliably using a valuation technique, the intrinsic value method approach is applied. The intrinsic value is the difference between the fair value of the shares to which the employee has the right to subscribe and the price the employee is or will be required to pay for those shares. For example, a share option with an exercise price of RM15, on a share with a fair value of RM20, has an intrinsic value of RM5.

Under the intrinsic value method approach, share options granted are initially measured at the date the entity receives services, subsequently at each reporting date and at the date of final settlement i.e. when the options are exercised, forfeited or lapse. Any change in the intrinsic value is recognised in profit or loss.

The amount recognised for services received during the vesting period is based on the number of share options expected to vest. This estimate is revised if subsequent information, taking into account all vesting conditions, indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the estimate is again revised so that it equals the number of equity instruments that ultimately vested.

The intrinsic value method requires that the entity reverses the amount recognised for services received, if after vesting date, the share options are forfeited or lapse at the end of the share option's life. This is unlike the requirement in paragraph 23 of FRS 2 where no subsequent adjustment should be made to total equity after vesting date for share options measured by reference to the fair value of the equity instruments granted.

The effects of modifications to the terms and conditions of the share options need not be separately accounted for as these effects would have been accounted for when applying the intrinsic value method.

1.8 Disclosures

- *The disclosure requirements state three overall aims of information to be provided, with a further catch-all paragraph which requires more disclosure to be given if the three aims are not met (2.44 - 52)*

The disclosure requirements aim to enable users of financial statements to understand:

1) the nature and extent of ESOS that existed during the period;
2) how the fair value of the share options granted during the period was determined; and
3) the effect of the ESOS transactions on the entity's profit or loss for the period and on its financial position.

FRS 2 also contains a catch-all paragraph, which states that if complying with the specific detailed requirements does not satisfy the three aims set out above, then further information should be disclosed as necessary to satisfy them.

A disclosure checklist which summarises the disclosure requirements of FRS 2 is included in Appendix 4 of this guide.

1.9 Transitional provisions

- *The two key dates for determining whether FRS 2 has to be applied in full are:*
  - 1 January 2005; and
  - the first day of the annual accounting period in which FRS 2 is adopted
  (2.53 - 57 & 60)

FRS 2 is expected to be effective for annual periods beginning on or after 1 January 2006. Earlier adoption is permitted, provided disclosure is made of this fact. Disclosures on the nature and extent of ESOS that existed during the period are applicable irrespective of whether FRS 2's full requirements are applied to the transactions.

However, the standard contains transitional provisions that limit the extent to which the measurement and recognition requirements have to be applied retrospectively to ESOS transactions. The transitional provisions vary depending on whether the transactions occurred on or before 1 January 2005 or after that date. The reference to 1 January 2005 is to the exact date and not to accounting periods beginning or ending before or after that date.

The following table sets out the extent to which entities have to apply the rest of the requirements in FRS 2 i.e. the measurement and recognition requirements, to ESOS transactions based on the position at these two dates i.e. 1 January 2005 and the effective date of the standard.

FRS 2 applies to ESOS transactions granted:	**Original grant**	**Modifications *before* the effective date**	**Modifications *on or after* the effective date**
On or before 1 January 2005	Optional[1]	Optional[2]	Mandatory
After 1 January 2005 but vested before the effective date	Optional[1]	Optional[2]	Mandatory
After 1 January 2005 and vested after the effective date i.e. still unvested on the effective date	Mandatory retrospective adoption	Mandatory retrospective adoption	Mandatory

Notes:

1 Entities may (but need not) apply FRS 2 to these ESOS transactions if, and only if, the fair value of those ESOS has been publicly disclosed. If FRS 2 is applied, then it should be adopted retrospectively.

2 FRS 2 does not contain specific transitional provisions covering these circumstances. However, if the recognition and measurement principles of FRS 2 were applied to the original grant (see note 1), it would seem inconsistent for the later modifications to the grants not to be accounted for under FRS 2. However, by analogy to paragraphs 54 and 57 of FRS 2, it would seem acceptable for the modifications to be accounted for under FRS 2, even when the original grant is not.

2. FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

FRS 5 will replace FRS 135_{2004} *Discontinuing Operations*, with effect from 1 January 2006.

IFRS 5 is the first IASB standard arising from IASB's joint short-term convergence project with the Financial Accounting Standards Board ("FASB") in the US as a result of IASB's review of FASB standard SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (issued in 2001), with the objective to reduce differences between IFRSs and US GAAP.

Executive summary

- FRS 5 withdraws FRS 135_{2004}, *Discontinuing Operations*, and replaces it with requirements that:
  - changes the timing of the classification of an operation as discontinued to be the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.
  - extends the definition of discontinued operations to include subsidiaries that were acquired exclusively with a view to resale.
  - specifies that the post-tax results of discontinued operations are to be shown separately on the face of the income statement.
  - prohibits retroactive classification of an operation as discontinued, when the criteria for that classification are not met until after the balance sheet date.
- A new classification "held for sale" is introduced and the concept of a disposal group.
- Non-current assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.
- An asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated.
- An asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face of the balance sheet.
- The scope of the Standard extends to those investments in subsidiaries, jointly controlled entities and associates that were acquired exclusively with a view to sell in the near future.

2.1 Scope

- *Classification, presentation and disclosure requirements apply to all non-current assets held for sale and disposal groups (5.2)*

Classification, presentation and disclosure requirements

The classification, presentation and disclosure requirements in FRS 5 apply to all non-current assets that are "held for sale". However, as "held for sale" is a closely defined term, in practice only those financial assets for which it may take a period of time to find a buyer (e.g. unquoted equity holdings) will be affected by FRS 5's requirements at any given balance sheet date, unless they are part of a group of assets and liabilities to be disposed of together in a single transaction (a "disposal group").

FRS 5 also contains classification, presentation and disclosure requirements for discontinued operations that supersedes FRS 135_{2004}. These relate to the presentation and disclosure in the income statement and cash flow statement and the timing of when an operation is classified as discontinued.

- *The measurement requirements apply principally to assets that would otherwise have been depreciated and a disposal group as a whole (5.1, 5 & 15)*

Measurement requirements

Unlike FRS 135_{2004}, FRS 5 also contains requirements concerning the measurement of certain non-current assets and disposal groups while they are being held for sale. These measurement requirements apply principally to those non-current assets that would otherwise have been depreciated until the date of disposal (i.e. property, plant and equipment under FRS 116 and intangible assets under FRS 138). They also apply to the overall carrying value of a disposal group.

- *FRS 5 specifies those assets which are outside the scope of its measurement requirements (5.5)*

FRS 5 does not specify those non-current assets that are within the scope of its measurement requirements. Instead it lists those non-current assets that are excluded and would continue to be measured under their respective FRSs until de-recognition.

Paragraph BC 13 of the Basis of Conclusions explains that assets outside the scope of measurement requirements are mainly those that are either carried at fair value with changes included in profit or loss or for which the fair values are difficult to determine. These are as follows:

- Assets measured at fair value:
  - financial assets under FRS 139, *Financial Instruments: Recognition and Measurement*
  - non-current assets accounted for under the fair value model in FRS 140, *Investment Property*
- Others:
  - deferred tax assets under FRS 112_{2004}, *Income Taxes*
  - Assets arising from employee benefits under FRS 119_{2004}, *Employee Benefits*

2.2 Key definitions introduced by FRS 5

In order to understand the practical application of FRS5, it is important to have a sound understanding of the following key terms as defined in the standard:

- "held for sale"
- "disposal group"
- "discontinued operation"

2.3 Held for sale

- *"Held for sale" is a new, closely defined classification used only for non-current assets or disposal groups (5.6 - 8)*

The principle behind the narrowly defined term "held for sale" is that, a non-current asset or disposal group will be recovered "principally through sale" rather than through continuing use. Note that it applies only to non-current assets or disposal groups.

- *Specific criteria have to be met in order for an asset to be classified as held for sale. These require management to be actually in the process of attempting to sell the asset or disposal group (5.7 - 10)*

The conditions that must be met before a non-current asset or disposal group can be classified as held for sale are as follows:

- The non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups); and
- Its sale must be highly probable, i.e.
  - management must be committed to a plan to sell the non-current asset (or disposal group);
  - an active programme to locate a buyer and complete the plan must have been initiated;
  - the non-current asset (or disposal group) must be actively marketed for sale at a reasonable price in relation to its current fair value;

- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification; and
- actions required to complete the plan should indicate that it is unlikely that the plan be changed significantly or be withdrawn.

"Held for sale" has therefore a far more specific meaning compared to "available for sale" as used in FRS 139. In FRS 139, "available for sale" is a residual term used for any category of financial asset, other than trading investments or derivatives, where the entity chooses not to classify it under any of the other options available such as "fair value through profit or loss' or "held to maturity".

- *If the criteria for held for sale are met in the post balance sheet period, then disclosure as a non-adjusting event is required (5.12)*

By contrast in FRS 5, the above conditions are specific and must be strictly applied. For example, a key distinction between "held for sale" and "available for sale" is that for the held for sale classification management must be committed to a plan to sell the assets and must be actively marketing the assets for sale.

The Implementation Guidance attached to FRS 5 provides examples of the application of the FRS 5 "held for sale" criteria.

- *The "one year requirement" may be extended in certain specific circumstances beyond the entity's control (5.9 & Appendix B)*

Where assets, or disposal groups have been acquired exclusively with a view to resale, these criteria are relaxed to a limited extent and for a short period after acquisition. This is discussed more closely in 6.12 of this Guide.

If the criteria for held for sale are met after the balance sheet date, but before the date of approval of the financial statements, then disclosure will be required. This would be on the basis that this is a non-adjusting, but discloseable, post balance sheet event.

Failure to complete the sale within one year

The assets may still be classified as "held for sale" even if the period to complete the sale extends beyond one year, provided that the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its original plan to sell the assets.

Appendix B to FRS 5 provides events and circumstances where an extension of the period is required to complete a sale and that it does not preclude an asset (or disposal group) from being classified as held for sale. These are further illustrated in examples 5-7 in the Implementation Guidance. The events and circumstances can be broadly summarised as follows:

- The buyer or others unexpectedly impose conditions on the transfer of the asset after a firm purchase commitment is obtained.
- There is an unexpected change in circumstances during the 12 month period, and as a result the asset is not sold within that period (but continues to be marketed at a reasonable price).

An important point to note is that the term "firm purchase commitment" used in Appendix B is defined in Appendix A. According to this definition only agreements with unrelated parties may be regarded as "firm purchase commitments" for the purposes of these concessions. This is presumably with the intention of prohibiting recognition of assets as "held for sale" when the related party relationship may have contributed to meeting the requirements more in form than in substance.

2.4 Disposal group

- *FRS 5 introduces a new notion of a "disposal group" (5.4, 13 & Appendix A)*

A "disposal group" is defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The "single transaction" could be abandoning the assets.

The disposal group may be a cash-generating unit ("CGU"), part of a CGU or a group of CGUs. If goodwill had been allocated to that CGU(s), it would be included in the disposal group.

Note that, as explained below, although the disposal group as a whole will be measured under FRS 5's measurement rules, the assets and liabilities are not set off against each other in the balance sheet presentation. Instead, the assets are grouped together as one category of assets, and the liabilities as one category of liabilities.

A typical example of a disposal group is the net assets owned by a subsidiary, where the group is planning to sell its shares in the subsidiary in a single transaction. Other examples include:

- The plant and machinery, raw materials and work in progress of a production facility to be sold as a going concern;
- A property, together with borrowings secured on it (with the agreement of the lender);
- A portfolio of loans or credit card balances, together with the customer relationships, that are being offered for sale as a single package; and
- A restaurant which is to be closed down with the furnishings and equipment being scrapped (abandoned).

2.5 Discontinued operations

- *Discontinued operations must be a CGU or group of CGUs (5.31)*

- *The CGU or group of CGUs, must represent a separate major line of business or geographical area of operations or be a subsidiary acquired exclusively with a view to resale (5.32 & Appendix A)*

A discontinued operation is a component (i.e. operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the entity) of an entity that either has been disposed of, or is classified as held for sale, and it must fall into one of the following three categories:

1) it is a separate major line of business or geographical area of operations; or
2) it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
3) it is a subsidiary acquired exclusively with a view to resale

If it is a subsidiary acquired with a view to resale and meeting the held for sale criteria it would be classified as a discontinued operation as from the date of acquisition.

Once the change-of-classification date is established, all of the **results and cash flows** relating to that operation, for both the current period and the comparative period, will be separately disclosed as being related to the discontinued operation.

Example:

On 30 November 20X5, the Board of entity A makes a policy decision to pull out of the European motor insurance market. Although loss-making, the motor insurance policies generated 30% of entity A's revenue in 20X4 and were distinct from its other insurance activities. In December 20X5 management explores various options for pulling out of the market and in January 20X6 appoints advisers who initiated a plan to find buyer for entity A's European insurance subsidiaries. A buyer is found in June 20X6 and the sale is completed by August.

Entity A applies FRS 5 as follows:

- The European insurance activities are considered to be a separate major line of business for entity A and therefore will meet the definition of a discontinued operation;
- As at 31 December 20X5 the insurance activities are disclosed as part of continuing activities, because as of that date management has not taken sufficient steps for them to be considered as "held for sale". However, as a plan is initiated in January 20X6, management makes non-adjusting post balance sheet disclosures relating to the discontinuation;
- In the 20X6 financial statements the **results** of the European motor insurance activities are classified as discontinued. This classification is made both for the whole of 20X6 and of the comparative amounts reported in respect of 20X5.

2.6 Correlation with FRS 137's timing for restructuring provisions

- *Restructuring provisions may be recognised earlier than the "held for sale" criteria are met (137.73)*

As discussed above, a discontinued operation can be an operation that has been abandoned, has been disposed of, or is held for sale. Previously, FRS 135_{2004} clearly linked the timing of identifying a "discontinuing operation" with the timing in FRS 137_{2004}, *Provisions, Contingent Liabilities and Contingent Assets*, of recognising a restructuring provision. FRS 5 does not do this, with the result that the timings may not coincide. As a result, if the operation to be discontinued does not yet meet the definition of "held for sale" then it will be disclosed as a "continuing operation" and not as a "discontinued operation" in the primary statements.

Example:

The management of entity B has announced a plan to close down a business segment, but has not yet taken steps to implement the plan. By announcing the plan they have created a valid expectation in others that the plan will be implemented, and should therefore make provisions under FRS 137_{2004} for direct expenditures necessarily entailed by the restructuring, and for employee termination benefits under FRS 119_{2004}, *Employee Benefits*. However, they would not reclassify any non-current assets as "held for sale" as they have not yet taken steps to actively market the assets to be disposed of, nor would they classify the business segment as discontinued.

2.7 Differences between "disposal groups" and "discontinued operations"

- *Discontinued operations and disposal groups may, or may not, be recognised simultaneously*

There will be situations where a discontinued operation will involve the identification of a disposal group. Likewise, when a disposal group is identified, consideration should be given as to whether there is a discontinued operation to be separately disclosed.

However, there will also be many cases where one of these occurrences falling under FRS 5 exists in isolation from the other. For example:

- A disposal group may be identified, even though a discontinued operation does not exist, when
  - the disposal group is only part of a cash-generating unit (i.e. this group of assets and liabilities does not, prior to disposal, generate cash flows independently of other assets); or
  - the disposal group represents a whole cash-generating unit, but not to the extent of being a separate major line of business, AND the disposal is not part of a single co-ordinated plan to dispose of the whole of the separate major line of business to which it belongs.
- A group of assets may relate to a discontinued operation but still not meet the definition of a disposal group held for sale for balance sheet purposes when
  - the assets are to be abandoned; or
  - the assets are expected to be sold on a piecemeal basis i.e. rather than in a single transaction.

Example:

Entity C has undertaken a major review of its operations. As a result it has decided on the following actions:

- It will cease its retail operations in Asia by selling its investment in subsidiary X which owns and operates a chain of supermarkets;
- It will close down its distribution facilities owned by subsidiary Y in Singapore that served the supermarket chain and sell the properties individually;
- It will refocus its hotel operations in Asia by selling as going concerns two hotels that are achieving the lowest occupancy rates; and
- It will close all its video rental outlets and scrap the stock as there is no longer sufficient demand for the VHS format.

Classification under FRS 5	Discontinued operation?	Disposal group held for sale?
Sale of subsidiary X	Yes (the retail operation is to cease and was a major line of business)	Yes (the assets and liabilities are to be sold in a single transaction)
Sale of properties owned by subsidiary Y	Yes (part of the retail operation)	No (each property to be sold individually)
Sale of hotels as going concerns	No (the group is continuing with its hotel operations)	Yes (each hotel is a disposal group of the various assets that make the hotel operational)
Closure of video outlets	No (the operation was not a major line of business)	No (the assets are to be abandoned once the outlets are closed)

2.8 Measuring and presenting non-current assets and disposal groups

- *New measurement requirements for assets held for sale (5.15 - 25)*

- Immediately before being classified as held for sale, a non-current asset (or a disposal group) should be measured in accordance with the applicable standard (e.g. revaluation, impairment etc). Any resulting gains or losses are recognised in accordance with the relevant standards.
- On initial classification as held for sale, the non-current asset (or disposal group) is re-measured at the lower of (i) the carrying amount, and (ii) fair value less costs to sell. "Costs to sell" are defined in Appendix A to FRS 5 as the "incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense".
- If the sale is expected to occur beyond one year the costs to sell are discounted to their present value.
- Once classified as an asset (or disposal group) held for sale, depreciation should also cease. This is different from the requirement of FRS 116, *Property, Plant and Equipment* where an asset has to be depreciated even when it is idle.
- At every subsequent period end, the non-current asset (or disposal group) is re-measured to fair value less costs to sell with any gain or loss included in profit or loss. However, any re-measurement upwards cannot exceed the cumulative amount of impairment losses recognised previously on this asset in accordance with FRS 5 (if any) or before re-classification in accordance with FRS 136 (if any). In other words, prior to disposal the asset will not be carried at more than its carrying amount at the moment it was classified as held for sale, unless the entity is able to reverse an impairment loss that had been recognised under FRS 136 before the asset was re-classified.

Example:

Entity D decided to construct a new head office and to sell its existing head office once the new office is ready. The new building was completed on 15 November 20X5 and the company moved the head office operations to its new premises in January 20X6. The old property was being carried at cost less depreciation over a 50 year life. At 1 January 20X5 40 years remained.

Entity D engaged a property agent in October 20X5 to start marketing the property. Market conditions included that a sale within 12 months was highly probable at the price at which it was being marketed. It was therefore re-classified as held for sale on 15 November 20X5, i.e. once the

new building was available for occupation.

A buyer was found in July 20X6 and the sale was completed on 20 July 20X6.

Entity D has a 31 December year-end and is also required to prepare interim reports for the first six months of every year.

The original cost of the property was 1,000. Fair values less costs to sell were as follows:

15 November 20X5	650	30 June 20X6	900
31 December 20X5	550	20 July 20X6	900 (actual)

Old head office	Balance sheet	Income statement
1 January 20X5:		
Original cost	1,000	
Accumulated depreciation	(200)	
	800	
October 20X5: marketing team engaged to market old building but no re-classification because the new building is not yet ready for occupation		
15 November 20X5: re-classified as held for sale and re-measured under FRS 5:		
i) existing depreciation policy applied to up to 15.11.X5	(17.5)	(17.5)
	782.5	
ii) Loss on re-measurement at 15.11.X5	(132.5)	(132.5)
Fair value less costs to sell at 15.11.X5	650	
31 December 20X5: year-end financial statements:		
Loss on re-measurement at 31.12.X5	(100)	(100)
Fair value less costs to sell at 31.12.X5	550	
Total losses charged in y/e 31.12.X5		(250)
30 June 20X6: interim report		
Gain on re-measurement, restricted to reversal of impairment losses	232.5	232.5
	782.5	
20 July 20X6: Completion of property sale:		
Proceeds less costs of disposal	900	
Gain on disposal	117.5	117.5
Total gains recognised in y/e 31.12.X6		350.0
Total gains recognised between 1.1.X5 and 31.12.X6		***100***

2.9 Additional considerations relating to a disposal group

On each subsequent re-measurement of a disposal group, the carrying amount of any asset or liability that is not within the scope of FRS 5 is first re-measured in accordance with the applicable standard. Any gain or loss is recognised in accordance with the relevant standard.

Thereafter, the whole disposal group is measured at the fair value less costs to sell. This resulting gain or loss is then allocated to the non-current assets in the group that are within the scope of FRS 5 in the order of allocation as required by FRS 136 (i.e. first to goodwill and then to other assets within the scope of FRS 136 on a pro-rata basis).

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

An example of the application of the above requirements is provided in the Implementation Guidance attached to FRS 5 (example 10)

2.10 Measuring non-current assets or disposal groups to be abandoned

- *Non-current assets or disposal groups to be abandoned cannot be measured or presented as held for sale (5.13)*
- *Some disposal groups to be abandoned may meet the definition of discontinued operations (5.13)*

FRS 5 states that non-current assets or disposal groups that are to be abandoned should not be classified as held for sale as the carrying amount of these assets will be recovered principally through continuing use. These assets should instead continue to be measured and presented in the balance sheet under their existing policies. For example, depreciation continues to be charged. However, if the disposal group to be abandoned meets the criteria of discontinued operation, disposal groups to be abandoned will be presented as discontinued operations in the income statement and cash flow statement, once they cease to be used.

2.11 Measurement when asset is no longer held for sale

- *Assets no longer being held for sale will be measured on a catch-up basis in accordance with the relevant standards (5.28)*
- *Where an investment in an associate, or jointly controlled entity, is no longer held for sale, or an operation is no longer discontinued, comparatives shall also be adjusted (128.15, 31.43 & 5.34)*

When the criteria for classification as held for sale are no longer met, the related non-current asset needs to be adjusted so that the asset is measured at the lower of (i) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell. If the non-current asset is part of a CGU, its recoverable amount is the carrying amount that would have been recognised after the allocation of any impairment loss arising on that CGU in accordance with FRS 136.

FRS 128, *Investments in Associates* and FRS 131, *Interests in Joint Ventures* contain rules concerning how to revert to the equity method or proportionate consolidation in such circumstances. In both cases, the focus is on moving forward with a carrying value which is consistent with that which would have been recognised had the items not been classified as held for sale for any period of time.

However, the rules differ in terms of whether restatement of comparatives is required. In this respect, with the exception of reclassifying operations as continuing, no adjustments are made to re-state or re-classify comparative amounts unless the adjustments relate to entities that are accounted for using the equity method, or, in the case of a jointly controlled entity, using the proportionate consolidation method. Only in these situations are the comparative amounts amended as if the entity had never been classified as held for sale.

2.12 Non-current assets and disposal groups acquired with a view to resale

- *An item newly acquired for later disposal is classified as held for sale upon acquisition if it can meet the criteria within a short period of time (5.11)*

FRS 5 states that if a non-current asset (or disposal group) is acquired exclusively with a view to its subsequent disposal, it should be classified as held for sale at the acquisition date if it meets the "held for sale" criteria at the time of acquisition or if it meets the "one year requirement" and it is highly probable that it will meet the remaining criteria within a short period (usually three months).

As discussed above, certain presentation and disclosure requirements of FRS 5 do not apply to disclosure groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

- *Temporary associates and jointly controlled entities continue to be exempt from the requirement to adopt the equity method or to proportionately consolidate them (128.13 &131.2)*

Associates and jointly controlled entities exclusively acquired for resale

Under FRS 128 and 131, temporary investments in associates and jointly controlled entities are exempt from the requirement to apply the equity or proportionate consolidation method, provided certain criteria are met. Through consequential amendments introduced by FRS 5, these criteria are now the "held for sale" criteria set out above.

If these criteria are met, then the investment will be measured on initial recognition at the lower of its (i) carrying amount had the investment not been classified as held for sale (i.e. cost under FRS 128.11), and (ii) fair value less costs to sell. Subsequently the investment will be dealt with as for any other held for sale asset described above.

- *Temporary subsidiaries are required to be consolidated but by following the rules under FRS 5 (5.11, 33, 38 & 39)*

Subsidiaries exclusively acquired for resale

The exemption from consolidation in FRS 127, *Consolidated Financial Statements and Investments in Subsidiaries* for subsidiaries acquired and held exclusively with a view to resale has been removed through consequential amendments introduced by FRS 5. As a result, such subsidiaries must be consolidated under FRS 127. However, if such subsidiaries, or part of the subsidiaries, also meet the criteria of held for sale upon acquisition (or will do within a short period), they will be classified and presented as a discontinued operation. They will also be measured and presented as a disposal group or groups under FRS 5, if the whole of the investments, or groups of assets and liabilities, are to be disposed in a single transaction. The specific rules in FRS 5 relating to this situation are scattered throughout the standard and not always immediately obvious. In effect, they appear to be as follows:

- *Held for sale items acquired in a business combination are measured on initial recognition at fair value less costs to sell (5.16)*

On acquisition

- Upon initial acquisition, the parent should allocate the cost of business combination by recognising the acquiree's non-current assets or disposal groups at fair value less costs to sell on a disposal group basis. Any excess of the value of the net assets acquired over the consideration would be recognised in income in accordance with FRS 3, *Business Combinations*.

- *While being "held for sale" normal consolidation rules apply, but the results are included as discontinued operations (5.33 & 127.24)*

After acquisition

- During the period between acquisition and sale, the subsidiary will continue to be consolidated in the same way as a discontinued operation would be. For example:
  - intra-group balances, transactions, income and expenses should be eliminated; and
  - the profit for the year should include the post-acquisition profit or loss of the subsidiary, as part of the results of discontinued operations. NB as FRS 127 now requires the minority interests to be recorded as part of equity, the results consolidated in this way would be 100% of the subsidiary's results, with any minority interest being identified through the allocation of the group's profit for the year.

- *While being "held for sale" normal FRS 5 rules also apply and so the assets and liabilities of the subsidiary would be shown as held for sale (5.38 & Implementation Guidance, example 13)*

The assets of the subsidiary would generally be shown as a single amount on the balance sheet, separately from other assets, as a held for sale disposal group. Likewise, any liabilities of the subsidiary would be shown as a single amount separately from other liabilities. FRS 5 clarifies this process by providing an illustration of computational short cut in the Implementation Guidance attached with the standard (example 13). In this example, the amount of the assets in the disposal group is computed by adding back the carrying value of the liabilities to the value of the disposal group as a whole.

- *Analyses of income statement and cash flows are not required beyond a single amount (5.33)*

As mentioned above, changes in fair value less costs to sell, together with the results of the subsidiary, will be shown as a single amount on the income statement, with no further analysis required. Cash flow disclosures in respect of discontinued operation are not required.

2.13 Presentation and disclosure requirements for non-current assets and disposal groups held for sale

The new presentation and disclosure requirements for the **balance sheet** relating to non-current assets (or disposal groups) held for sale are illustrated in Example 12 of the Implementation Guidance to FRS 5 as follows (note that the prior period's presentation is not revised (5.40)):

- *Non-current assets or assets in disposal group held for sale are shown separately (5.38)*

- *Any amounts recognised directly in equity that relate to non-current assets (or a disposal group) classified as held for sale (e.g. revaluation reserves, cumulative translation differences) are shown separately (5.38)*

	20X5	20X4
Assets		
Non-current assets		
AAA	x	x
BBB	x	x
CCC	x	x
	---	---
	x	x
	---	---
Current assets		
DDD	x	x
EEE	x	x
	---	---
	x	x
Non-current assets classified as held for sale*	8,000	-
	---	---
Total assets	x	x
	====	====
Equity and liabilities		
Equity attributable to equity holders of the parent		
FFF	x	x
GGG	x	x
Amounts recognised directly in equity relating to non-current assets held for sale	400	-
	---	---
	x	x
Minority interest	x	x
	---	---
Total equity	x	x
	---	---
Non-current liabilities		
HHH	x	x
III	x	x
JJJ	x	x
	---	---
	x	x
	---	---

Current liabilities		
KKK	x	x
LLL	x	x
MMM	x	x
	---	---
Liabilities directly associated with non-current assets classified as held for sale*	3,300	-
	---	---
	x	x
	---	---
Total liabilities	x	x
	---	---
Total equity and liabilities	x	x
	====	====

** This is the description used in the Implementation Guidance. However, if the disposal group included current assets or liabilities then it would be more accurate to amend this, for example, to "Non-current assets and the assets of disposal groups classified as held for sale" or "Liabilities directly associated with the assets of disposal groups classified as held for sale".*

- *Liabilities that are part of a disposal group are shown separately from other liabilities (5.38)*

Additional disclosure requirements include:

- *Additional analysis on the face of the balance sheet or in the notes (5.39)*
- Analysis of the above into major classes of assets and liabilities, either on the face of the balance sheet or in the notes to the financial statements, except where the disposal group is a newly acquired subsidiary that is classified as held for sale on its acquisition.
- *Narrative disclosures (5.41)*
- Descriptions of the non-current assets (or disposal groups) classified as held for sale and the reasons for re-classification. If applicable, the notes should disclose the segment in which the non-current asset (or disposal group) classified as held for sale is included; and
- *Income statement notes (5.41)*
- The gain or loss arising on re-classification or subsequent measurement of a non-current asset (or disposal group) classified as held for sale, and the income statement caption if not shown separately on the face of the income statement.

2.14 Discontinued operations: presentation and disclosure

- *A single post-tax amount relating to discontinued operations is required on the face of the income statement (5.33(a))*

Face of the income statement

FRS 5 requires a single post-tax amount to be disclosed on the face of the income statement. This single amount should comprise:

- The post-tax profit or loss of discontinued operations; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

- *Prior period's presentation is revised for disclosures relating to discontinued operations (5.34)*

Comparative information is required and must be restated each year so that the comparative information given in respect of discontinued operations includes all operations classified as discontinued at the current balance sheet date.

For example, if an entity discontinued its retail operations in 2005 and its mobile phone operations in 2006, when preparing the 2006 financial statements the entity would restate the 2005 comparative amounts to present the activities of the mobile phone operations as well as the retail operations as "discontinued".

The new presentation and disclosure requirements for the income statement relating to discontinued operations are illustrated in Example 11 of the Implementation Guidance to FRS 5 and has been reproduced below:

- *All continuing operations need to be analysed in full on the face of income statement*

XYZ Group - Income Statement for the year ended 31 December 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)		
Continuing operations	20X2	20X1
Revenue	x	x
Cost of sales	(x)	(x)
Gross profit	x	x
Other income	x	x
Distribution costs	(x)	(x)
Administrative expenses	(x)	(x)
Other expenses	(x)	(x)
Finance costs	(x)	(x)
Share of profit of associates	x	x
Profit before tax	x	x
Income tax expense	(x)	(x)
Profit for the period from continuing operations	x	x
Discontinued operations		
Profit for the period from discontinued operations	x	x
Profit for the period	x	x
Attributable to:		
Equity holders of the parent	x	x
Minority interest	x	x
	x	x

- *A single post-tax amount is disclosed*

- *Additional analysis of the single post-tax amount on the face of the income statement or in the notes (5.33(b))*

The single post-tax amount is required to be further analysed into revenue, expenses, pre-tax profit or loss, income tax expense and gains or losses on measurement to fair value less costs to sell (and, separately, income tax expense thereon). This can be shown separately either on the face of the income statement or in the notes to the financial statements. This analysis is not required for a disposal group that is a newly acquired subsidiary that is classified as held for sale on its acquisition.

Additional disclosures

- *Additional analysis in the notes or on the face of the cash flow statement (5.33(c))*

The net cash flows attributable to the operating, investing and financing activities of discontinued operations, either on the face of the statement of cash flows or in the notes to the financial statements. This analysis is not required for a disposal group that is a newly acquired subsidiary that is classified as held for sale on its acquisition; and

As mentioned above, comparative income statement, cash flow and segment information must be restated each year. The requirement is that comparative information given in respect of discontinued operations includes the results of all operations classified as discontinued by the current balance sheet date, whether first classified as discontinued in the current year or in prior years.

2.15 Transitional provisions

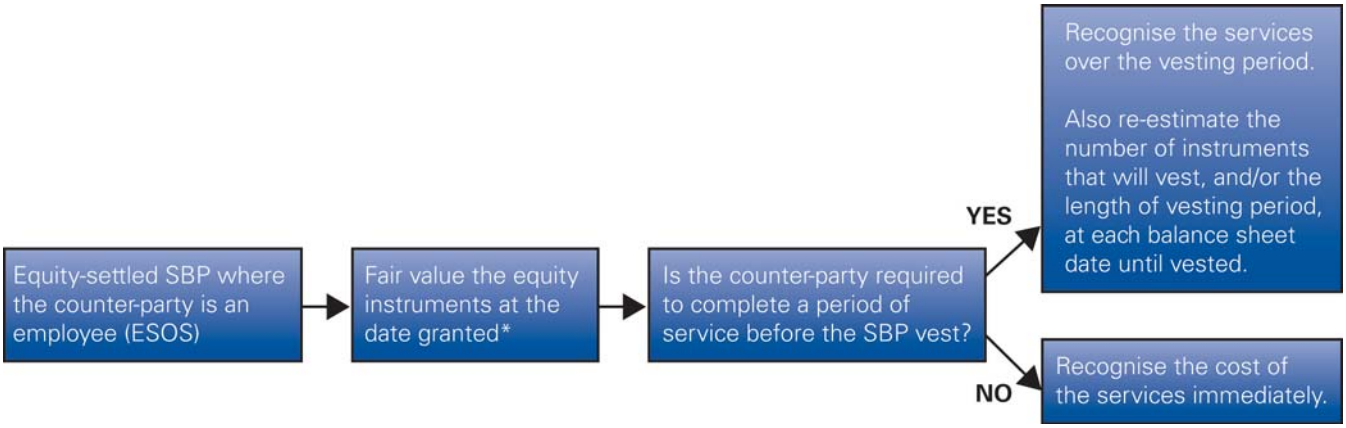
FRS 5 includes transitional provisions that require prospective application of the Standard to any non-current assets or disposal groups that meet the criteria to be classified as held for sale, or any operations that meet the criteria to be classified as discontinued, after 1 January 2006. This means that comparative amounts in the year of adoption need not be restated.

However, early adoption of the Standard is permitted provided that the valuations and other information needed to apply the Standard were obtained at the time those criteria were originally met.

Appendix 1: Glossary of definitions

Employees and others providing similar services	Individuals who render personal services to the entity and either a) the individuals are regarded as employees for legal or tax purposes; b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes; or c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.
Equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
Fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.
Grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date, the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
Intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares.
Share option	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
Vest	To become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets, or equity instruments of the entity vests upon satisfaction of any specified vesting conditions.
Vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Appendix 2: Simplified overview of the basics of FRS 2, Share–based payment in relation to ESOS



* In the very rare case that the fair value of the equity instruments cannot be reliably measured, the intrinsic value should be used instead.

Appendix 3: Illustrative example of the accounting treatment for ESOS with vesting conditions

The following example illustrates the principles discussed in the four step approach in measuring and recognising ESOS.

At the beginning of year 1, an entity granted 500 employees 10 share options each, on the condition that they would remain with the company for 3 years. The options could be exercised at any time after 3 years for a 12 month period at an exercise price of RM10 each. The entity's shares had a par value of RM2 each.

At grant date, each option had a fair value of RM1, excluding the 3 year vesting rule but taking into account the other features of this option such as the period during which it could be exercised. A vesting period of 3 years was identified, based on the service condition.

Over the following 3 years, the calculations under FRS 2 were as follows:

- At the end of year 1, it was estimated that only 75% of the work force will meet the vesting condition. The total fair value of the ESOS was thus calculated to be:

  RM1 x (500 x 10 x 75%) = RM3,750

  1/3 of this i.e. 1/3 x RM3,750 = RM1,250, was recognised as employee expense in year 1.

- At the end of year 2, the estimate of the numbers of instruments that would vest was revised to 70%. The total fair value of the ESOS was thus revised to be:

  RM1 x (500 x 10 x 70%) = RM3,500

  Cumulatively, 2/3 of this i.e. 2/3 x RM3,500 = 2,333, should have been recognised by the end of year 2. As the year 1 charge amounted to RM1,250, a further RM1,083 (RM2,333 - RM1,250) was charged as employee expense in year 2.

  The squaring-up to a 70% expected vesting result is recognised immediately, rather than being spread over the remaining vesting period.

- At the end of year 3, 90% of the eligible employees were still with the entity. 4,500 options (500 x 10 x 90%) were issued to the employees and the final total fair value of the ESOS was calculated to be:

  RM1 x (500 x 10 x 90%) = RM4,500

  Cumulatively, RM2,333 had been recognised by the end of year 2. A further RM2,167 (RM4,500 - RM2,333) was therefore charged as employee expense in year 3.

- The accounting entries to recognise the services received over the vesting period are as follows:

Year 1	**RM**	**RM**
Dr. Employee expense (income statement)	1,250	
Cr. Capital reserve		1,250
Year 2		
Dr. Employee expense (income statement)	1,083	
Cr. Capital reserve		1,083
Year 3		
Dr. Employee expense (income statement)	2,167	
Cr. Capital reserve		2,167

Appendix 3: Illustrative example of the accounting treatment for ESOS with vesting conditions (cont'd)

Notes:
FRS 2 does not specify exactly where the amount in equity should be recognised. In this example, the credit entry is taken to capital reserve, which is a non-distributable reserve.

- During the 4th year, 60% of the employees exercised their options while the remainder let them lapse unexercised. The accounting entries in year 4 would be as follows:

Year 4	**RM**	**RM**
Dr. Cash (4,500 x RM10 x 60%)	27,000	
Dr. Capital reserve (4,500 x RM1 x 60%)	2,700	
Cr. Share capital (2,700 x RM2)		5,400
Cr. Share premium [RM2,700 + (2,700 x RM8)]		24,300

[*To record the options exercised and transfer that portion of options exercised within equity.*]

Dr. Capital reserve (4,500 x RM1 x 40%)	1,800	
Cr. Retained earnings		1,800

[*To transfer the portion of options that lapsed unexercised within equity.*]

Notes:
FRS 2 paragraph 23 states that, when options lapse unexercised after the vesting date, no subsequent adjustment should be made to total equity. However, transfer within equity is not precluded.

In this example, we have taken the view that equity arising from share option holders' interest should be transferred to share premium (as prescribed by S.60 of the Companies Act, 1965) for the portion related to options exercised, and to retained earnings for the portion related to the unexercised portion.

- The summary financial statements for this example is as follows:

Summary financial statements	***Year 1***	***Year 2***	***Year 3***	***Year 4***	***Total***
Income statement	RM	RM	RM	RM	RM
Employee expense	1,250	1,083	2,167	-	4,500
	=====	=====	=====	=====	=====
Balance sheet					
Effect on net assets	-	-	-	27,000	
	=====	=====	=====	=====	
Share capital	-	-	-	5,400	
Share premium	-	-	-	24,300	
Capital reserve	1,250	2,333	4,500	-	
Retained earnings	(1,250)	(2,333)	(4,500)	(2,700)	
	---	---	---	---	
Total equity	-	-	-	27,000	
	=====	=====	=====	=====	

Appendix 4: Disclosure checklist

This checklist summarises the disclosure requirements of FRS 2. Remember also that FRSs are not intended to apply to immaterial items.

	FRS 2 paragraph	Y/NA
1. FRS 2 requires an entity to disclose:	45	
a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity). *An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to enable users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.*	45(a)	
b) the number and weighted average exercise prices of share options for each of the following groups of options: i) outstanding at the beginning of the period; ii) granted during the period; iii) forfeited during the period; iv) exercised during the period; v) expired during the period; vi) outstanding at the end of the period; and vii) exercisable at the end of the period.	45(b)	
c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.	45(c)	
d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.	45(d)	
2. If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, the entity shall disclose:	47	
a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including: i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise; ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.	47(a)	

Appendix 4: Disclosure checklist (cont'd)

	FRS 2 paragraph	Y/NA
b) for other equity instruments granted during the period, the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including: i) if fair value was not measured on the basis of an observable market price, how it was determined; ii) whether and how expected dividends were incorporated into the measurement of fair value; and iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.	47(b)	
c) for share-based payment arrangements that were modified during the period: i) an explanation of those modifications; ii) the incremental fair value granted (as a result of those modifications); and iii) information on how the incremental fair value granted was measured, consistently with the requirements in (a) and (b) above, where applicable.	47(c)	
3. An entity shall also disclose the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions.	51(a)	
4. If the information required to be disclosed by FRS 2 does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them.	52	

Appendix 5: Illustrative financial statement disclosures on share–based payments

This appendix sets out examples of the disclosures required by FRS 2. These may assist you in drafting your own disclosures. However, amendments to the suggested wordings may be necessary in order to match your own circumstances.

Consolidated statement of changes in equity for the year ended 31 December 20X6

101.97(c)	Note	Share capital	Share premium	Capital reserve	Hedging reserve	Fair value reserve	Revaluation reserve	Reserve for treasury shares	Retained earnings	Total	Minority interest	Total equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance at 1 January 20X5		XXX	XXX	XXX	XXX	XXX	-	-	XXX	XXXX	XXX	XXXX
Total recognised income and expense		-	-	-	-	-	-	-	XX	XXX	XX	XXX
Own shares acquired		-	-	-	-	-	-	(XX)	-	(XXX)	-	(XXX)
Equity-settled transactions	*3, 4*	-	-	XX	-	-	-	-	-	XXX	-	XXX
Dividends to shareholders		-	-	-	-	-	-	-	(XX)	(XXX)	-	(XXX)
Balance at 31 December 20X5		XXX	XXX	XXX	XXX	XXX	-	(XXX)	XXX	XXXX	XXX	XXXX
Balance at 1 January 20X6		XXX	XXX	XXX	XXX	XXX	-	(XXX)	XXX	XXXX	XXX	XXXX
Total recognised income and expense		-	-	XX	(XX)	XX	XX	-	XX	XXX	XX	XXX
Share options exercised by employees/lapsed	*3*	XX	XX	(XX)	-	-	-	-	XX	XXX	-	XXX
Equity-settled transactions	*3*	-	-	XX	-	-	-	-	-	XXX	-	XXX
Shares issued		XX	XX	-	-	-	-	-	-	XXX	-	XXX
Own shares sold		-	XX	-	-	-	-	XX	-	XXX	-	XXX
Dividends to shareholders		-	-	-	-	-	-	-	(XX)	(XXX)	-	(XXX)
Balance at 31 December 20X6		XXX	XXX	XXX	XXX	XXX	XXX	(XXX)	XXX	XXXX	XXX	XXXX

Appendix 5: Illustrative financial statement disclosures on share–based payment (cont'd)

Notes to the financial statements (extract)

1. Summary of significant accounting policies (extract)

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years except for the adoption of FRS 2, *Share-based Payment*.

a) Employee benefits (extract)

– Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2. Staff costs (extract)

		Group		Company	
	Note	**20X6**	**20X5**	**20X6**	**20X5**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Wages and salaries		XX	XX	XX	XX
Compulsory social security contributions		XX	XX	XX	XX
Contributions to defined contribution plans		XX	XX	XX	XX
Increase in liability for defined benefit plans		XX	XX	XX	XX
Increase in liability for long-service leave		XX	XX	XX	XX
Equity-settled transactions	*3*	XX	XX	-	-
		XXX	XXX	XXX	XXX

3. Employee benefits (extract)

Share-based payments

At 1 January 20X5, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. At 1 January 20X6, a further grant on similar terms has been offered to these employee groups. In accordance with these programmes options are exercisable at the market price of the shares at the date of grant.

Additionally, two share option arrangements granted before 1 January 20X5 exist. The recognition and measurement principles in FRS 2 have not been applied to these grants in accordance with the transitional provisions in FRS 2.

2.44 & 45

Appendix 5: Illustrative financial statement disclosures on share–based payment (cont'd)

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares: *2.45(a)*

Group

Grant date / employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to key management at 1 January 20X2	XX	Three years of service and increase of five per cent in operating income for each of the three years	X years
Option grant to key management at 1 January 20X3	XX	Three years of service and increase of five per cent in operating income for each of the three years	X years
Option grant to key management at 1 January 20X5	XX	Three years of service and increase of five per cent in operating income for each of the three years	X years
Option grant to senior employees at 1 January 20X5	XX	Three years of service	X years
Option grant to key management at 1 January 20X6	XX	Three years of service and increase of five per cent in operating income for each of the three years	X years
Option grant to senior employees at 1 January 20X6	XX	Three years of service	X years
Total share options	XXX		

The number and weighted average exercise prices of share options are as follows: *2.45(b)*

Group

Options ('000)	Weighted average exercise price 20X6	Number of options 20X6	Weighted average exercise price 20X5	Number of options 20X5	
Outstanding at the beginning of the period	RMXX	XX	RMXX	XX	*2.45(b)(i)*
Forfeited during the period	RMXX	(XX)	RMXX	(XX)	*2.45(b)(iii)*
Exercised during the period	RMXX	(XX)	-	-	*2.45(b)(iv)*
Granted during the period	RMXX	XX	RMXX	XX	*2.45(b)(ii)*
Outstanding at the end of the period	RMXX	XX	RMXX	XX	*2.45(b)(vi)*
Exercisable at the end of the period		XX		XX	*2.45(b)(vii)*

The options outstanding at 31 December 20X6 have an exercise price in the range of RMXX to RMXX and a weighted average contractual life of X years. *2.45(c) & (d)*

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option (X years) is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. *2.47*

Appendix 5: Illustrative financial statement disclosures on share–based payment (cont'd)

Group ***Fair value of share options and assumptions***	**Key management personnel 20X6**	**Key management personnel 20X5**	**Senior employees 20X6**	**Senior employees 20X5**	
Fair value at measurement date	RMXX	RMXX	RMXX	RMXX	*2.47(a)*
Share price	RMXX	RMXX	RMXX	RMXX	*2.47(a)(i)*
Exercise price	RMXX	RMXX	RMXX	RMXX	*2.47(a)(i)*
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	X%	X%	X%	X%	*2.47(a)(i)*
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	X years	X years	X years	X years	*2.47(a)(i)*
Expected dividends	X%	X%	X%	X%	*2.47(a)(i)*
Risk-free interest rate (based on national government bonds)	X%	X%	X%	X%	*2.47(a)(i)*

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

2.47(a)(ii)

Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants. *2.47(a)(iii)*

Employee expenses

Group

	Note	**20X6 RM'000**	**20X5 RM'000**	
Share options granted in 20X5	*2*	XX	XX	*2.51(a)*
Share options granted in 20X6	*2*	XX	-	*2.51(a)*
Total expense recognised as employee costs		XXX	XXX	*2.51(a)*

4. Explanation of transition to FRSs (extract)

Notes to the reconciliation of equity

a) The Group applied FRS 2 to its active share-based payment arrangements at 1 January 20X6 except for equity-settled share-based payment arrangements granted before 1 January 20X5. The Group has granted equity-settled share-based payments in 20X5 and 20X6.

The Group accounted for these share-based payment arrangements under FRS 119_{2004}, *Employee Benefits* previously, where recognition and measurement requirements for equity-settled share-based payment transactions were not specified. This has been adjusted to fair value to be consistent with the new policies.

The effect of accounting for equity-settled share-based payment transactions at fair value is to increase *Cost of sales* by RMXX for the year ended 31 December 20X5. The adoption of FRS 2 is equity-neutral for equity-settled transactions.

Notes:

In this disclosure example, we have assumed the case where a subsidiary grants its employees share options of its parent as compensation benefits. When the options are granted, the parent does not record the transaction but only accounts for the issue of shares when the employees exercise the options. On the other hand, the subsidiary recognises an expense over the vesting period based on the fair value of the share options at grant date in its separate financial statements and an increase in shareholders' equity.

Appendix 6: Comparison of FRS 5 with FRS 135_{2004}

FRS 5 supersedes FRS 135_{2004} as from financial years beginning on or after 1 January 2006. Both FRS 135_{2004} and FRS 5 share some common ground. For example:

- Both define discontinued operations as separate major lines of business or areas of geographical operations that can be distinguished operationally and for financial reporting purposes;
- Both require that the discontinuance is being effected through a single co-ordinated plan; and
- Both extend their scope to operations that are being abandoned, provided they otherwise meet the criteria (i.e. are a separate major line of business etc.)

However, there are also some significant differences in their requirements as follows:

Differences between FRS 5 and FRS 135_{2004}

The following comparison of areas where the two standards differ is at a high level and may not necessarily identify all the differences that are material to a particular entity in the period of transition. More details are given in the main body of this Guide.

	FRS 5	FRS 135_{2004}
• Timing of disclosure	There is no longer a concept of "discontinuing". Operations are not classified as "discontinued" until: – the entity actually has disposed of the component; or – the component meets the criteria to be classified as held for sale. In the case of a disposal group that is to be abandoned, classification as a discontinued operation begins when the disposal group ceases to be used.	Operations are classified as "discontinuing" as from the earlier of: – the entity entering into a binding sale agreement; and – the directors approving and announcing a formal disposal plan. The disclosures continue until the discontinuation is completed.
• Measurement rules	FRS 5 contains a basic measurement principle for non-current assets held for sale, being that they should be carried at the lower of carrying value and fair value less costs to sell. The most notable effect is that depreciation on assets classified as held for sale would cease.	FRS 135_{2004} does not contain any measurement rules and refers instead to other FRSs.
• Income statement presentation	FRS 5 requires a single post-tax amount to be disclosed on the face of the income statement.	FRS 135_{2004} does not require any separate disclosure on the face of the income statement.
• Balance sheet presentation	FRS 5 requires non-current assets and assets in a disposal group held for sale to be shown together separately from other assets, and for liabilities in disposal groups to be shown separately from other liabilities.	FRS 135_{2004} does not contain any balance sheet presentation rules.
• Ceasing to classify a component as discontinued (held for sale)	FRS 5 contains rules on how to re-present the financial statements and re-measure the non-current assets that were held for sale, if the assets no longer meet the held for sale criteria.	FRS 135_{2004} does not deal with how to present the financial statements when management has changed its mind about discontinuing the operation.

Appendix 6: Comparison of FRS 5 with FRS 135_{2004} (cont'd)

	FRS 5	FRS 135_{2004}
• Treatment of temporary subsidiaries	FRS 127 now requires temporary subsidiaries to be consolidated. FRS 5 caters for this by classifying their results during the holding period as a discontinued operation.	Temporary subsidiaries are outside the scope of FRS 135_{2004} as they are not required to be consolidated.
• Treatment of post balance sheet events	FRS 5 prohibits re-classification as a result of post balance sheet events, and instead treats them as non-adjusting discloseable events.	FRS 135_{2004} requires an operation to be disclosed as discontinuing even if the initial disclosure event occurs after the period end date.

Appendix 7: Financial Reporting Standards and accounting pronouncements

The 21 new/revised Financial Reporting Standards

Standard	Title	Standard superseded	Formerly known as
FRS 1	First-time Adoption of Financial Reporting Standards	-	-
FRS 2	Share-based Payment	-	-
FRS 3	Business Combinations	FRS 122_{2004}	MASB 21
FRS 5	Non-current Assets Held for Sale and Discontinued Operations	FRS 135_{2004}	MASB 28
FRS 101	Presentation of Financial Statements	FRS 101_{2004}	MASB 1
FRS 102	Inventories	FRS 102_{2004}	MASB 2
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	FRS 108_{2004}	MASB 3
FRS 110	Events After the Balance Sheet Date	FRS 110_{2004}	MASB 19
FRS 116	Property, Plant and Equipment	FRS 116_{2004}	MASB 15
FRS 117	Leases	FRS 117_{2004}	MASB 10
FRS 121	The Effects of Changes in Foreign Exchange Rates	FRS 121_{2004}	MASB 6
FRS 124	Related Party Disclosures	FRS 124_{2004}	MASB 8
FRS 127	Consolidated and Separate Financial Statements	FRS 127_{2004}	MASB 11
FRS 128	Investments in Associates	FRS 128_{2004}	MASB 12
FRS 131	Interests in Joint Ventures	FRS 131_{2004}	MASB 16
FRS 132	Financial Instruments: Disclosure and Presentation	FRS 132_{2004}	MASB 24
FRS 133	Earnings per Share	FRS 133_{2004}	MASB 13
FRS 136	Impairment of Assets	FRS 136_{2004}	MASB 23
FRS 138	Intangible Assets	-	-
FRS 139	Financial Instruments: Recognition and Measurement	-	-
FRS 140	Investment Property	FRS 125_{2004}	-

The IC Interpretations

IC	Title
IC 107	Introduction of the Euro
IC 110	Government Assistance - No Specific Relation to Operating Activities
IC 112	Consolidation - Special Purpose Entities
IC 113	Jointly Controlled Entities - Non Monetary Contributions by Venturers
IC 115	Operating Leases - Incentives
IC 121	Income Taxes - Recovery of Revalued Non-Depreciable Assets
IC 125	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
IC 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC 129	Disclosure - Service Concession Arrangements
IC 131	Revenue - Barter Transactions Involving Advertising Services
IC 132	Intangible Assets - Web Site Costs

Appendix 7: Financial Reporting Standards and accounting pronouncements (cont'd)

Other existing Financial Reporting Standards

Standard	Title	Formerly known as
FRS 104_{2004}	Depreciation Accounting	MASB 14
FRS 107_{2004}	Cash Flow Statements	MASB 5
FRS 109_{2004}	Research and Development Costs	MASB 4
FRS 111_{2004}	Construction Contracts	MASB 7
FRS 112_{2004}	Income Taxes	MASB 25
FRS 114_{2004}	Segment Reporting	MASB 22
FRS 118_{2004}	Revenue	MASB 9
FRS 119_{2004}	Employee Benefits	MASB 29
FRS 120_{2004}	Accounting for Government Grants and Disclosure of Government Assistance	MASB 31
FRS 123_{2004}	Borrowing Costs	MASB 27
FRS 126_{2004}	Accounting and Reporting by Retirement Benefit Plans	MASB 30
FRS 129_{2004}	Financial Reporting in Hyperinflationary Economies	IAS 29
FRS 134_{2004}	Interim Financial Reporting	MASB 26
FRS 137_{2004}	Provisions, Contingent Liabilities and Contingent Assets	MASB 20
FRS 201_{2004}	Property Development Activities	MASB 32
FRS 202_{2004}	General Insurance Business	MASB 17
FRS 203_{2004}	Life Insurance Business	MASB 18
FRS 204_{2004}	Accounting for Aquaculture	MAS 5
FRS i-1_{2004}	Presentation of Financial Statements of Islamic Financial Institutions	MASB i-1

Note: The subscript "2004" attached to the names of Financial Reporting Standards refers to standards issued by MASB prior to 1 January 2005. These standards will remain in force until they are revised as approved accounting standards.

When the standards are revised, the subscript "2004" would be removed. For example the Exposure Draft on the proposed improvement to FRS 101_{2004}, *Presentation of Financial Statements*, when finalised would be called FRS 101, *Presentation of Financial Statements*.

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