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FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

FRSIC Consensus 3

Is Fixed Deposit Held On Lien for Bank Guarantee Facilities A Cash and Cash Equivalent?

Introduction

FRSIC Consensus 3 "Is Fixed Deposit Held on Lien for Bank Guarantee Facilities a Cash and Cash Equivalent?" was developed by the Financial Reporting Standards Implementation Committee ("FRSIC") and issued by the Malaysian Institute of Accountants ("MIA" or "Institute") on 1 February 2008.

The Consensus contained herein is issued as part of the Institute's initiatives to promote best practices in compliance with the highest standards in financial accounting.

FRSIC CONSENSUS 3**IS FIXED DEPOSIT HELD ON LIEN FOR BANK GUARANTEE FACILITIES A CASH AND CASH EQUIVALENT?**

FRSIC Consensus is guidance issued by MIA and shall be regarded as best practice. It should be read in conjunction with the respective applicable accounting standards.

Members of MIA are expected to observe compliance to the consensus issued. In exceptional circumstances where departure is necessary, members shall be prepared to justify the departure.

FRSIC Consensus need not be applied to immaterial items. Nothing in the FRSIC Consensus is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the MASB and other relevant laws.

The Issue

1. FRS 107, Cash Flow Statements paragraph 6 provides that cash comprises cash on hand and demand deposits and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
2. There are divergent practices adopted in disclosing fixed deposits held on lien for bank guarantee facilities granted to subsidiaries in the financial statements. Some entities included the fixed deposits held on lien as a component of cash and cash equivalents on the basis that it meets the definition of cash equivalent and the use of fixed deposits are within the control of the company. Whereas, some entities opined that fixed deposits held on lien does not meet the definition of cash and cash equivalents due to the reason that they are restricted cash.
3. Guidance is necessary to clarify whether fixed deposits held on lien for bank guarantee facilities granted to subsidiaries meet the definition of cash and cash equivalents and form part of the component of cash and cash equivalents pursuant to FRS 107.

Consensus and Basis of Consensus

4. In considering the issue, the Committee acknowledged that fixed deposits held on lien for bank guarantee facilities are not available for general use by the parent or other subsidiaries due to restriction over the use of such cash for specific purpose. However, the fact that they are not available for general use does not necessarily mean that they are not eligible to be part of the components of cash and cash equivalent of an entity.
5. FRS 107, paragraphs 48 and 49 states that there are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group and requires entity to disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by an entity that are not available for use by the group.
6. FRS 107 paragraph 46 states that in view of cash management practices and banking arrangements around the world and in order to comply with FRS 101, Presentation of Financial Statements, an entity is required to disclose the policy which it adopts in determining the composition of cash and cash equivalents.
7. Based on the above provisions, the Committee decided that an entity may adopt the policy of including fixed deposits held on lien for bank guarantee facilities in determining the composition of cash and cash equivalents provided there are adequate disclosures. Appropriate disclosures including the policy adopted by the entity and the amount of cash and cash equivalent balances that are not available for use by the group in the financial statements, together with a commentary by management which provides clear explanation of the nature of the restrictions, should be made in the financial statements to enable users in understanding the financial position and liquidity of the entity.

Date from which Effective

8. This Consensus applies to all reporting entities with immediate effect from the date of issuance of this Consensus.

References

FRS 107 "Cash Flow Statements"

FRSIC CONSENSUS 3 Illustrative Examples

These examples accompany, but are not part of FRSIC Consensus 3.

Note X

As at balance sheet date, cash and bank balances comprise the following:

	RM'000
Cash on hand	1,500
Bank balances	11,500
Fixed deposits with licensed banks	5,000
Bank overdrafts	(10,000)
	<u>8,000</u>

Out of the total fixed deposits with licensed banks of RM 5,000,000, RM 3,000,000 has been pledged to banks for banking facilities granted to certain subsidiaries.

Disclosure of Cash and Cash Equivalents

Illustration 1: Fixed deposits pledged to banks do not form part of the component of cash and cash equivalents

(Accounting Policy)

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(Note to Cash Flow Statements)

	RM'000
Fixed deposits with licensed banks	5,000
Cash and bank balances	13,000
Bank overdrafts	(10,000)
	<u>8,000</u>
Fixed deposits pledged to banks (Note X)	(3,000)
	<u>5,000</u>

Illustration II: Fixed deposits pledged to banks form part of the component of cash and cash equivalents

(Accounting Policy)

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits, fixed deposits pledged to financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(Note to Cash Flow Statements)

	RM'000
Fixed deposits with licensed banks	5,000
Cash and bank balances	13,000
Bank overdrafts	(10,000)
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	8,000

As disclosed in Note X to the financial statements, certain fixed deposits totaling RM 3,000,000 have been pledged to banks for banking facilities granted to certain subsidiaries and hence, are not available for general use.