Government of Malaysia

Malaysian Public Sector Accounting Standards

MPSAS 34

Separate Financial Statements

January 2016

MPSAS 34 - SEPARATE FINANCIAL STATEMENTS

Acknowledgment

The Malaysian Public Sector Accounting Standard (MPSAS) 34 is based on International Public Sector Accounting Standard (IPSAS) 34, *Separate Financial Statements* of the International Public Sector Accounting Standards Board, published by the International Federation of Accountants (IFAC) in January 2015 and is used with permission of IFAC.

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MPSAS 34—SEPARATE FINANCIAL STATEMENTS

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Malaysian Public Sector Accounting Standard (MPSAS) 34, *Separate Financial Statements*, is set out in paragraphs 1–34. All the paragraphs have equal authority. MPSAS 34 should be read in the context of its objective and the Preface *to Malaysian Public Sector Accounting Standards*. MPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**

3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Malaysian Public Sector Accounting Standards (MPSASs).

4. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

5. The *Preface to Malaysian Public Sector Accounting Standards* issued by the Accountant General's Department explains that GBEs apply approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). GBEs are defined in MPSAS 1, *Presentation of Financial Statements*.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   <u>Consolidated financial statements</u> are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

   <u>Separate financial statements</u> are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with MPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in MPSAS 36, *Investments in Associates and Joint Ventures*.

   Terms defined in other MPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in MPSAS 35, *Consolidated Financial Statements*, MPSAS 36, *Investments in Associates and Joint Ventures* or MPSAS 37, *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity,

equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by MPSAS 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10.

8 The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

9 An entity that is exempted in accordance with paragraph 5 of MPSAS 35, from consolidation or paragraph 23 of MPSAS 36, from applying the equity method may present separate financial statements as its only financial statements.

10 An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of MPSAS 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11 **Separate financial statements shall be prepared in accordance with all applicable MPSASs, except as provided in paragraph 12.**

12 **When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:**

(a) **At cost;**

(b) **In accordance with MPSAS 29; or**

(c) **Using the equity method as described in MPSAS 36.**

13. **If an entity elects, in accordance with paragraph 24 of MPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with MPSAS 29, it shall also account for those investments in the same way in its separate financial statements.**

14. **If a controlling entity is required, in accordance with paragraph 56 of MPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with MPSAS 29, it shall also account for that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of MPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with MPSAS 29 and consolidate the other assets and liabilities and revenue**

and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.

15. **When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:**

    (a) **When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.**

    (b) **When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with MPSAS 29.**

    The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognized directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

16. **Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognized in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognized in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognized as a reduction from the carrying amount of the investment.**

17. **When a controlling entity reorganizes the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:**

    (a) **The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;**

    (b) **The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganization; and**

(c) **The owners of the original controlling entity before the reorganization have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganization;**

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganization.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganizations. In such cases, references to "original controlling entity" and "original economic entity" are to the "original entity".

Disclosure

19. **An entity shall apply all applicable MPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20–23.**

20. **When a controlling entity, in accordance with paragraph 5 of MPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**

    (a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with MPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.**

    (b) **A list of significant investments in controlled entities, joint ventures and associates, including:**

        (i) **The name of those controlled entities, joint ventures and associates.**

        (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**

        (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

    (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it shall disclose that fact. The investment**

entity shall also present the disclosures relating to investment entities required by MPSAS 38, *Disclosure of Interests in Other Entities*.

22. **If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of MPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with MPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by MPSAS 38, *Disclosure of Interests in Other Entities*.**

23. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with MPSAS 35, MPSAS 36 or MPSAS 37, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:**

    (a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.**

    (b) **A list of significant controlled entities, joint ventures and associates, including:**

        (i) **The name of those controlled entities, joint ventures and associates.**

        (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).**

        (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

    (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

Transitional Provisions

24. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:**

    (a) **The previous carrying amount of the investment; and**

    (b) **The fair value of the investor's investment in the controlled entity.**

25. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.**

26. **At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with MPSAS 29, as permitted in paragraph 12.**

27. **An investment entity shall use the fair value amounts previously reported to investors or to management.**

28. **If measuring the investment in the controlled entity in accordance with paragraphs 24–27 is impracticable (as defined in MPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 24–27 is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity at the beginning of the immediately preceding period for any difference between:**

    (a) **The previous carrying amount of the investment; and**

    (b) **The fair value of the investor's investment in the controlled entity.**

    If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

29 If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.

30. **At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 56 of MPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with MPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, shall use the transitional provisions in paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.**

31. The transitional provisions for changes in the accounting, in an entity's separate financial statements, for its interest in a joint operation are set out in MPSAS 37, *Joint Arrangements.*

Effective Date

32. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply MPSAS 35, MPSAS 36, MPSAS 37, and MPSAS 38 at the same time.**

33. When an entity adopts the accrual basis MPSASs as defined in MPSAS 33, *First-time Adoption of Accrual Basis Malaysian Public Sector Accounting Standards (MPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of MPSASs.

Withdrawal and Replacement of MPSAS 6

34. This Standard is issued concurrently with MPSAS 35. Together, the two Standards supersede MPSAS 6, *Consolidated and Separate Financial Statements*. MPSAS 6 remains applicable until MPSAS 34 and MPSAS 35 are applied or become effective, whichever is earlier.

Comparison with IPSAS 34

MPSAS 34, Separate *Financial Statements* is drawn primarily from IPSAS 34. Main difference between MPSAS 34 and IPSAS 34 is as follows:

- In paragraph 5, MPSAS 34 explains that GBEs apply approved accounting standards issued by the MASB whereas IPSAS 34 explains that GBEs apply IFRS issued by IASB.