Snapshot

by Capital Markets & Accounting Advisory Services

November 2019

Guidance on combined financial statements

Combined financial statements are prepared by combining the financial statements of separate entities, segments or components that are under common control, but that are not necessarily part of a legal sub-group.

Combined financial statements are typically found in capital market transactions such as initial public offerings, business combinations, acquisitions or disposals and spin-offs.

Though combined financial statements can be prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), there is no specific guidance under MFRS on the preparation of combined financial statements. To that effect, the Malaysian Institute of Accountants ("MIA")'s Capital Markets Advisory Committee ("CMAC") has issued a Guidance Note to aid in the preparation of combined financial statements in November 2018.

Key Principles

Procedures in preparing Combined Financial Statements:

Step 1: Determining the new reporting entity

Two primary considerations in determining whether or not a reporting entity exists as a basis for preparing combined financial statements

1) Is there COMMON CONTROL established over the assets and liabilities for the reporting period?
2) Is or will the economic activity of the reporting entity be legally bound together through, for example:
   - a legal reorganisation of a group or groups that is completed after the reporting date, but before release of the financial statements;
   - a reorganisation which will happen simultaneously in tandem with a proposed IPO, disposal or such similar transaction; or
   - an agreement that was signed and taking effect during the periods covered by the combined financial statements?

Step 2: Dealing with issues of preparation

Some common issues:

Accounting Policies	To use accounting policies of acquirer or new reporting entity
Allocation of income and expenses, assets and liabilities	To allocate on a reasonable basis but the allocation should not be arbitrary and is not purported to create hypothetical income and expenses as if the combining entities had always been standalone entities but should reflect the manner in which the combining entities were managed by the common controlling investor
Finance costs	To allocate a portion of debt and corresponding finance cost to new reporting entity if the debt is to be assumed by the new reporting entity
Income taxes	To take into account the legal status of the new reporting entity subsequent to the transaction when determining allocation of such expenses.

Step 3: Make clear disclosures

Ensure there are sufficient disclosures such as a) the purpose for which the combined financial statements are prepared; b) how the new reporting entity was established and the significant judgements that were made; c) a list of combining entities; d) the principal accounting policies adopted in preparing the combined financial statements; e) the basis of allocation of assets, liabilities, income and expenses and f) how intercompany transactions are reflected in the combined financial statements.

Reference	MIA Guidance Note on Combined Financial Statements

Do you have any further questions on this topic?	Contact: Edmund Chew Assurance Director from PwC Malaysia CMAAS Email: edmund.c.chew@pwc.com Tel: +60 (3) 2173 0567
Stay up to date with the latest developments in financial reporting and capital markets	CMAAS's monthly newsletter "Accounting & Capital Markets Round-Up" features 3 hot topics written in a way that you can easily access. Click on this link to subscribe and receive the newsletter in your inbox as soon as it is released each month. The newsletter is accessible via mobile phone as well.